VTB BANK

CONSOLIDATED FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT

FOR THE YEAR ENDED 31 DECEMBER 2017

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Independent auditor's report

To the Shareholders and Supervisory Council of
VTB Bank (public joint-stock company)

Report on the audit of the consolidated financial statements

Opinion

We have audited the consolidated financial statements of VTB Bank (public joint-stock company) (the Bank) and its subsidiaries (hereinafter, the "Group"), which comprise the consolidated income statement and consolidated statement of comprehensive income for the year ended 31 December 2017, the consolidated statement of financial position as at 31 December 2017, the consolidated statements of cash flows and changes in shareholders' equity for the year ended 31 December 2017, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2017, and its consolidated financial performance and its consolidated cash flows for 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 and advances to customers and provision for credit related commitments	
The significance of loans and advances to customers and credit related commitments, and the inherent uncertainty of their collectability, makes the allowance for impairment and the provision for credit related commitments a key audit matter. Significant judgement is necessary to identify impairment events for loans and advances to customers on a timely basis, as well as to recognize the provision for credit related commitments. The calculation of the impairment allowance for collectively assessed loans involves credit modelling techniques that utilize significant unobservable inputs and factors, such as internal credit ratings, statistical models and expert judgment to evaluate the probability of default and loss-given-default assumptions based on historical information and management judgement. The calculation of the allowance for impairment and provision for credit related commitments on an individual basis requires assessment of estimated future cash flows based on significant unobservable inputs, such as the current and projected financial performance of the counterparty, collateral value, and other factors. The use of different modelling techniques and assumptions could produce significantly different estimates of the impairment and provision. Information on the impairment of loans and advances to customers and provision for credit related commitments is included in Note 23, *Loans and advances to customers*, Note 42, *Financial and Insurance Risk Management*, and Note 50, *Contingencies and Commitments*, to the consolidated financial statements.	We focused our audit on the following: ▸ management's judgement in relation to the identification of impairment events for significant corporate loans and credit related commitments ▸ estimated future cash flows, including collateral-sourced cash flows, in relation to credit exposures, and credit related commitments, with signs of deterioration of credit performance ▸ models and assumptions used to determine credit impairments on a collective basis. Our audit procedures included an evaluation of the methodology used by the Group in identifying impairment events and calculating the allowance for impairment and credit related provision. We also performed audit procedures to test, on a sample basis, the timeliness of the identification of individual signs of impairment. For a sample of significant credit exposures subject to individual impairment assessment, we reviewed assumptions on estimated future cash flows, including the value of collateral. For collectively assessed impairment, we evaluated, on a sample basis, the underlying statistical credit models, key inputs and assumptions used. We also assessed the disclosures in the consolidated financial statements about the Group's allowance for impairment and provision for credit related commitments.

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Key audit matter	How our audit addressed the key audit matter
Valuation of financial instruments not quoted in an active market	
A significant part of the Group's investments in securities and derivatives consists of instruments not quoted in an active market (instruments in Level 2 and Level 3 of the fair value hierarchy). The fair value of these instruments is determined by internally developed valuation models that may use complex assumptions and unobservable inputs. The significance and subjectivity of these valuations make them a key audit matter. Information on the valuation of financial instruments not quoted in an active market is included in Note 43, *Fair value measurement*, to the consolidated financial statements.	Our audit procedures included an assessment of internally developed models, on a sample basis, and the sources of significant assumptions used in determining fair value. For a sample of individually significant instruments, with assistance of our valuation specialists, we inspected the models and assumptions used, and/or performed an independent valuation assessment using alternative valuation methods and assumptions. We also assessed the Group's disclosures in relation to the valuation of such financial instruments, including disclosures regarding significant Level 3 inputs used and sensitivity of the value to changes in these inputs.
Valuation of investment property and property intended for sale in the ordinary course of business	
The Group's aggregate carrying value of investment property and property intended for sale in the ordinary course of business was RUR 329.1 billion at 31 December 2017. The Group assesses the value of these assets with the assistance of independent appraisers or internal valuation specialists. The valuation models prepared by these appraisers and specialists contain unobservable inputs and assumptions. Changes in these inputs and assumptions may have a significant impact on the valuation. The significance and subjectivity of these valuations make them a key audit matter. Information on the valuation of investment property and property intended for sale in the ordinary course of business is included in Note 26, *Investment property,* Note 28, *Other assets*, and Note 43, *Fair value measurement,* to the consolidated financial statements.	Our audit procedures included an assessment, on a sample basis, of the valuation methods and models as well as the sources of significant assumptions. We also tested the determination of net realizable value of a sample of individually significant properties intended for sale in the ordinary course of business. Where management involved a valuation specialist, we assessed their qualification and objectivity. For a sample of individually significant properties, we involved our valuation specialists to assist us in assessing the reasonableness of the methodology and assumptions. We also assessed the Group's disclosures in relation to the valuation of investment property, in particular, the sensitivity of fair value to changes in key assumptions.
Assessment of recoverability of deferred income tax assets	
The Group recognized gross deferred income tax assets of RUR 182.8 billion at 31 December 2017, including deferred income tax assets related to a tax loss carry-forward of RUR 75.4 billion. The recoverability of deferred income tax assets is a key audit matter due to both the significance of its carrying amount and the significant judgments that management has to make in evaluating the recoverability of these assets, including the timing and the amounts of future taxable profits. Information on deferred income tax assets is included in Note 18, *Income tax*, to the consolidated financial statements.	Our audit procedures in respect of the recoverability of deferred income tax assets included an assessment of the forecasts of future taxable profit developed by management based on budgets and assessment of business prospects. We evaluated the significant assumptions used in the forecasts and compared them with the historical performance and external data, where available. We also assessed the Group's disclosures in relation to deferred income tax assets.

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Key audit matter	How our audit addressed the key audit matter
Goodwill impairment	
Goodwill impairment is a key audit matter due to both the significance of its carrying value and the judgement inherent in the impairment testing. Management has to use significant unobservable inputs and assumptions in their goodwill impairment analysis to build cash flow forecasts, and to determine appropriate growth rates and discount rates. The use of different modelling techniques and assumptions could produce significantly different estimates of the impairment. Information on goodwill is included in Note 27, *Goodwill and other intangible assets*, to the consolidated financial statements.	We assessed, with the assistance of our business valuation specialists, management's goodwill impairment analysis, including calculations of carrying values and recoverable amounts of cash-generating units. We evaluated forecasted cash flows, discount rates and long-term growth rates, by comparing them with the historical operating performance, business plans, market indicators and other available evidence. We assessed the disclosure prepared by the Group in relation to the results of testing, in particular, the sensitivity of the recoverable amounts of the units to changes in key assumptions.

Other information included in the VTB Annual Report 2017

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The findings from our work are provided below.

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

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

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

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

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

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

The partner in charge of the audit resulting in this independent auditor's report is P.P. Tsebernyak.

P.P. Tsebernyak
Partner
Ernst & Young LLC

26 February 2018

Details of the audited entity

Name: VTB Bank (Public joint-stock company)
Record made in the State Register of Legal Entities on 22 November 2002, State Registration Number 1027739609391.
Address: Russia 190000, Saint-Petersburg, Bolshaya Morskaya st., 29.

Details of the auditor

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

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VTB BANK
CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER (IN BILLIONS OF RUSSIAN ROUBLES)

	Note	2017	2016 (restated)	Change
Interest income	4	1,056.2	1,107.8	-4.7%
Interest expense	4	(581.3)	(680.8)	-14.6%
Payments to deposit insurance system	4	(14.7)	(12.0)	22.5%
Net interest income	4	**460.2**	**415.0**	10.9%
Provision charge for impairment of debt financial assets	22, 23, 24	(169.2)	(144.7)	16.9%
Net interest income after provision for impairment		**291.0**	**270.3**	7.7%
Net fee and commission income	5, 60	**95.3**	**81.8**	16.5%
Gains net of losses arising from financial instruments at fair value through profit or loss	6, 58	12.8	8.8	45.5%
Gains net of losses from investment financial assets available-for-sale	24, 60	13.6	7.7	76.6%
Losses net of gains arising from foreign currencies and precious metals	7	(12.4)	(17.6)	-29.5%
Other gains net of losses on financial instruments at amortised cost	8, 60	39.1	3.5	1,017.1%
Share in profit of associates and joint ventures	58	1.2	3.0	-60.0%
(Losses)/gains from disposal of subsidiaries and associates	46, 47	(0.5)	6.3	-107.9%
(Losses net of gains)/gains net of losses arising from extinguishment of liabilities	9	(0.1)	0.3	-133.3%
Provision charge for impairment of other assets, credit related commitments and legal claims	28, 50	(2.7)	(66.5)	-95.9%
Other operating income	10, 60	13.1	7.8	67.9%
Non-interest gains/ (losses)		**64.1**	**(46.7)**	237.3%
Income from operating lease of equipment	11, 60	22.5	18.8	19.7%
Expenses related to equipment leased out	11, 60	(14.1)	(25.5)	-44.7%
Net income/(loss) on operating leasing	11, 60	**8.4**	**(6.7)**	225.4%
Net insurance premiums earned	14	82.6	59.2	39.5%
Net insurance claims incurred, movement in liabilities to policyholders and acquisition costs	15	(61.8)	(49.1)	25.9%
Revenues less expenses from insurance activity		**20.8**	**10.1**	105.9%
Revenue and other gains from other non-banking activities	12, 60	61.4	43.5	41.1%
Cost of sales and other expenses from other non-banking activities	13	(61.5)	(42.8)	43.7%
Impairment of land, premises and intangible assets other than goodwill used in non-banking activities	25, 27	(16.1)	(3.6)	347.2%
Net (loss)/ gain from change in fair value of investment property recognised on revaluation or disposal	26	(23.1)	8.2	-381.7%
Gain/(loss) from disposal of disposal group held for sale	29	0.8	(1.3)	161.5%
Revenues less expenses from other non-banking activities		**(38.5)**	**4.0**	-1,062.5%
Impairment of land, premises and intangible assets other than goodwill	25, 27	(3.7)	(0.8)	362.5%
Impairment of goodwill	27	(2.7)	–	n/a
Other operating expense	16, 60	(14.1)	(12.6)	11.9%
Staff costs and administrative expenses	17	(260.9)	(233.9)	11.5%
Non-interest expenses		**(281.4)**	**(247.3)**	13.8%
Profit before tax		**159.7**	**65.5**	143.8%
Income tax expense	18	(39.7)	(21.6)	83.8%
Net profit after tax		**120.0**	**43.9**	173.3%
Profit after tax from subsidiaries acquired exclusively with a view to resale		0.1	7.7	-98.7%
Net profit		**120.1**	**51.6**	132.8%
Net profit/(loss) attributable to:				
Shareholders of the parent		120.3	52.3	130.0%
Non-controlling interests		(0.2)	(0.7)	-71.4%
Basic and diluted earnings per share (expressed in Russian roubles per share)	55	0.00855	0.00318	168.9%
Basic and diluted earnings per share before profit after tax from subsidiaries acquired exclusively with a view to resale (expressed in Russian roubles per share)	55	0.00854	0.00258	231.0%

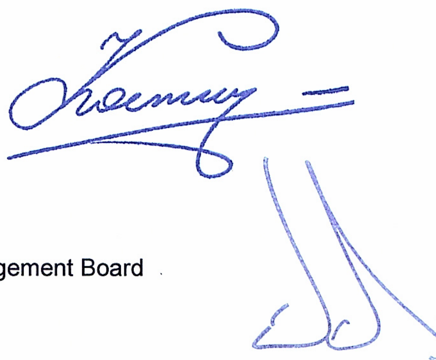
The notes № 1-60 form an integral part of these consolidated financial statements.

	2017	2016
Net profit	**120.1**	**51.6**
Other comprehensive income/(loss):		
Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods:		
Net result on financial assets available-for-sale, net of tax	2.5	9.3
Cash flow hedges, net of tax	(0.1)	(0.9)
Share of other comprehensive loss of associates and joint ventures	(0.4)	(3.0)
Effect of translation, net of tax	0.3	(31.5)
Total other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods	**2.3**	**(26.1)**
Other comprehensive income/(loss) not to be reclassified to profit or loss in subsequent periods:		
Actuarial gains net of losses /(losses net of gains) arising from difference between pension plan assets and obligations	1.1	(1.3)
Revaluation reserve of assets of disposal groups held for sale	–	(0.4)
Land and premises revaluation, net of tax	(0.1)	(0.1)
Total other comprehensive income/(loss) not to be reclassified to profit or loss in subsequent periods	**1.0**	**(1.8)**
Other comprehensive income/(loss), net of tax	**3.3**	**(27.9)**
Total comprehensive income	**123.4**	**23.7**
Total comprehensive income/(loss) attributable to:		
Shareholders of the parent	123.6	25.0
Non-controlling interests	(0.2)	(1.3)

VTB BANK
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER (IN BILLIONS OF RUSSIAN ROUBLES)

	Note	2017	2016 (restated)	Change
ASSETS				
Cash and short-term funds	19	773.8	452.9	70.9%
Mandatory cash balances with central banks		97.1	95.1	2.1%
Non-derivative financial assets at fair value through profit or loss	20	313.4	267.1	17.3%
- Non-derivative financial assets at fair value through profit or loss		313.1	240.7	30.1%
- Non-derivative financial assets at fair value through profit or loss, pledged under repurchase agreements		0.3	26.4	-98.9%
Derivative financial assets	21	175.6	180.5	-2.7%
Due from other banks	22	835.0	1,051.2	-20.6%
- Due from other banks		835.0	1,037.4	-19.5%
- Due from other banks, pledged under repurchase agreements		–	13.8	-100.0%
Loans and advances to customers	23	9,171.4	8,854.5	3.6%
- Loans and advances to customers		9,171.4	8,664.8	5.8%
- Loans and advances to customers, pledged under repurchase agreements		–	189.7	-100.0%
Investment financial assets	24	285.6	340.7	-16.2%
- Investment financial assets		285.2	324.2	-12.0%
- Investment financial assets, pledged under repurchase agreements		0.4	16.5	-97.6%
Investments in associates and joint ventures	47, 58	117.1	93.3	25.5%
Assets of disposal groups and non-current assets held for sale	29	17.2	15.6	10.3%
Land, premises and equipment	25	348.2	352.7	-1.3%
Investment property	26	210.4	235.5	-10.7%
Goodwill and other intangible assets	27	157.4	155.1	1.5%
Deferred income tax asset	18	98.7	87.8	12.4%
Other assets	28	408.4	406.2	0.5%
Total assets		**13,009.3**	**12,588.2**	3.3%
LIABILITIES				
Due to other banks	30	810.3	1,208.9	-33.0%
Customer deposits	31	9,144.7	7,346.6	24.5%
Derivative financial liabilities	21	134.0	165.0	-18.8%
Other borrowed funds	32	304.5	1,307.2	-76.7%
Debt securities issued	33	322.7	399.6	-19.2%
Liabilities of disposal groups held for sale	29	7.0	2.2	218.2%
Deferred income tax liability	18	30.7	35.2	-12.8%
Other liabilities	35	582.5	486.5	19.7%
Total liabilities before subordinated debt		**11,336.4**	**10,951.2**	3.5%
Subordinated debt	34	193.2	224.1	-13.8%
Total liabilities		**11,529.6**	**11,175.3**	3.2%
EQUITY				
Share capital	36	659.5	659.5	0.0%
Share premium		433.8	433.8	0.0%
Perpetual loan participation notes	37	129.6	136.5	-5.1%
Treasury shares and bought back perpetual loan participation notes		(3.3)	(2.5)	32.0%
Other reserves	38	46.1	44.8	2.9%
Retained earnings	58	200.4	131.1	52.9%
Equity attributable to shareholders of the parent		**1,466.1**	**1,403.2**	4.5%
Non-controlling interests		**13.6**	**9.7**	40.2%
Total equity		**1,479.7**	**1,412.9**	4.7%
Total liabilities and equity		**13,009.3**	**12,588.2**	3.3%

Approved for issue and signed on 26 February 2018



A.L. Kostin
President – Chairman of the Management Board

Herbert Moos
Chief Financial Officer – Deputy Chairman of the Management Board

The notes № 1-60 form an integral part of these consolidated financial statements.

	Note	2017	2016 (restated)
Cash flows from / (used in) operating activities			
Interest received		1,068.6	1,090.8
Interest paid		(560.9)	(684.1)
Payments to deposit insurance system		(14.3)	(11.3)
Gains received on operations with financial assets at fair value through profit or loss		(4.0)	14.9
Losses incurred on dealing in foreign currency		(27.4)	(164.2)
Fees and commissions received		130.1	110.8
Fees and commissions paid		(35.1)	(28.3)
Other operating income received	60	8.0	8.9
Other operating expenses paid	60	(17.9)	(10.4)
Income received from operating lease of equipment	60	20.6	17.0
Expenses paid related to equipment leased out	60	(2.4)	(4.2)
Net insurance premiums received		111.0	83.8
Net insurance claims paid		(28.4)	(26.1)
Income received from non-banking activities		36.8	56.6
Expenses paid in non-banking activities		(34.5)	(38.9)
Staff costs, administrative expenses paid		(238.0)	(209.9)
Income tax paid		(52.1)	(31.6)
Cash flows from operating activities before changes in operating assets and liabilities		**360,1**	**173.8**
Net decrease/(increase) in operating assets			
Net increase in mandatory cash balances with central banks		(2.5)	(25.9)
Net decrease in restricted cash		–	2.8
Net (increase)/decrease in correspondent accounts in precious metals		(31.5)	2.0
Net increase in financial assets at fair value through profit or loss		(46.9)	(4.1)
Net decrease in due from other banks		176.6	142.1
Net increase in loans and advances to customers		(229.8)	(149.8)
Net decrease/(increase) in other assets		35.5	(69.5)
Net (decrease)/increase in operating liabilities			
Net (decrease)/increase in due to other banks		(473.3)	274.0
Net increase in customer deposits		1,635.5	617.8
Net increase /(decrease) in debt securities issued other than bonds issued		22.4	(84.2)
Net (decrease)/increase in other liabilities		(12.4)	72.8
Net cash from operating activities		**1,433.7**	**951.8**
Cash flows from / (used in) investing activities			
Dividends and other distributions received		5.8	8.8
Proceeds from redemption and sales of investment financial assets available-for-sale		416.8	272.5
Purchase of investment financial assets available-for-sale		(345.0)	(259.8)
Purchase of subsidiaries, net of cash	46	0.2	(12.8)
Disposal of subsidiaries, net of cash		14.5	3.2
Purchase of and contributions to associates		–	(2.3)
Proceeds from sale of share in associates		4.1	2.6
Purchase of investment financial assets held-to-maturity		(7.1)	(41.5)
Proceeds from redemption of investment financial assets held-to-maturity		9.3	26.5
Purchase of land, premises and equipment		(61.5)	(81.7)
Proceeds from sale of land, premises and equipment		6.2	4.2
Purchase or construction of investment property		(60.7)	(14.8)
Proceeds from sale of investment property		29.9	6.8
Purchase of intangible assets		(11.2)	(5.7)
Proceeds from sale of intangible assets		0.2	1.2
Net cash from / (used in) investing activities		**1.5**	**(92.8)**

The notes № 1-60 form an integral part of these consolidated financial statements.

	Note	2017	2016
Cash flows from / (used in) financing activities			
Dividends paid	39	(44.5)	(51.1)
Proceeds net of repayment in short-term local bonds issued		25.0	25.2
Repayment of local bonds		(6.0)	(73.8)
Buy-back of local bonds		(4.7)	(32.9)
Proceeds from sale of previously bought-back local bonds		7.1	51.5
Repayment of Eurobonds		(105.2)	(36.0)
Buy-back of Eurobonds		(11.4)	(12.3)
Proceeds from sale of previously bought-back Eurobonds		9.8	10.3
Proceeds from syndicated loans		–	0.5
Repayment of syndicated loans		(10.0)	(136.4)
Proceeds from sale of previously bought-back syndicated loans		–	13.7
Proceeds from other borrowings and funds from local central banks		473.2	2,910.2
Repayment of other borrowings and funds from local central banks		(1,446.1)	(3,576.5)
Purchase of non-controlling interest in subsidiaries		(1.6)	–
Repayment of subordinated debt		(24.3)	(6.2)
Buy-back of subordinated debt		(0.3)	(9.0)
Proceeds from sale of previously bought-back subordinated debt		0.2	0.6
Cash received from sale of treasury shares		2.2	17.9
Cash paid for treasury shares		(2.5)	(17.9)
Proceeds from sale of non-controlling interest in subsidiaries		–	2.5
Proceeds from issue to non-controlling interest holders in subsidiaries		3.4	5.5
Buy-back of perpetual loan participation notes		(5.4)	(7.9)
Proceeds from sale of previously bought-back perpetual loan participation notes		4.9	8.3
Amounts paid on perpetual loan participation notes	39	(12.3)	(14.0)
Net cash used in financing activities		**(1,148.5)**	**(927.8)**
Effect of exchange rate changes on cash and cash equivalents		2.8	(44.2)
Net increase/(decrease) in cash and cash equivalents		**289.5**	**(113.0)**
At the beginning of period	19	**448.6**	**561.6**
At the end of period	19	**738.1**	**448.6**

Non-cash changes in liabilities arising from financial activities	2017	2016
Foreign currency translation		
Local bonds	(0.1)	0.7
Eurobonds	11.7	19.4
Syndicated loans	(3.4)	0.2
Funds from local central banks	(0.3)	59.0
Subordinated debt	5.2	25.7
Other non-cash changes		
Short-term local bonds	0.2	–
Local bonds	2.5	1.9
Eurobonds	1.4	(1.6)
Syndicated loans	1.0	2.6
Funds from local central banks	19.8	3.5
Subordinated debt	1.4	(1.6)

The notes № 1-60 form an integral part of these consolidated financial statements.

	Attributable to shareholders of the parent								
	Share capital	Share premium	Perpetual loan participation notes (Note 37)	Treasury shares and bought back perpetual loan participation loan notes	Other reserves (Note 38)	Retained earnings	Total	Non-controlling interests (Note 48)	Total equity
Balance at 1 January 2016	**659.5**	**433.8**	**164.0**	**(2.9)**	**72.2**	**127.6**	**1,454.2**	**(0.1)**	**1,454.1**
Changes in accounting policies (Note 58)	–	–	–	–	–	2.7	**2.7**	–	**2.7**
Balance at 1 January 2016 (restated)	**659.5**	**433.8**	**164.0**	**(2.9)**	**72.2**	**130.3**	**1,456.9**	**(0.1)**	**1,456.8**
Net result from bought back perpetual loan participation notes transactions	–	–	–	0.4	–	–	**0.4**	–	**0.4**
Profit/(loss) for the period	–	–	–	–	–	52.3	**52.3**	(0.7)	**51.6**
Other comprehensive loss	–	–	–	–	(26.0)	(1.3)	**(27.3)**	(0.6)	**(27.9)**
Total comprehensive income/(loss) for the period	**–**	**–**	**–**	**–**	**(26.0)**	**51.0**	**25.0**	**(1.3)**	**23.7**
Transfer of premises revaluation reserve upon disposal or depreciation	–	–	–	–	(1.1)	1.1	**–**	–	**–**
Share-based payments (Note 54)	–	–	–	–	–	(0.2)	**(0.2)**	–	**(0.2)**
Increase in share capital of subsidiaries	–	–	–	–	–	0.2	**0.2**	2.3	**2.5**
Acquisition of subsidiaries	–	–	–	–	–	–	**–**	1.7	**1.7**
Disposal of subsidiaries (Note 46)	–	–	–	–	(0.3)	0.4	**0.1**	1.0	**1.1**
Sale and purchase of non-controlling interests (Note 48)	–	–	–	–	–	(0.6)	**(0.6)**	6.3	**5.7**
Amounts paid on perpetual loan participation notes	–	–	–	–	–	(14.0)	**(14.0)**	–	**(14.0)**
Foreign exchange translation of perpetual loan participation notes	–	–	(27.5)	–	–	27.5	**–**	–	**–**
Tax effect recognised on perpetual loan participation notes	–	–		–	–	(2.7)	**(2.7)**	–	**(2.7)**
Dividends declared (Note 39)	–	–	–	–	–	(50.9)	**(50.9)**	(0.2)	**(51.1)**
Other distributions (Note 39)	–	–	–	–	–	(11.0)	**(11.0)**	–	**(11.0)**
Balance at 31 December 2016 (restated)	**659.5**	**433.8**	**136.5**	**(2.5)**	**44.8**	**131.1**	**1,403.2**	**9.7**	**1,412.9**
Net result from treasury shares transactions	–	–	–	(0.3)	–	–	**(0.3)**	–	**(0.3)**
Net result from bought back perpetual loan participation notes transactions	–	–	–	(0.5)	–	–	**(0.5)**	–	**(0.5)**
Profit/(loss) for the period	–	–	–	–	–	120.3	**120.3**	(0.2)	**120.1**
Other comprehensive income	–	–	–	–	2.2	1.1	**3.3**	–	**3.3**
Total comprehensive income/(loss) for the period	**–**	**–**	**–**	**–**	**2.2**	**121.4**	**123.6**	**(0.2)**	**123.4**
Transfer of premises revaluation reserve upon disposal or depreciation	–	–	–	–	(1.6)	1.6	**–**	–	**–**
Share-based payments (Note 54)	–	–	–	–	–	(0.1)	**(0.1)**	–	**(0.1)**
Increase in share capital of subsidiaries	–	–	–	–	–		**–**	3.6	**3.6**
Disposal of subsidiaries (Note 46)							**–**	(0.8)	**(0.8)**
Purchase and other operations with non-controlling interests	–	–	–	–	0.7	(4.9)	**(4.2)**	2.2	**(2.0)**
Amounts paid on perpetual loan participation notes	–	–	–	–	–	(12.3)	**(12.3)**	–	**(12.3)**
Foreign exchange translation of perpetual loan participation notes	–	–	(6.9)	–	–	6.9	**–**	–	**–**
Tax effect recognised on perpetual loan participation notes	–	–	–	–	–	1.1	**1.1**	–	**1.1**
Dividends declared (Note 39)	–	–	–	–	–	(44.4)	**(44.4)**	(0.9)	**(45.3)**
Balance at 31 December 2017	**659.5**	**433.8**	**129.6**	**(3.3)**	**46.1**	**200.4**	**1,466.1**	**13.6**	**1,479.7**

The notes № 1-60 form an integral part of these consolidated financial statements.

1. PRINCIPAL ACTIVITIES

VTB Bank and its subsidiaries (the "Group") comprise Russian and foreign commercial banks, insurance, leasing and other entities controlled by the Group.

VTB Bank, formerly known as Vneshtorgbank (the "Bank", or "VTB"), was formed as Russia's foreign trade bank under the laws of the Russian Federation on 17 October 1990. In 1998, following several reorganisations, VTB was reorganised into an open joint stock company. In October 2006 the Group started re-branding to change its name from Vneshtorgbank to VTB. In March 2007, the Bank for Foreign Trade was renamed into "VTB Bank" (Open Joint-Stock Company). In June 2015 "VTB Bank" (open joint-stock company) was renamed into VTB Bank (Public Joint-Stock Company) in accordance with the legislative requirements.

On 2 January 1991, VTB received a general banking license (number 1000) from the Central Bank of the Russian Federation (CBR). In addition, VTB holds licenses required for trading and holding securities and engaging in other securities-related activities, including acting as a broker, a dealer and a custodian, and providing asset management and special depositary services. VTB and other Russian banks within the Group are regulated and supervised by the CBR. Foreign banks within the Group operate under the bank regulatory regimes of their respective countries.

On 29 December 2004, the Bank became a member of the obligatory deposit insurance system provided by the State Corporation "Deposit Insurance Agency" (DIA). The Group subsidiary banks in Russia: "Bank VTB 24", PJSC, "BM-Bank", PJSC (currently – "BM-Bank", JSC) and "Post Bank", PJSC are also members of the obligatory deposit insurance system provided by DIA. The State deposit insurance scheme implies that DIA guarantees repayment of individual deposits up to the maximum total guaranteed amount of RUR 1.4 million with a 100% compensation of deposited amount from 29 December 2014.

On 5 October 2005, VTB re-registered its legal address to 29 Bolshaya Morskaya Street, Saint-Petersburg 190000, Russian Federation. VTB's Head Office is located in Moscow.

The Group operates in the corporate and investment banking, retail, real estate and other sectors. Corporate and investment banking include deposit taking and commercial lending, support of clients' export/import transactions, foreign exchange, securities trading and trading in derivative financial instruments. The Group's operations are conducted in both Russian and international markets. The Group conducts its banking business in Russia through VTB as a parent and several subsidiary banks.

The Group operates outside Russia through 11 subsidiary banks, located in Germany, Great Britain, Serbia, Armenia, Belarus, Kazakhstan, Azerbaijan, Ukraine (2 banks), Georgia and Angola; through 3 representative offices located in Italy, China and Kyrgyzskaya Republic; through 2 VTB branches in China and India and branch of "VTB Capital", Plc in Singapore. The Group investment banking division also performs broker/dealer operations in the United States of America, securities dealing and financial advisory in Hong Kong and investment banking operations in Bulgaria.

VTB's majority shareholder is the Russian Federation, acting through the Federal Property Agency, which holds 60.9% of VTB's issued and outstanding ordinary shares as at 31 December 2017 (31 December 2016: 60.9%).

Unless otherwise noted herein, all amounts are expressed in billions of Russian roubles rounded off to one decimal.

2. BASIS OF PREPARATION

These consolidated financial statements ("financial statements") have been prepared in accordance with International Financial Reporting Standards ("IFRS"). The Bank and its subsidiaries and associates maintain their accounting records in accordance with regulations applicable in their country of registration. These financial statements are based on those accounting books and records, as adjusted and reclassified to comply with IFRS.

These financial statements have been prepared under the historical cost convention, as modified by the initial recognition of financial instruments based on fair value, by the revaluation of land, premises and investment properties, available-for-sale financial assets, and financial instruments at fair value through profit or loss, and by assets of disposal groups held for sale measured at lower of carrying value and fair value less costs to sell and property intended for sale in the ordinary course of business measured at lower of cost and net realisable value.

The summary of principal accounting policies applied in the preparation of these financial statements is set out below in Note 57. These policies have been consistently applied to all the periods presented, unless otherwise stated.

These financial statements are presented in Russian roubles (RUR), the national currency of the Russian Federation, where the Bank is domiciled.

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3. ANALYSIS BY SEGMENT

In accordance with IFRS 8, *Operating Segments*, the Group has defined five reportable segments.

- Corporate-Investment banking (CIB)
- Mid-Corporate banking (MCB)
- Retail business (RB)
- Treasury
- Other business

The Group has also separately disclosed Corporate Centre.

The composition of reportable segments is approved by resolutions of VTB Group's Management Committee (Chief Decision Makers), the body that on a regular basis assesses performance of reportable segments and allocates resources to them.

(a) Factors that management used in order to identify the reportable segments

The Group's segments are strategic business lines that are managed separately, focus on different clients and have product specialisation.

The majority of the Group's activities and resources are allocated and managed, and their performance is assessed via the respective segment information.

(b) Segments' business activities

The CIB, MCB and RB segments are global business lines that focus on servicing different customer segments.

The Treasury and Other Business segments, as well as Corporate Centre do not constitute separate global business lines.

The criteria used to identify client segments for each global business line are set by the Group Management Committee. They include principles for allocating customers between large, medium and small business customer segments.

CIB and MCB

CIB global business line encompasses operations with corporate customers that are 'large business' customers and banking financial institutions, as well as operations on the securities market, excluding operations with securities for liquidity management purposes.

MCB global business line encompasses operations with 'medium business' corporate customers.

To provide additional information, the Group also discloses the following product lines as part of the CIB and MCB reportable segments:

- Investment banking
- Loans and Deposits
- Transaction banking

Investment Banking

The Investment banking product line in the CIB reportable segment comprises:

- operations with prevailing market risk including loans with exposure to market risks;
- corporate finance operations;
- asset management, brokerage services and financial consulting;
- operations with precious metals;
- profit-taking operations on the financial and currency markets, including interbank market;
- other products and services with prevailing market risk.

The Investment banking product line also includes term funding from certain clients (including promissory notes issued), based on the decision of VTB Group's Management Committee.

The investment banking product line in the MCB reportable segment comprises currency exchange operations with 'medium business' corporate customers.

Loans and Deposits

The Loans and deposits product line covers:

- operations with prevailing credit risk, such as lending to corporate customers (large and medium businesses segments), including overdrafts on customers' current accounts;
- trade and export financing;

Transaction Banking

The Transaction banking product line consists of fee-based services and products with prevailing operational risks. It includes:

- operations with corporate customers; current and settlement accounts and term deposits;
- documentary operations, including letters of credit and guarantees;
- depositary operations;
- fee-based services of all kinds not related to operations on the financial markets and currency valuables: settlement and cash services, collection, storage box, remote banking services, payment processing centre service.

3. ANALYSIS BY SEGMENT (CONTINUED)

Retail business

RB global business line encompasses operations with individuals and 'small business' corporate customers.

The retail business reportable segment covers:

- Retail banking product line which includes operations with individuals and are 'small business' corporate customers;
- Insurance product line which includes all types of insurance products and services;
- Pension funds product line which include non-government pension funds (starting from 31 December 2016).

The Retail banking product line comprises operations with individuals and corporate customers that are 'small business' customers, and also internet and mobile POS-acquiring operations with major retail chains, operations of individuals with plastic cards, payroll related services, financial consulting, repurchase transactions and asset management, investment and other operations with individuals and 'small business' customers.

Treasury

The Treasury comprises:

- operations to manage liquidity (including those with securities portfolios maintained for liquidity management purposes);
- operations on financial and interbank markets as a part of management of payment and currency positions, as well as interest rate risk management;
- cash flow management within the Head office or subsidiary and between VTB Group members;
- debt financing operations;
- reallocation of resources between segments both within the Head office or subsidiary and between VTB Group members.

The net financial results of the Treasury reportable segment are allocated to other reportable segments in accordance with established methodology.

Corporate Centre

The Corporate Centre represents unallocated staff and administrative expenses related to VTB Group's management, as well as expenses on strategic programmes connected with VTB Group's brand development and positioning on the local and international markets, etc. Corporate Center also includes investments in associates not allocated to reportable segments.

Other business

The other business includes two lines of business: Construction and development and Other.

The Construction and development business line is non-banking operations undertaken by Group members operating in the construction and development industry.

The Other activities represent non-banking business, other than insurance, construction and development.

(c) Managing operating segments' profit or loss, assets or liabilities

The performance of a segment and its profit or loss are measured in accordance with IFRS, as adjusted by intersegment reallocations and decisions of VTB Group's Management Committee regarding the allocation of operations between segments.

The Head office and the Group members prepare segment reporting using unified rules.

Intersegment transactions within a single entity of the Group are settled using the internal transfer prices, which are designed to reflect the cost of resources. Transfer prices are set and reviewed on a regular basis in each of the Group's entities.

VTB Group's Management Committee evaluates segments' performance based on their net profit after tax, as well as other qualitative and quantitative information.

Intersegment transactions are predominantly conducted in the normal course of business.

As at 31 December 2017, the Group's reportable segments and their compositions remained as disclosed in the consolidated financial statements as at 31 December 2016 except for the changes described below.

As at 30 June 2017 the Group has approved new methodology for allocation of Treasury financial results to another reportable segments.

The new methodology focused on improvement of procedures and methods for interest rate risk management was implemented for the first time in financial statements for the six-month period ended 30 June 2017.

Comparative information for the year ended 31 December 2016 was not restated due to impracticability of obtaining reliable estimates for allocation drivers for prior periods. As a result, segment information for the year ended 31 December 2016 disclosed in these consolidated financial statements is not presented on a fully comparable basis.

3. ANALYSIS BY SEGMENT (CONTINUED)

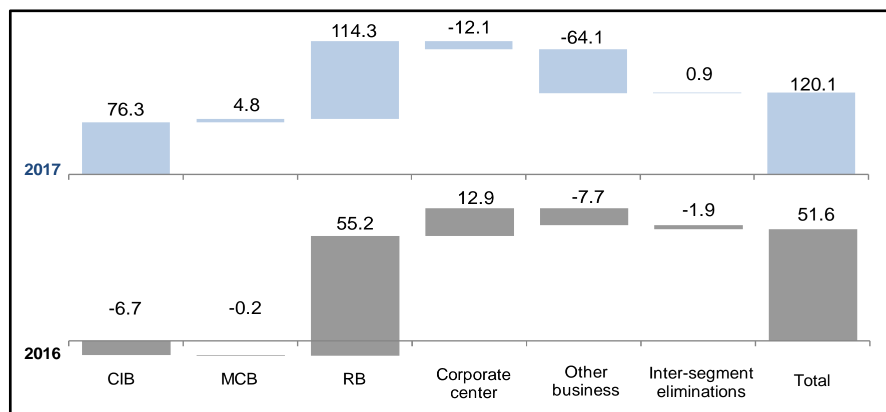
	Corporate-Investment banking (CIB)		Mid-Corporate banking (MCB)		Retail business (RB)		Treasury		Corporate centre		Other business		Inter-segment eliminations		Total	
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
Revenues from:																
External customers	615.4	673.0	85.8	95.3	581.0	474.8	113.1	97.6	4.9	–	67.7	90.5	–	–	**1,467.9**	**1,431.2**
Other segments	249.6	252.7	59.1	56.7	104.9	102.2	552.8	594.5	0.4	–	5.2	10.7	(972.0)	(1,016.8)	**–**	**–**
Total revenues	**865.0**	**925.7**	**144.9**	**152.0**	**685.9**	**577.0**	**665.9**	**692.1**	**5.3**	**–**	**72.9**	**101.2**	**(972.0)**	**(1,016.8)**	**1,467.9**	**1,431.2**
Segment income and expense:																
Interest income	759.0	829.1	132.5	139.8	487.2	441.7	632.9	687.5	0.7	–	4.2	16.0	(960.3)	(1,006.3)	**1,056.2**	**1,107.8**
Interest expense	(604.0)	(668.1)	(104.6)	(115.0)	(221.0)	(234.6)	(582.7)	(641.5)	(1.2)	–	(28.1)	(27.0)	960.3	1,005.4	**(581.3)**	**(680.8)**
Payments to deposit insurance system	–	–	–	–	(14.5)	(11.8)	(0.2)	(0.2)	–	–	–	–	–	–	**(14.7)**	**(12.0)**
Treasury result allocation	2.1	(55.3)	5.1	13.4	0.9	(0.8)	(14.1)	21.5	6.1	38.7	(0.1)	(17.5)	–	–	–	–
Net interest income/(expense)	**157.1**	**105.7**	**33.0**	**38.2**	**252.6**	**194.5**	**35.9**	**67.3**	**5.6**	**38.7**	**(24.0)**	**(28.5)**	–	**(0.9)**	**460.2**	**415.0**
Provision charge for impairment of debt financial assets	(75.4)	(48.7)	(17.4)	(26.1)	(47.5)	(65.6)	(28.8)	(4.3)	–	–	(0.1)	–	–	–	**(169.2)**	**(144.7)**
Net interest income/(expense) after provision for impairment	**81.7**	**57.0**	**15.6**	**12.1**	**205.1**	**128.9**	**7.1**	**63.0**	**5.6**	**38.7**	**(24.1)**	**(28.5)**	–	**(0.9)**	**291.0**	**270.3**
Net fee and commission income	22.6	18.3	8.9	9.5	60.5	52.2	2.8	2.4	–	–	0.5	0.1	–	(0.7)	**95.3**	**81.8**
Other gains net of losses/(losses net of gains) arising from financial instruments and foreign currencies	45.1	44.1	0.7	0.8	17.0	8.4	(9.6)	(59.0)	–	–	(0.6)	8.9	0.4	(0.5)	**53.0**	**2.7**
Share in profit/(loss) of associates and joint ventures	(0.6)	4.0	0.2	0.1	–	–	(0.3)	0.2	3.1	(1.3)	(1.2)	–	–	–	**1.2**	**3.0**
(Losses)/gains from disposal of subsidiaries and associates	(0.7)	0.1	–	–	0.1	–	–	–	–	–	0.1	6.2	–	–	**(0.5)**	**6.3**
Provision charge for impairment of other assets, credit related commitments and legal claims	0.6	(59.2)	(0.8)	(0.4)	(2.5)	(7.0)	–	–	–	–	–	0.1	–	–	**(2.7)**	**(66.5)**
Other operating (expense)/ income	16.0	(6.3)	0.5	(0.6)	8.8	17.6	–	(2.7)	(0.7)	(0.2)	(39.9)	(0.9)	(1.4)	(5.1)	**(16.7)**	**1.8**
Net operating income/(expense)	**164.7**	**58.0**	**25.1**	**21.5**	**289.0**	**200.1**	–	**3.9**	**8.0**	**37.2**	**(65.2)**	**(14.1)**	**(1.0)**	**(7.2)**	**420.6**	**299.4**
Staff costs and administrative expenses	(62.7)	(58.9)	(18.7)	(20.7)	(145.2)	(128.0)	–	(3.9)	(24.4)	(21.1)	(11.9)	(5.7)	2.0	4.4	**(260.9)**	**(233.9)**
Profit/(loss) before tax	**102.0**	**(0.9)**	**6.4**	**0.8**	**143.8**	**72.1**	–	–	**(16.4)**	**16.1**	**(77.1)**	**(19.8)**	**1.0**	**(2.8)**	**159.7**	**65.5**
Income tax (expense)/benefit	(25.8)	(5.8)	(1.6)	(1.0)	(29.5)	(16.9)	–	–	4.3	(3.2)	13.0	4.8	(0.1)	0.5	**(39.7)**	**(21.6)**
Net profit/(loss) after tax	**76.2**	**(6.7)**	**4.8**	**(0.2)**	**114.3**	**55.2**	–	–	**(12.1)**	**12.9**	**(64.1)**	**(15.0)**	**0.9**	**(2.3)**	**120.0**	**43.9**
Profit after tax from subsidiaries acquired exclusively with a view to resale	0.1	–	–	–	–	–	–	–	–	–	–	7.3	–	0.4	**0.1**	**7.7**
Net profit/(loss)	**76.3**	**(6.7)**	**4.8**	**(0.2)**	**114.3**	**55.2**	–	–	**(12.1)**	**12.9**	**(64.1)**	**(7.7)**	**0.9**	**(1.9)**	**120.1**	**51.6**
Capital expenditure	**39.7**	**37.2**	**2.6**	**2.1**	**23.2**	**16.9**	–	**0.8**	–	–	**18.2**	**50.8**	–	**0.1**	**83.7**	**107.9**
Depreciation	**11.3**	**11.9**	**3.0**	**4.0**	**9.8**	**8.7**	–	**0.2**	**0.9**	**0.2**	**2.1**	**3.4**	**0.1**	**0.1**	**27.2**	**28.5**

3. ANALYSIS BY SEGMENT (CONTINUED)

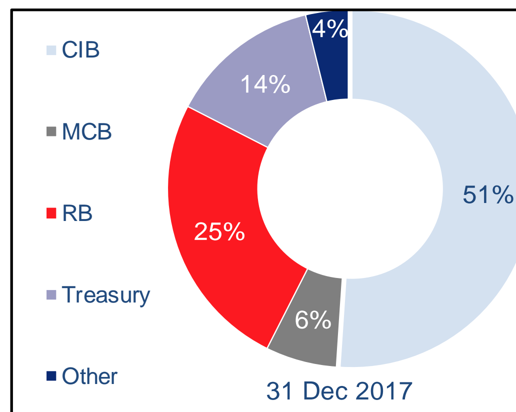
	Corporate-Investment banking (CIB)		Mid-Corporate banking (MCB)		Retail business (RB)		Treasury		Corporate centre		Other business		Inter-segment eliminations		Total	
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
Net profit/(loss)	**76.3**	**(6.7)**	**4.8**	**(0.2)**	**114.3**	**55.2**	**–**	**–**	**(12.1)**	**12.9**	**(64.1)**	**(7.7)**	**0.9**	**(1.9)**	**120.1**	**51.6**
Other comprehensive income/(loss):																
Net result on financial assets available-for-sale, net of tax	–	0.8	–	–	2.7	2.3	1.5	2.3	–	–	(2.6)	3.7	0.9	0.2	**2.5**	**9.3**
Cash flow hedges, net of tax	0.6	(0.9)	–	–	–	–	–	–	–	–	(0.7)	–	–	–	**(0.1)**	**(0.9)**
Share of other comprehensive loss of associates and joint ventures	–	–	–	–	–	–	(0.4)	(3.0)	–	–	–	–	–	–	**(0.4)**	**(3.0)**
Effect of translation, net of tax	–	(4.9)	–	–	–	–	0.3	(26.6)	–	–	–	–	–	–	**0.3**	**(31.5)**
Actuarial gains net of losses/(losses net of gains) arising from difference between pension plan assets and obligations	1.1	(1.2)	–	–	–	–	–	(0.1)	–	–	–	–	–	–	**1.1**	**(1.3)**
Revaluation reserve of assets of disposal groups held for sale	–	–	–	–	–	(0.4)	–	–	–	–	–	–	–	–	**–**	**(0.4)**
Land and premises revaluation, net of tax	–	–	–	–	–	–	–	–	–	–	(0.1)	(0.1)	–	–	**(0.1)**	**(0.1)**
Total other comprehensive income/(loss) before treasury result allocation	**1.7**	**(6.2)**	**–**	**–**	**2.7**	**1.9**	**1.4**	**(27.4)**	**–**	**–**	**(3.4)**	**3.6**	**0.9**	**0.2**	**3.3**	**(27.9)**
Treasury result allocation	1.0	(24.9)	0.2	(2.5)	0.1	(1.4)	(1.4)	27.4	0.1	–	–	1.4	–	–	**–**	**0.0**
Total other comprehensive income/(loss)	**2.7**	**(31.1)**	**0.2**	**(2.5)**	**2.8**	**0.5**	**–**	**–**	**0.1**	**–**	**(3.4)**	**5.0**	**0.9**	**0.2**	**3.3**	**(27.9)**
Total comprehensive income/(loss)	**79.0**	**(37.8)**	**5.0**	**(2.7)**	**117.1**	**55.7**	**–**	**–**	**(12.0)**	**12.9**	**(67.5)**	**(2.7)**	**1.8**	**(1.7)**	**123.4**	**23.7**

3. ANALYSIS BY SEGMENT (CONTINUED)

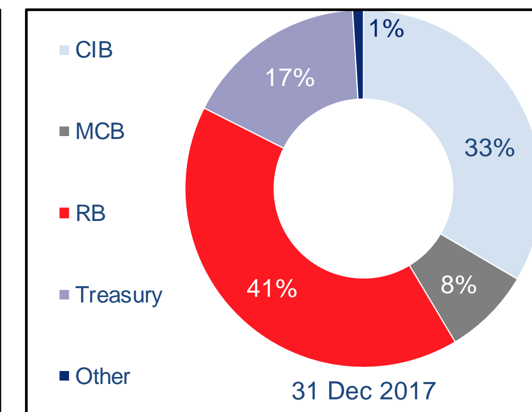
Net (loss)/profit after tax by segment



Segment assets



Segment liabilities

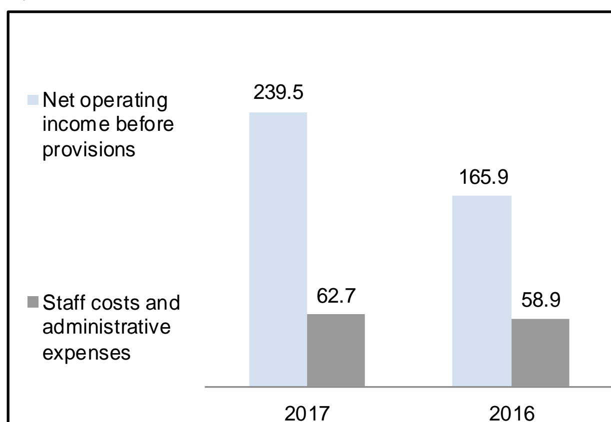


	Corporate-Investment banking (CIB)		Mid-Corporate banking (MCB)		Retail business (RB)		Treasury		Corporate centre		Other business		Inter-segment eliminations		Total	
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
Cash and short-term funds	48.6	32.5	–	–	273.0	187.0	452.1	232.1	–	–	0.1	1.3	–	–	**773.8**	**452.9**
Mandatory cash balances with central banks	–	–	–	–	28.4	25.2	68.7	69.9	–	–	–	–	–	–	**97.1**	**95.1**
Due from other banks	215.8	418.7	–	–	93.2	140.3	519.3	492.2	6.7	–	–	–	–	–	**835.0**	**1,051.2**
Loans and advances to customers	5,463.9	5,414.5	755.6	647.8	2,502.7	2,190.1	433.0	597.1	–	–	16.2	5.0	–	–	**9,171.4**	**8,854.5**
Other financial instruments	335.4	412.9	–	0.8	168.5	163.9	261.0	174.9	–	–	9.7	35.8	–	–	**774.6**	**788.3**
Investments in associates and joint ventures	68.8	70.0	0.5	0.4	–	–	6.6	6.8	15.6	16.1	25.6	–	–	–	**117.1**	**93.3**
Other assets items	508.6	500.4	72.7	70.0	210.5	192.4	27.5	17.8	0.7	–	420.3	472.3	–	–	**1,240.3**	**1,252.9**
Net amount of intersegment settlements	–	–	194.5	93.8	1,907.5	1,249.9	495.5	1,620.2	–	–	–	–	(2,597.5)	(2,963.9)	**–**	**–**
Segment assets	**6,641.1**	**6,849.0**	**1,023.3**	**812.8**	**5,183.8**	**4,148.8**	**2,263.7**	**3,211.0**	**23.0**	**16.1**	**471.9**	**514.4**	**(2,597.5)**	**(2,963.9)**	**13,009.3**	**12,588.2**
Due to other banks	19.7	113.1	0.8	1.9	0.2	13.1	788.0	1,080.7	1.6	–	–	0.1	–	–	**810.3**	**1,208.9**
Customer deposits	3,417.5	3,101.8	893.1	697.9	4,294.8	3,465.2	535.7	78.5	–	–	3.6	3.2	–	–	**9,144.7**	**7,346.6**
Other borrowed funds	128.9	132.4	0.2	0.2	8.3	17.5	163.9	1,154.2	–	–	3.2	2.9	–	–	**304.5**	**1,307.2**
Debt securities issued	12.2	18.8	13.1	11.4	72.0	25.2	225.4	344.2	–	–	–	–	–	–	**322.7**	**399.6**
Subordinated debt	–	–	–	–	–	2.1	193.2	222.0	–	–	–	–	–	–	**193.2**	**224.1**
Other liabilities items	278.5	294.4	10.6	7.7	354.4	278.3	6.9	12.8	–	–	103.8	95.7	–	–	**754.2**	**688.9**
Net amount of intersegment settlements	2,272.3	2,626.2	–	–	–	–	–	–	8.8	–	316.4	337.7	(2,597.5)	(2,963.9)	**–**	**–**
Segment liabilities	**6,129.1**	**6,286.7**	**917.8**	**719.1**	**4,729.7**	**3,801.4**	**1,913.1**	**2,892.4**	**10.4**	**–**	**427.0**	**439.6**	**(2,597.5)**	**(2,963.9)**	**11,529.6**	**11,175.3**

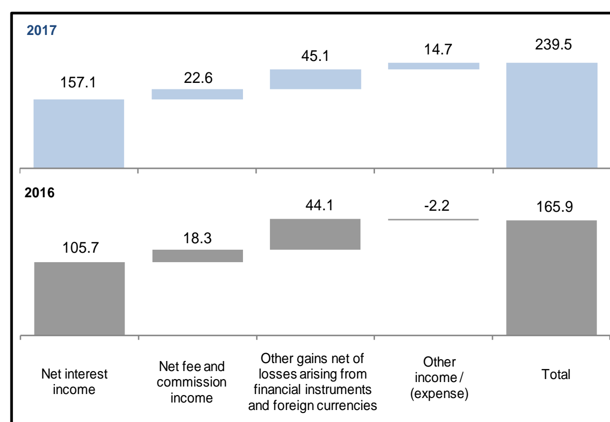
3. ANALYSIS BY SEGMENT (CONTINUED)

	Corporate-Investment banking (CIB) by product lines									
	Investment banking		Loans and deposits		Transaction banking		Inter-CIB eliminations		Total CIB	
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
Revenues from:										
External customers	198.2	198.2	393.9	452.5	23.3	22.3	–	–	**615.4**	**673.0**
Other segments	161.7	159.1	10.4	9.2	77.6	84.8	(0.1)	(0.4)	**249.6**	**252.7**
Total revenues	**359.9**	**357.3**	**404.3**	**461.7**	**100.9**	**107.1**	**(0.1)**	**(0.4)**	**865.0**	**925.7**
Segment income and expense										
Interest income	298.1	306.6	374.4	429.3	86.5	93.5	–	(0.3)	**759.0**	**829.1**
Interest expense	(247.9)	(240.5)	(290.6)	(359.2)	(65.5)	(68.7)	–	0.3	**(604.0)**	**(668.1)**
Treasury result allocation	4.8	(5.0)	(4.6)	(50.1)	1.9	(0.2)	–	–	**2.1**	**(55.3)**
Net interest income	**55.0**	**61.1**	**79.2**	**20.0**	**22.9**	**24.6**	**–**	**–**	**157.1**	**105.7**
(Provision charge) / reversal of provision for impairment of debt financial assets	0.5	(5.6)	(75.8)	(42.8)	(0.1)	(0.3)	–	–	**(75.4)**	**(48.7)**
Net interest income after provision for impairment	**55.5**	**55.5**	**3.4**	**(22.8)**	**22.8**	**24.3**	**–**	**–**	**81.7**	**57.0**
Net fee and commission income	8.7	5.4	0.5	0.7	13.4	12.2	–	–	**22.6**	**18.3**
Other gains net of losses arising from financial instruments and foreign currencies	44.8	37.9	0.4	6.1	–	–	(0.1)	0.1	**45.1**	**44.1**
Share in (losses)/ profit of associates and joint ventures	0.5	3.3	(1.1)	0.7	–	–	–	–	**(0.6)**	**4.0**
(Losses)/gains from disposal of subsidiaries and associates	(0.7)	0.1	–	–	–	–	–	–	**(0.7)**	**0.1**
Reversal/(provision charge) of provision for impairment of other assets, credit related commitments and legal claims	–	0.5	0.8	(51.2)	(0.2)	(8.5)	–	–	**0.6**	**(59.2)**
Other operating income/ (expense)	1.3	(0.7)	14.7	(5.4)	–	(0.2)	–	–	**16.0**	**(6.3)**
Net operating income/ (expense)	**110.1**	**102.0**	**18.7**	**(71.9)**	**36.0**	**27.8**	**(0.1)**	**0.1**	**164.7**	**58.0**
Staff costs and administrative expenses	(30.3)	(32.1)	(21.3)	(16.8)	(11.1)	(10.0)	–	–	**(62.7)**	**(58.9)**
Profit/(loss) before taxation	**79.8**	**69.9**	**(2.6)**	**(88.7)**	**24.9**	**17.8**	**(0.1)**	**0.1**	**102.0**	**(0.9)**
Income tax (expense)/benefit	(17.3)	(16.1)	(3.1)	13.9	(5.4)	(3.6)	–	–	**(25.8)**	**(5.8)**
Net profit/(loss) after tax	**62.5**	**53.8**	**(5.7)**	**(74.8)**	**19.5**	**14.2**	**(0.1)**	**0.1**	**76.2**	**(6.7)**
Profit after tax from subsidiaries acquired exclusively with a view to resale	0.1	–	–	–	–	–	–	–	**0.1**	**–**
Net profit/(loss)	**62.6**	**53.8**	**(5.7)**	**(74.8)**	**19.5**	**14.2**	**(0.1)**	**0.1**	**76.3**	**(6.7)**
Capital expenditure	**2.0**	**1.2**	**35.8**	**34.6**	**1.9**	**1.4**	–	–	**39.7**	**37.2**
Depreciation	**0.8**	**0.7**	**9.9**	**10.7**	**0.6**	**0.5**	–	–	**11.3**	**11.9**

Net operating income and administrative expenses dynamics (CIB)



Net operating income before provisions: structure (CIB)



3. ANALYSIS BY SEGMENT (CONTINUED)

	Corporate-Investment banking (CIB) by product lines									
	Investment banking		Loans and deposits		Transaction banking		Inter-CIB eliminations		Total CIB	
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
Net profit/(loss)	**62.6**	**53.8**	**(5.7)**	**(74.8)**	**19.5**	**14.2**	**(0.1)**	**0.1**	**76.3**	**(6.7)**
Other comprehensive income/(loss):										
Net result on financial assets available-for-sale, net of tax	0.9	0.7	(0.9)	0.1	–	–	–	–	**–**	**0.8**
Cash flow hedges, net of tax	0.6	(0.9)	–	–	–	–	–	–	**0.6**	**(0.9)**
Effect of translation, net of tax	–	(5.7)	–	0.8	–	–	–	–	**–**	**(4.9)**
Actuarial gains net of losses / (losses net of gains) arising from difference between pension plan assets and obligations	1.1	(1.2)	–	–	–	–	–	–	**1.1**	**(1.2)**
Total other comprehensive income/(loss) before treasury result allocation	**2.6**	**(7.1)**	**(0.9)**	**0.9**	**–**	**–**	**–**	**–**	**1.7**	**(6.2)**
Treasury result allocation	0.1	(0.9)	–	(23.7)	0.9	(0.3)	–	–	**1.0**	**(24.9)**
Total other comprehensive income/(loss)	**2.7**	**(8.0)**	**(0.9)**	**(22.8)**	**0.9**	**(0.3)**	**–**	**–**	**2.7**	**(31.1)**
Total comprehensive income/(loss)	**65.3**	**45.8**	**(6.6)**	**(97.6)**	**20.4**	**13.9**	**(0.1)**	**0.1**	**79.0**	**(37.8)**

	Corporate-Investment banking (CIB) by product lines									
	Investment banking		Loans and deposits		Transaction banking		Inter-CIB eliminations		Total CIB	
	2017	2016 (restated)	2017	2016	2017	2016	2017	2016	2017	2016 (restated)
Cash and short-term funds	48.6	32.2	–	0.3	–	–	–	–	**48.6**	**32.5**
Due from other banks	93.5	294.9	122.3	123.8	–	–	–	–	**215.8**	**418.7**
Loans and advances to customers	1,565.2	1,461.6	3,768.6	3,867.6	130.1	85.3	–	–	**5,463.9**	**5,414.5**
Other financial instruments	335.4	405.9	–	7.0	–	–	–	–	**335.4**	**412.9**
Investments in associates and joint ventures	68.8	70.0	–	–	–	–	–	–	**68.8**	**70.0**
Other assets items	205.3	190.1	275.2	285.0	28.1	25.3	–	–	**508.6**	**500.4**
Net amount of intersegment settlements	313.7	174.6	–	–	1,132.3	1,017.2	(1,446.0)	(1,191.8)	**–**	**–**
Segment assets	**2,630.5**	**2,629.3**	**4,166.1**	**4,283.7**	**1,290.5**	**1,127.8**	**(1,446.0)**	**(1,191.8)**	**6,641.1**	**6,849.0**
Due to other banks	11.5	98.4	5.2	13.4	3.0	1.3	–	–	**19.7**	**113.1**
Customer deposits	2,195.3	2,035.2	0.1	4.1	1,222.1	1,062.5	–	–	**3,417.5**	**3,101.8**
Other borrowed funds	–	2.5	128.9	129.9	–	–	–	–	**128.9**	**132.4**
Debt securities issued	7.2	14.4	5.0	0.1	–	4.3	–	–	**12.2**	**18.8**
Other liabilities items	227.6	252.8	29.9	19.7	21.0	21.9	–	–	**278.5**	**294.4**
Net amount of intersegment settlements	–	–	3,718.3	3,818.0	–	–	(1,446.0)	(1,191.8)	**2,272.3**	**2,626.2**
Segment liabilities	**2,441.6**	**2,403.3**	**3,887.4**	**3,985.2**	**1,246.1**	**1,090.0**	**(1,446.0)**	**(1,191.8)**	**6,129.1**	**6,286.7**

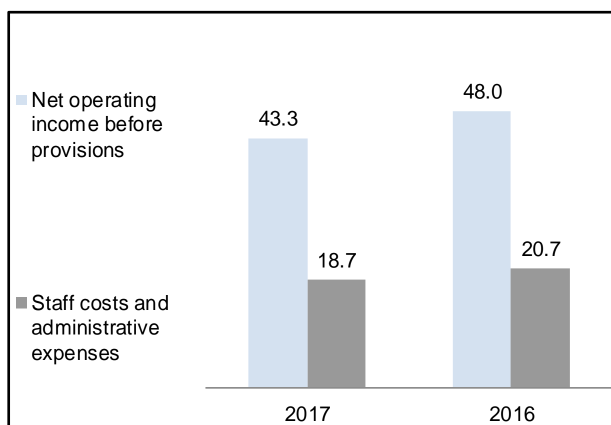
3. ANALYSIS BY SEGMENT (CONTINUED)

	Mid-Corporate banking (MCB) by product lines							
	Investment banking		Loans and deposits		Transaction banking		Total MCB	
	2017	2016	2017	2016	2017	2016	2017	2016
Revenues from:								
External customers	0.8	1.2	75.0	82.9	10.0	11.2	**85.8**	**95.3**
Other segments	–	0.1	0.9	–	58.2	56.6	**59.1**	**56.7**
Total revenues	**0.8**	**1.3**	**75.9**	**82.9**	**68.2**	**67.8**	**144.9**	**152.0**
Segment income and expense								
Interest income	0.1	0.3	74.1	82.3	58.3	57.2	**132.5**	**139.8**
Interest expense	(0.1)	(0.2)	(60.8)	(72.7)	(43.7)	(42.1)	**(104.6)**	**(115.0)**
Treasury result allocation	–	–	4.4	14.0	0.7	(0.6)	**5.1**	**13.4**
Net interest income	**–**	**0.1**	**17.7**	**23.6**	**15.3**	**14.5**	**33.0**	**38.2**
Provision charge for impairment of debt financial assets	–	–	(17.4)	(26.1)	–	–	**(17.4)**	**(26.1)**
Net interest income/(expense) after provision for impairment	**–**	**0.1**	**0.3**	**(2.5)**	**15.3**	**14.5**	**15.6**	**12.1**
Net fee and commission income	–	–	–	0.1	8.9	9.4	**8.9**	**9.5**
Other gains net of losses arising from financial instruments and foreign currencies	0.7	0.8	–	–	–	–	**0.7**	**0.8**
Share in profit of associates and joint ventures	–	–	0.2	0.1	–	–	**0.2**	**0.1**
(Provision charge)/reversal of provision for impairment of other assets, credit related commitments and legal claims	–	–	–	0.5	(0.8)	(0.9)	**(0.8)**	**(0.4)**
Other operating income/(expense)	–	–	0.6	(0.6)	(0.1)	–	**0.5**	**(0.6)**
Net operating income/(expense)	**0.7**	**0.9**	**1.1**	**(2.4)**	**23.3**	**23.0**	**25.1**	**21.5**
Staff costs and administrative expenses	(0.1)	(0.1)	(9.0)	(10.2)	(9.6)	(10.4)	**(18.7)**	**(20.7)**
Profit/(loss) before taxation	**0.6**	**0.8**	**(7.9)**	**(12.6)**	**13.7**	**12.6**	**6.4**	**0.8**
Income tax (expense)/benefit	(0.1)	(0.1)	1.3	1.6	(2.8)	(2.5)	**(1.6)**	**(1.0)**
Net profit/(loss)	**0.5**	**0.7**	**(6.6)**	**(11.0)**	**10.9**	**10.1**	**4.8**	**(0.2)**
Capital expenditure	–	–	**1.0**	**0.9**	**1.6**	**1.2**	**2.6**	**2.1**
Depreciation	–	–	**1.8**	**2.5**	**1.2**	**1.5**	**3.0**	**4.0**

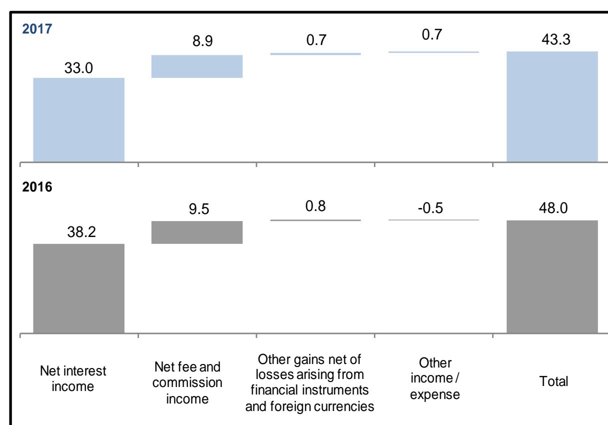
	Mid-Corporate banking (MCB) by product lines							
	Investment banking		Loans and deposits		Transaction banking		Total MCB	
	2017	2016	2017	2016	2017	2016	2017	2016
Net profit/(loss)	**0.5**	**0.7**	**(6.6)**	**(11.0)**	**10.9**	**10.1**	**4.8**	**(0.2)**
Treasury result allocation	–	–	–	(2.2)	0.2	(0.3)	**0.2**	**(2.5)**
Total other comprehensive income/(loss)	**–**	**–**	**–**	**(2.2)**	**0.2**	**(0.3)**	**0.2**	**(2.5)**
Total comprehensive income/(loss)	**0.5**	**0.7**	**(6.6)**	**(13.2)**	**11.1**	**9.8**	**5.0**	**(2.7)**

3. ANALYSIS BY SEGMENT (CONTINUED)

Net operating income and administrative expenses dynamics (MCB)



Net operating income before provisions: structure (MCB)

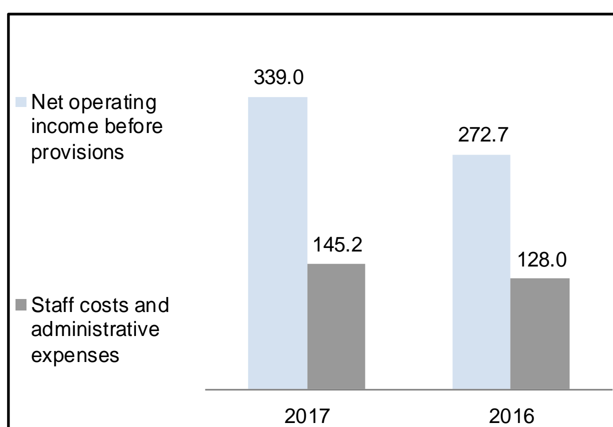


	Mid-Corporate banking (MCB) by product lines									
	Investment banking		Loans and deposits		Transaction banking		Inter-MCB eliminations		Total MCB	
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
Cash and short-term funds	–	–	–	–	–	–	–	–	**–**	**–**
Loans and advances to customers	0.6	0.6	754.7	646.7	0.3	0.5	–	–	**755.6**	**647.8**
Other financial instruments	–	0.8	–	–	–	–	–	–	**–**	**0.8**
Investments in associates and joint ventures	–	–	0.5	0.4	–	–	–	–	**0.5**	**0.4**
Other assets items	0.6	0.1	47.7	45.2	24.4	24.7	–	–	**72.7**	**70.0**
Net amount of intersegment settlements	–	–	–	–	901.2	700.5	(706.7)	(606.7)	**194.5**	**93.8**
Segment assets	**1.2**	**1.5**	**802.9**	**692.3**	**925.9**	**725.7**	**(706.7)**	**(606.7)**	**1,023.3**	**812.8**
Due to other banks	–	–	0.8	1.1	–	0.8	–	–	**0.8**	**1.9**
Customer deposits	–	0.1	0.4	0.4	892.7	697.4	–	–	**893.1**	**697.9**
Other borrowed funds	–	–	0.2	0.2	–	–	–	–	**0.2**	**0.2**
Debt securities issued	–	–	–	–	13.1	11.4	–	–	**13.1**	**11.4**
Other liabilities items	–	–	2.2	2.1	8.4	5.6	–	–	**10.6**	**7.7**
Net amount of intersegment settlements	1.0	1.3	705.7	605.4	–	–	(706.7)	(606.7)	**–**	**–**
Segment liabilities	**1.0**	**1.4**	**709.3**	**609.2**	**914.2**	**715.2**	**(706.7)**	**(606.7)**	**917.8**	**719.1**

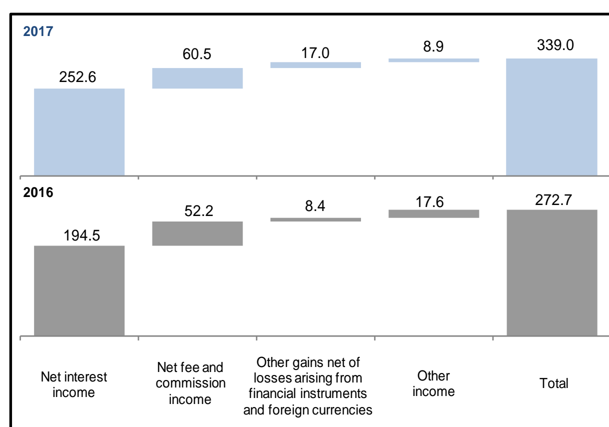
3. ANALYSIS BY SEGMENT (CONTINUED)

	Retail business (RB) by product lines									
	Retail banking		Insurance		Pension business		Inter-RB eliminations		Total RB	
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
Revenues from:										
External customers	477.3	424.2	72.6	50.6	31.1	–	–	–	**581.0**	**474.8**
Other segments	110.7	107.9	5.2	4.8	2.4	–	(13.4)	(10.5)	**104.9**	**102.2**
Total revenues	**588.0**	**532.1**	**77.8**	**55.4**	**33.5**	**–**	**(13.4)**	**(10.5)**	**685.9**	**577.0**
Segment income and expense										
Interest income	467.5	436.6	8.4	5.9	13.3	–	(2.0)	(0.8)	**487.2**	**441.7**
Interest expense	(221.3)	(234.6)	–	(0.1)	–	–	0.3	0.1	**(221.0)**	**(234.6)**
Payments to deposit insurance system	(14.5)	(11.8)	–	–	–	–	–	–	**(14.5)**	**(11.8)**
Treasury result allocation	0.9	(0.8)	–	–	–	–	–	–	**0.9**	**(0.8)**
Net interest income/(expenses)	**232.6**	**189.4**	**8.4**	**5.8**	**13.3**	**–**	**(1.7)**	**(0.7)**	**252.6**	**194.5**
Provision charge for impairment of debt financial assets	(47.1)	(65.0)	–	–	–	–	(0.4)	(0.6)	**(47.5)**	**(65.6)**
Net interest income/(expenses) after provision for impairment	**185.5**	**124.4**	**8.4**	**5.8**	**13.3**	**–**	**(2.1)**	**(1.3)**	**205.1**	**128.9**
Net fee and commission income/(expense)	71.7	60.6	(0.6)	(0.6)	(0.7)	–	(9.9)	(7.8)	**60.5**	**52.2**
Other gains net of losses/(losses net of gains) arising from financial instruments and foreign currencies	16.1	9.0	0.1	(0.6)	0.8	–	–	–	**17.0**	**8.4**
Gains from disposal of subsidiaries and associates	0.1	–	–	–	–	–	–	–	**0.1**	–
Provision charge for impairment of other assets, credit related commitments and legal claims	(2.4)	(6.4)	(0.1)	(0.6)	–	–	–	–	**(2.5)**	**(7.0)**
Other	(16.0)	(4.7)	27.1	19.1	(9.8)	–	7.5	3.2	**8.8**	**17.6**
Net operating income/(expenses)	**255.0**	**182.9**	**34.9**	**23.1**	**3.6**	**–**	**(4.5)**	**(5.9)**	**289.0**	**200.1**
Staff costs and administrative expenses	(135.2)	(120.7)	(9.6)	(7.4)	(0.4)	–	–	0.1	**(145.2)**	**(128.0)**
Profit/(loss) before taxation	**119.8**	**62.2**	**25.3**	**15.7**	**3.2**	**–**	**(4.5)**	**(5.8)**	**143.8**	**72.1**
Income tax (expense)/ benefit	(25.2)	(14.6)	(4.9)	(3.5)	(0.3)	–	0.9	1.2	**(29.5)**	**(16.9)**
Net profit/(loss) after tax	**94.6**	**47.6**	**20.4**	**12.2**	**2.9**	**–**	**(3.6)**	**(4.6)**	**114.3**	**55.2**
Capital expenditure	**22.1**	**16.4**	**1.1**	**0.5**	–	–	–	–	**23.2**	**16.9**
Depreciation	**9.3**	**8.4**	**0.5**	**0.3**	–	–	–	–	**9.8**	**8.7**

Net operating income and administrative expenses dynamics (RB)



Net operating income before provisions: structure (RB)



3. ANALYSIS BY SEGMENT (CONTINUED)

	Retail business (RB) by product lines									
	Retail banking		Insurance		Pension business		Inter–RB eliminations		Total RB	
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
Net profit/(loss)	**94.6**	**47.6**	**20.4**	**12.2**	**2.9**	**–**	**(3.6)**	**(4.6)**	**114.3**	**55.2**
Other comprehensive income:										
Net result on financial assets available-for-sale, net of tax	2.7	2.3	–	–	–	–	–	–	**2.7**	**2.3**
Revaluation reserve of assets of disposal groups held for sale	–	–	–	(0.4)	–	–	–	–	–	**(0.4)**
Total other comprehensive income before treasury result allocation	**2.7**	**2.3**	**–**	**(0.4)**	**–**	**–**	**–**	**–**	**2.7**	**1.9**
Treasury result allocation	0.1	(1.4)	–	–	–	–	–	–	**0.1**	**(1.4)**
Total other comprehensive income	**2.8**	**0.9**	**–**	**(0.4)**	**–**	**–**	**–**	**–**	**2.8**	**0.5**
Total comprehensive income	**97.4**	**48.5**	**20.4**	**11.8**	**2.9**	**–**	**(3.6)**	**(4.6)**	**117.1**	**55.7**

	Retail business (RB) by product lines									
	Retail banking		Insurance		Pension business		Inter-RB eliminations		Total RB	
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
Cash and short-term funds	272.7	186.7	0.1	0.1	0.2	0.2	–	–	**273.0**	**187.0**
Mandatory cash balances with central banks	28.4	25.2	–	–	–	–	–	–	**28.4**	**25.2**
Due from other banks	19.6	76.9	43.9	39.5	29.7	23.9	–	–	**93.2**	**140.3**
Loans and advances to customers	2,495.0	2,182.4	–	–	7.7	7.7	–	–	**2,502.7**	**2,190.1**
Other financial instruments	36.8	74.7	41.7	19.9	90.0	69.3	–	–	**168.5**	**163.9**
Other assets items	160.4	154.2	49.0	37.6	1.1	0.6	–	–	**210.5**	**192.4**
Net amount of intersegment settlements	1,827.2	1,196.7	57.1	24.3	23.2	28.9	–	–	**1,907.5**	**1,249.9**
Segment assets	**4,840.1**	**3,896.8**	**191.8**	**121.4**	**151.9**	**130.6**	**–**	**–**	**5,183.8**	**4,148.8**
Due to other banks	0.2	13.1	–	–	–	–	–	–	**0.2**	**13.1**
Customer deposits	4,294.8	3,465.2	–	–	–	–	–	–	**4,294.8**	**3,465.2**
Other borrowed funds	8.3	17.5	–	–	–	–	–	–	**8.3**	**17.5**
Debt securities issued	72.0	25.2	–	–	–	–	–	–	**72.0**	**25.2**
Subordinated debt	–	2.1	–	–	–	–	–	–	**–**	**2.1**
Other liabilities items	49.3	51.4	161.1	101.2	144.0	125.7	–	–	**354.4**	**278.3**
Segment liabilities	**4,424.6**	**3,574.5**	**161.1**	**101.2**	**144.0**	**125.7**	**–**	**–**	**4,729.7**	**3,801.4**

3. ANALYSIS BY SEGMENT (CONTINUED)

	Other business							
	Construction and development		Other		Inter-Other eliminations		Total Other business	
	2017	2016	2017	2016	2017	2016	2017	2016
Revenues from:								
External customers	50.3	44.3	17.4	46.2	–	–	**67.7**	**90.5**
Other segments	2.9	3.0	2.3	8.0	–	(0.3)	**5.2**	**10.7**
Total revenues	**53.2**	**47.3**	**19.7**	**54.2**	**–**	**(0.3)**	**72.9**	**101.2**
Segment income and expense								
Interest income	3.2	3.0	1.0	13.3	–	(0.3)	**4.2**	**16.0**
Interest expense	(19.6)	(18.2)	(8.5)	(9.1)	–	0.3	**(28.1)**	**(27.0)**
Treasury result allocation	1.7	–	(1.8)	(17.5)	–	–	**(0.1)**	**(17.5)**
Net interest expense	**(14.7)**	**(15.2)**	**(9.3)**	**(13.3)**	**–**	**–**	**(24.0)**	**(28.5)**
Provision charge for impairment of debt financial assets	–	–	(0.1)	–	–	–	**(0.1)**	**–**
Net interest expense after provision for impairment	**(14.7)**	**(15.2)**	**(9.4)**	**(13.3)**	**–**	**–**	**(24.1)**	**(28.5)**
Net fee and commission income/(expense)	(0.1)	(0.1)	0.6	0.2	–	–	**0.5**	**0.1**
Other (losses net of gains)/gains net of losses arising from financial instruments and foreign currencies	(0.4)	4.1	(0.2)	4.8	–	–	**(0.6)**	**8.9**
Share in profit of associates and joint ventures			(1.2)				**(1.2)**	
Gains/(losses) from disposal of subsidiaries and associates	–	(0.2)	0.1	6.4	–	–	**0.1**	**6.2**
Reversal of provision for impairment of other assets, credit related commitments and legal claims	–	–	–	0.1	–	–	**–**	**0.1**
Other	(28.8)	14.3	(11.1)	(15.2)	–	–	**(39.9)**	**(0.9)**
Net operating (expense)/income	**(44.0)**	**2.9**	**(21.2)**	**(17.0)**	**–**	**–**	**(65.2)**	**(14.1)**
Staff costs and administrative expenses	(0.3)	(0.3)	(11.6)	(5.4)	–	–	**(11.9)**	**(5.7)**
(Loss)/profit before taxation	**(44.3)**	**2.6**	**(32.8)**	**(22.4)**	**–**	**–**	**(77.1)**	**(19.8)**
Income tax (expense)/benefit	7.2	(1.9)	5.8	6.7	–	–	**13.0**	**4.8**
(Loss)/profit after tax	**(37.1)**	**0.7**	**(27.0)**	**(15.7)**	**–**	**–**	**(64.1)**	**(15.0)**
Profit after tax from subsidiaries acquired exclusively with a view to resale	–	–	–	7.3	–	–	**–**	**7.3**
Net (loss)	**(37.1)**	**0.7**	**(27.0)**	**(8.4)**	**–**	**–**	**(64.1)**	**(7.7)**
Capital expenditure	15.5	13.3	**2.7**	**37.5**	–	–	**18.2**	**50.8**
Depreciation	**0.2**	**0.3**	**1.9**	**3.1**	–	–	**2.1**	**3.4**

	Other business							
	Construction and development		Other		Inter-other eliminations		Total Other business	
	2017	2016	2017	2016	2017	2016	2017	2016
Net loss	**(37.1)**	**0.7**	**(27.0)**	**(8.4)**	**–**	**–**	**(64.1)**	**(7.7)**
Other comprehensive income/(loss):								
Net result on financial assets available-for-sale, net of tax	–	–	(2.6)	3.7	–	–	**(2.6)**	**3.7**
Cash flow hedges, net of tax			(0.7)				**(0.7)**	
Land and premises revaluation, net of tax	–	–	(0.1)	(0.1)	–	–	**(0.1)**	**(0.1)**
Total other comprehensive (expenses)/income before treasury result allocation	**–**	**–**	**(3.4)**	**3.6**	**–**	**–**	**(3.4)**	**3.6**
Treasury result allocation	–	–	–	1.4	–	–	**–**	**1.4**
Total other comprehensive (expenses)/income	**–**	**–**	**(3.4)**	**5.0**	**–**	**–**	**(3.4)**	**5.0**
Total comprehensive loss	**(37.1)**	**0.7**	**(30.4)**	**(3.4)**	**–**	**–**	**(67.5)**	**(2.7)**

3. ANALYSIS BY SEGMENT (CONTINUED)

	Other business							
	Construction and development		Other		Inter-Other eliminations		Total Other business	
	2017	2016	2017	2016	2017	2016	2017	2016
Cash and short-term funds	0.1	0.1	–	1.2	–	–	**0.1**	**1.3**
Due from other banks	–	–	–	–	–	–	**–**	**–**
Loans and advances to customers	14.4	4.8	1.8	0.2	–	–	**16.2**	**5.0**
Other financial instruments	–	–	9.7	35.8	–	–	**9.7**	**35.8**
Investments in associates and joint ventures	–	–	25.6	–	–	–	**25.6**	**–**
Other assets items	308.3	355.7	112.0	116.6	–	–	**420.3**	**472.3**
Segment assets	**322.8**	**360.6**	**149.1**	**153.8**	**–**	**–**	**471.9**	**514.4**
Due to other banks	–	–	–	0.1	–	–	**–**	**0.1**
Customer deposits	–	–	3.6	3.2	–	–	**3.6**	**3.2**
Other borrowed funds	3.2	2.9	–	–	–	–	**3.2**	**2.9**
Debt securities issued	–	–	–	–	–	–	**–**	**–**
Other liabilities items	84.7	87.1	19.1	8.6	–	–	**103.8**	**95.7**
Net amount of intersegment settlements	249.7	253.6	66.7	84.1	–	–	**316.4**	**337.7**
Segment liabilities	**337.6**	**343.6**	**89.4**	**96.0**	**–**	**–**	**427.0**	**439.6**

Geographical segment information based on geographical location of entities within the Group:

	2017			2016 (restated)		
	Russia	Other	Total	Russia	Other	Total
Revenues from external customers for the year	1,343.8	90.1	**1,433.9**	1,274.7	96.1	**1,370.8**
Non-current assets as at end of period	684.1	149.0	**833.1**	691.8	144.8	**836.6**

4. INTEREST INCOME AND EXPENSE

	2017	2016
Interest income		
Loans and advances to customers	973.4	1,017.8
Due from other banks	45.8	48.0
Other financial assets, including securities	21.4	22.5
Financial assets not at fair value through profit or loss	**1,040.6**	**1,088.3**
Financial assets at fair value through profit or loss	15.6	19.5
Total interest income	**1,056.2**	**1,107.8**
Interest expense		
Customer deposits	(433.9)	(475.0)
Due to other banks and other borrowed funds	(107.5)	(151.9)
Debt securities issued	(24.9)	(32.4)
Subordinated debt	(15.0)	(21.5)
Total interest expense	**(581.3)**	**(680.8)**
Payments to deposit insurance system	**(14.7)**	**(12.0)**
Net interest income	**460.2**	**415.0**

Interest income recognised on loans and advances to customers for the year ended 31 December 2017 includes finance income in the amount of RUR 24.0 billion calculated based on constant periodic rate of interest on the lessor’s net investment in the finance lease (for the year ended 31 December 2016: RUR 24.3 billion).

For the year ended 31 December 2017 interest income on impaired loans and advances to customers and due from other banks, recognised by the Group amounted to RUR 37.3 billion and RUR 3.5 billion, respectively (for the year ended 31 December 2016: RUR 45.5 billion and nil, respectively) .

5. NET FEE AND COMMISSION INCOME

	2017	2016 (restated)
Commission on settlement transactions and trade finance	75.7	63.3
Fee received for insurance products distribution and agents' services	18.2	12.3
Commission on guarantees and other credit related commitments issued	13.2	13.3
Commission on operations with securities and capital markets	10.7	8.6
Commission on cash transactions	6.7	6.2
Other	5.1	6.0
Total fee and commission income	**129.6**	**109.7**
Commission on settlement transactions and trade finance	(25.5)	(19.7)
Commission on operations with securities and capital markets	(2.8)	(3.5)
Commission on cash transactions	(2.7)	(3.0)
Other	(3.3)	(1.7)
Total fee and commission expense	**(34.3)**	**(27.9)**
Net fee and commission income	**95.3**	**81.8**

6. GAINS NET OF LOSSES ARISING FROM FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Note	2017	2016 (restated)
Gains net of losses arising from financial instruments held for trading		9.8	9.4
- Gains net of losses arising from non-derivative financial assets		4.8	14.2
- Gains net of losses/(losses net of gains) arising from derivative financial instruments		5.0	(4.8)
(Losses net of gains)/gains net of losses arising from financial instruments designated as at fair value through profit or loss		(3.6)	1.6
Gains net of losses/(losses net of gains) from associates and joint ventures designated as at fair value through profit or loss	47, 58	6.6	(2.2)
Total gains net of losses arising from financial instruments at fair value through profit or loss		**12.8**	**8.8**

7. LOSSES NET OF GAINS ARISING FROM FOREIGN CURRENCIES AND PRECIOUS METALS

	2017	2016
Losses net of gains arising from dealing in foreign currencies and precious metals	(14.5)	(187.8)
- of which gains net of losses/(losses net of gains) arising from foreign exchange and precious metals derivative contracts held for trading (Note 21)	17.3	(51.7)
Foreign exchange translation gains net of losses	2.1	170.2
Total losses net of gains arising from foreign currencies and precious metals	**(12.4)**	**(17.6)**

Losses net of gains arising from dealing in foreign currencies represent foreign currency trading results and changes in value of foreign currency derivative positions, including those economically hedging net foreign currency positions.

8. OTHER GAINS NET OF LOSSES ON FINANCIAL INSTRUMENTS AT AMORTISED COST

	2017	2016 (restated)
Gains arising from sale of loans and advances to customers including assets previously reclassified	39.2	1.4
Initial recognition of financial assets and liabilities		
Loans and advances to customers	(0.2)	2.1
Trading credit products	0.1	(0.2)
Due to other banks	–	0.1
Other borrower funds	–	0.1
Total other gains net of losses financial instruments at amortised cost	**39.1**	**3.5**

Gains from sale of loans and advances to customers including assets previously reclassified represent predominantly gains from sale of debt securities of the Russian Federation received as payment for the preference shares issued by the Bank in July 2015 as well as other government and corporate debt securities. The gains reflect increases in value of these securities due to the increased market activity and improved liquidity during the holding period since their acquisition.

9. (LOSSES NET OF GAINS)/GAINS NET OF LOSSES FROM EXTINGUISHMENT OF LIABILITIES

	2017	2016
Due to other banks	0.1	–
Own issued debt securities (non-subordinated)	(0.1)	0.5
Other borrowed funds	(0.1)	(1.9)
Customer deposits	–	1.4
Subordinated debts	–	0.3
Total (losses net of gains)/gains net of losses from extinguishment of liabilities	**(0.1)**	**0.3**

10. OTHER OPERATING INCOME

	2017	2016 (restated)
Income arising from state insurance medical programme	3.1	1.0
Dividends received	2.4	1.5
Gains arising from disposal of property	1.3	1.0
Fines and penalties received	0.5	0.8
Write-off liabilities upon expiration	0.1	0.1
Reimbursements received and reversal of impairment of other non-financial assets	–	0.3
Other	5.7	3.1
Total other operating income	**13.1**	**7.8**

11. NET INCOME/(LOSS) ON OPERATING LEASING

	2017	2016 (restated)
Income from operating lease of equipment	**22.5**	**18.8**
Expenses related to equipment leased out		
Depreciation and amortisation	(9.9)	(10.3)
Loss arising from disposal	(1.7)	–
Insurance	(0.9)	(1.0)
Taxes other than on income	(0.8)	(2.1)
Impairment of equipment	(0.2)	(11.5)
Other expenses	(0.6)	(0.6)
Total expenses related to equipment leased out	**(14.1)**	**(25.5)**
Net income/(loss) on operating leasing	**8.4**	**(6.7)**

12. REVENUES AND OTHER GAINS FROM OTHER NON-BANKING ACTIVITIES

Revenues and other gains from other non-banking activities were as follows:

	2017	2016
Construction, development and other real estate operations		
Revenue from sale of property intended for sale in the ordinary course of business	42.7	21.3
Rental income from investment property	5.5	7.2
Other income from real estate operations	4.4	4.4
Revenue and other gains from construction, development and other real estate operations	**52.6**	**32.9**
Other non-banking activities		
Telecommunications and media	4.8	5.1
Food and agriculture	0.3	0.3
Other	3.7	5.2
Revenue from other non-banking activities	**8.8**	**10.6**
Total revenue from other non-banking activities	**61.4**	**43.5**

13. COST OF SALES AND OTHER EXPENSES FROM OTHER NON-BANKING ACTIVITIES

Cost of sales and other expenses from other non-banking activities were as follows:

	2017	2016
Construction, development and other real estate operations		
Cost of sales – property intended for sale in the ordinary course of business	32.0	13.4
Expenses from write-down of property held for sale and impairment of other assets related to non-banking activities	8.4	2.4
Administrative expenses	7.5	7.1
Staff cost	2.4	2.7
Depreciation and amortisation	0.6	0.8
Cost of sales and other expenses from construction, development and other real estate operations	**50.9**	**26.4**
Other non-banking activities		
Administrative expenses	4.6	6.3
Cost of sales	3.0	3.6
Staff cost	1.1	4.2
Depreciation and amortisation	1.0	2.1
Expenses from write-down of property held for sale and impairment of other assets related to non-banking activities	0.9	0.2
Cost of sales and other expenses from other non-banking activities	**10.6**	**16.4**
Total cost of sales and other expenses from other non-banking activities	**61.5**	**42.8**

14. NET INSURANCE PREMIUMS EARNED

	2017	2016
Gross premiums written	97.1	73.2
Premiums inward	1.4	1.5
Change in provision for unearned premiums, gross	(29.7)	(23.4)
Premiums ceded to reinsurers	(5.7)	(5.9)
Change in reinsurers' share of provision for unearned premiums	0.2	(0.3)
Pension contributions accounted under IFRS 4 *Insurance Contracts*	19.3	14.1
Net insurance premiums earned	**82.6**	**59.2**

The movements in provision for unearned premiums were as follows:

	Provision for unearned premiums, gross	Reinsurers' share of provision for unearned premiums	Provision for unearned premiums, net
2015	**26.2**	**(2.2)**	**24.0**
Change in provision, gross	23.4	–	23.4
Change in reinsurers' share of provision	–	0.3	0.3
2016	**49.6**	**(1.9)**	**47.7**
Change in provision, gross	29.7	–	29.7
Change in reinsurers' share of provision	–	(0.2)	(0.2)
Transfer of third party liability insurance portfolio	(0.1)	–	(0.1)
2017	**79.2**	**(2.1)**	**77.1**

15. NET INSURANCE CLAIMS INCURRED, MOVEMENT IN LIABILITIES TO POLICYHOLDERS AND ACQUISITION COSTS

	2017	2016
Gross claims paid	(8.3)	(10.3)
Claims paid inward	(0.5)	(0.5)
Change in loss provisions, gross	(21.9)	(11.0)
Claims ceded to reinsurers	3.0	1.3
Change in reinsurers' share of loss provisions	3.1	2.4
Pension benefits accounted under IFRS 4 *Insurance Contracts*	(10.7)	(9.0)
Change in pension liabilities accounted under IFRS 4 *Insurance Contracts*	(18.1)	(15.7)
Acquisition costs paid net of related commission income from reinsurance ceded	(8.4)	(6.3)
Net insurance claims incurred, movement in liabilities to policyholders and acquisition costs	**(61.8)**	**(49.1)**

15. NET INSURANCE CLAIMS INCURRED, MOVEMENT IN LIABILITIES TO POLICYHOLDERS AND ACQUISITION COSTS (CONTINUED)

The movements in loss provisions were as follows:

	Loss provisions, gross	Reinsurers' share of loss provisions	Loss provisions, net
2015	**17.6**	**(1.0)**	**16.6**
Provision created during the period	19.2	–	19.2
Insurance claims settled	(8.2)	–	(8.2)
Change in reinsurers' share of provision	–	(2.4)	(2.4)
2016	**28.6**	**(3.4)**	**25.2**
Provision created during the period	32.6	–	32.6
Insurance claims settled	(10.7)	–	(10.7)
Change in reinsurers' share of provision	–	(3.1)	(3.1)
Transfer of third party liability insurance portfolio	(0.4)	–	(0.4)
2017	**50.1**	**(6.5)**	**43.6**

The movements in pension liabilities accounted under IFRS 4 *Insurance Contracts* were as follows:

	Pension liabilities accounted under IFRS 4 *Insurance Contracts*
2015	**109.4**
Change in pension liabilities accounted under IFRS 4 Insurance contracts	15.7
2016	**125.1**
Change in pension liabilities accounted under IFRS 4 Insurance contracts	18.1
2017	**143.2**

16. OTHER OPERATING EXPENSE

	2017	2016 (restated)
Expenses under customer loyalty programmes	5.6	2.3
Collection of indebtedness	2.3	1.9
Impairment loss related to other non-financial assets accounted at cost	0.8	3.7
Expenses related to plastic cards' emission and services	0.6	0.5
Taxes other than on income, related to other operating activity	0.5	0.5
Losses arising from disposal of property	0.5	0.4
Losses under claims and frauds	0.5	0.2
Other	3.3	3.1
Total other operating expense	**14.1**	**12.6**

17. STAFF COSTS AND ADMINISTRATIVE EXPENSES

	2017	2016
Staff costs	142.2	132.7
Defined contribution pension expense	13.0	13.0
Depreciation and other expenses related to premises and equipment	22.7	20.7
Advertising expenses	16.2	11.6
Leasing and rent expenses	15.3	12.8
Amortisation and other expenses related to intangibles, except for amortisation of core deposit and customer loan intangible	13.1	11.9
Taxes other than on income	11.6	5.4
Charity	6.6	5.1
Professional services	6.4	4.7
Post and telecommunication expenses	5.1	5.2
Amortisation of core deposit and customer loan intangible	2.8	4.3
Security expenses	2.0	2.0
Transport expenses	0.8	0.5
Insurance	0.2	0.4
Other	2.9	3.6
Total staff costs and administrative expenses	**260.9**	**233.9**

18. INCOME TAX

Income tax expense comprises the following:

	2017	2016
Current tax expense	58.4	33.8
Deferred income tax benefit due to the origination and reversal of temporary differences	(18.7)	(12.2)
Income tax expense	**39.7**	**21.6**

The income tax rate applicable to the majority of the Group's income in 2017 is 20% (2016: 20%). The income tax rate applicable to subsidiaries' income ranges from 0% to 35% in 2017 (2016: 0% to 35%).

	2017	2016
IFRS profit before tax	159.7	65.5
Theoretical tax expense at the applicable statutory rate of each Group entity	35.5	18.3
Tax effect of items, which are not deductible or assessable for tax purposes:		
- Change in unrecognised deferred taxes	3.8	(1.5)
- Non-deductible expenses	8.3	9.0
- Income, which is exempt from taxation	(3.7)	(5.3)
- Income taxed at different rates	(3.9)	(3.4)
- Other	(0.3)	4.5
Income tax expense	**39.7**	**21.6**

The Group's effective income tax rate for the year ended 31 December 2017 was 24.9% (for the year ended 31 December 2016: 33.0%). The difference between the theoretical and actual income tax expense for the year ended 31 December 2017 was mainly due to differences associated with non-deductible expenses. The difference between the theoretical and actual income tax expense for the year ended 31 December 2016 was mainly due to differences associated with non-deductible expenses.

Differences between IFRS and taxation regulations give rise to certain temporary differences between the carrying amount of certain assets and liabilities for financial reporting purposes and for profits tax purposes. The tax effect of the movement on these temporary differences is recorded at rates from 0% to 35% (2016: from 0% to 35%). The Bank and its subsidiaries have no right to set off current tax assets and tax liabilities between legal entities, so deferred income tax assets and deferred income tax liabilities are separately assessed for each entity.

18. INCOME TAX (CONTINUED)

		Origination and reversal of temporary differences						Origination and reversal of temporary differences					
Origination and reversal of temporary differences	2015	Credited/ (charged) to profit or loss	Credited/ (charged) to other comprehensive income	Credited/ (charged) to retained earnings	Currency translation difference	Business combination	2016	Credited/ (charged) to profit or loss	Credited/ (charged) to other comprehensive income	Credited/ (charged) to retained earnings	Currency translation difference	Business Combination and Disposal of subsidiaries	2017
Tax effect of deductible temporary differences:													
Fair value of loans acquired through business combinations	**28.8**	(5.0)	–	–	–	–	**23.8**	(0.9)	–	–	0.1	–	**23.0**
Allowances for impairment and provisions for other losses	**24.1**	(4.1)	–	–	(4.9)	(0.3)	**14.8**	(0.3)	–	0.1	(0.5)	–	**14.1**
Tax losses carried forward	**112.3**	(14.7)	–	(2.5)	(1.7)	(3.0)	**90.4**	(3.1)	–	–	(0.7)	–	**86.6**
Fair value of derivatives	**3.6**	(2.4)	–	–	–	–	**1.2**	0.4	–	–	0.1	–	**1.7**
Accruals	**29.5**	(1.6)	–	(0.1)	(0.2)	–	**27.6**	8.5	–	–	0.1	–	**36.2**
Fair value of securities	**6.4**	0.6	0.9	(0.1)	0.1	–	**7.9**	(5.4)	–	(0.3)	–	–	**2.2**
Fair value of investment property	**1.9**	(1.8)	–	–	–	–	**0.1**	2.3	–	–	–	–	**2.4**
Loans to customers	**3.4**	7.7	–	–	0.1	–	**11.2**	7.2	–	–	0.2	–	**18.6**
Effect of currency translation	**–**	0.1	–	–	–	–	**0.1**	(0.1)	–	–	–	–	–
Property and equipment	**–**	3.7	–	–	–	–	**3.7**	2.1	–	–	–	–	**5.8**
Other	**12.3**	7.8	–	–	1.2	0.2	**21.5**	(7.3)	–	–	(1.2)	–	**13.0**
Gross deferred income tax assets	**222.3**	**(9.7)**	**0.9**	**(2.7)**	**(5.4)**	**(3.1)**	**202.3**	**3.4**	–	**(0.2)**	**(1.9)**	–	**203.6**
Unrecognised deferred income tax assets	**(25.7)**	1.5	–	–	3.2	3.0	**(18.0)**	(3.8)	–	–	1.0	–	**(20.8)**
Deferred income tax asset	**196.6**	**(8.2)**	**0.9**	**(2.7)**	**(2.2)**	**(0.1)**	**184.3**	**(0.4)**	–	**(0.2)**	**(0.9)**	–	**182.8**
Tax effect of taxable temporary differences:													
Fair value measurement of securities	**(17.2)**	10.1	(3.4)	0.1	0.5	–	**(9.9)**	(0.2)	(0.4)	–	0.2	–	**(10.3)**
Property and equipment, revaluation reserve of assets of disposal groups held for sale	**(15.4)**	2.0	0.1	(0.1)	(0.6)	–	**(14.0)**	1.3	–	0.5	0.1	–	**(12.1)**
Intangible assets	**(2.6)**	0.9	–	–	0.1	0.1	**(1.5)**	0.4	–	–	–	–	**(1.1)**
Net investment in lease	**(0.4)**	0.3	–	–	–	–	**(0.1)**	(2.1)	–	–	–	–	**(2.2)**
Fair value of investment property	**(9.8)**	(1.8)	–	–	(0.4)	0.7	**(11.3)**	2.4	–	–	0.1	(2.8)	**(11.6)**
Allowances for impairment and provisions for other losses	**(24.2)**	0.8	–	–	2.9	–	**(20.5)**	2.1	–	–	0.1	–	**(18.3)**
Fair value of derivatives	**(26.6)**	8.5	–	–	–	–	**(18.1)**	4.4	0.2	–	(0.1)	–	**(13.6)**
Other borrowed funds	**(36.2)**	1.2	–	–	–	–	**(35.0)**	0.4	–	–	–	–	**(34.6)**
Effect of currency translation	**(1.5)**	(0.5)	0.7	–	–	–	**(1.3)**	–	–	–	(0.1)	–	**(1.4)**
Other	**(16.3)**	(1.1)	–	–	(1.2)	(1.4)	**(20.0)**	10.4	–	–	–	–	**(9.6)**
Deferred income tax liability	**(150.2)**	**20.4**	**(2.6)**	**–**	**1.3**	**(0.6)**	**(131.7)**	**19.1**	**(0.2)**	**0.5**	**0.3**	**(2.8)**	**(114.8)**
Deferred income tax asset, net	**76.6**	**16.3**	**(1.8)**	**(2.7)**	**(0.3)**	**(0.3)**	**87.8**	**9.7**	**3.3**	**(0.2)**	**(1.9)**	–	**98.7**
Deferred income tax liability, net	**(30.2)**	**(4.1)**	**0.1**	**–**	**(0.6)**	**(0.4)**	**(35.2)**	**9.0**	**(3.5)**	**0.5**	**1.3**	**(2.8)**	**(30.7)**

18. INCOME TAX (CONTINUED)

As at 31 December 2017, recognised deferred income tax assets included RUR 75.4 billion resulting from tax losses carried forward (31 December 2016: RUR 79.9 billion) primarily related to the Group members located in the Russian Federation. The existing tax losses eligible for carry forward are expected to be fully utilised by 2027.

Effective 1 January 2017, new tax regulations in Russia cancelled the previously existing 10-year limit for tax loss carry forward for tax losses incurred in 2007 and subsequent periods. Further, these regulations stipulate that the taxable income in each of the years 2017-2020 cannot be reduced by prior period tax loss carry forward by more than 50%.

Group determined that deferred income tax asset could be utilised, taking into account the level of predicted profitability and assumptions that in the years after 2017 (given planned reorganisations), the predicted profitability would not be lower than that in 2017. The decline in predicted taxable income by more than 40% could lead to partial impairment of the deferred income tax asset depending on the recovery period of deductible temporary differences.

As at 31 December 2017 the Group had unrecognised deferred income tax asset of RUR 11.2 billion (2016: RUR 10.5 billion) in respect of unused tax loss expiring as presented below:

	2017	2016
Unused tax loss carried forward expiring by the end of:		
31 December 2018	–	0.5
31 December 2019	8.0	0.1
31 December 2020	0.3	9.3
After 31 December 2020	15.0	17.3
With no expiry date	45.2	39.8
Total tax loss carry forwards	**68.5**	**67.0**

For the year ended 31 December 2017, income after tax from subsidiaries acquired exclusively with a view to resale was presented net of income tax expense in the amount of RUR nil billion (for the year ended 31 December 2016: net of income tax expense of RUR 0.3 billion).

As at 31 December 2017, the aggregate amount of temporary differences associated with investments in subsidiaries, associates and joint ventures for which deferred income tax liability has not been recognised amounted to RUR 317.5 billion (31 December 2016: RUR 259.1 billion).

The following table provides disclosure of income tax effects relating to each component of other comprehensive income:

	2017			2016		
	Before tax	Tax expense/ (recovery)	Net of tax	Before tax	Tax expense/ (recovery)	Net of tax
Net result on financial assets available-for-sale	2.9	(0.4)	2.5	11.8	(2.5)	9.3
Revaluation reserve of assets of disposal groups held for sale	–	–	–	(0.5)	0.1	(0.4)
Cash flow hedges	(0.3)	0.2	(0.1)	(0.9)	–	(0.9)
Share of other comprehensive loss of associates and joint ventures	(0.4)	–	(0.4)	(3.0)	–	(3.0)
Effect of translation	0.3	–	0.3	(32.2)	0.7	(31.5)
Actuarial gains net of losses / (losses net of gains) arising from difference between pension plan assets and obligations	1.1	–	1.1	(1.3)	–	(1.3)
Land and premises revaluation	(0.1)	–	(0.1)	(0.1)	–	(0.1)
Other comprehensive income/(loss)	**3.5**	**(0.2)**	**3.3**	**(26.2)**	**(1.7)**	**(27.9)**

19. CASH AND SHORT-TERM FUNDS

	2017	2016
Cash on hand	289.9	137.9
Cash balances (other than mandatory) with central banks	295.5	166.2
Correspondent accounts with other banks		
• Russia	94.7	62.3
• OECD	87.3	80.3
• Other countries	6.4	6.2
Total Correspondent accounts with other banks	188.4	148.8
Total cash and short-term funds	**773.8**	**452.9**
Less: correspondent accounts in precious metals	(35.6)	(4.2)
Less: restricted cash	(0.1)	(0.1)
Total cash and cash equivalents	**738.1**	**448.6**

20. NON-DERIVATIVE FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2017	2016
Financial assets held for trading, including pledged under repurchase agreements	277.2	226.1
Financial assets designated as at fair value through profit or loss	36.2	41.0
Total non-derivative financial assets at fair value through profit or loss	**313.4**	**267.1**

Financial assets held for trading, including pledged under repurchase agreements

	2017	2016
Financial assets held for trading		
Debt securities		
• Bonds and eurobonds of Russian companies and banks	152.5	112.6
• Bonds of the Central Bank of the Russian Federation	36.0	–
• Bonds and eurobonds of the Russian Federation	35.1	26.3
• Bonds and eurobonds of foreign governments	17.2	28.5
• Bonds and eurobonds of foreign companies and banks	11.2	14.4
• Russian municipal bonds	6.8	6.8
Total debt securities	258.8	188.6
Equity securities	13.3	7.6
Trading credit products	4.8	3.5
Total financial assets held for trading	**276.9**	**199.7**
Financial assets held for trading, pledged under repurchase agreements		
Debt securities		
• Bonds and eurobonds of the Russian Federation	0.1	2.2
• Bonds and eurobonds of Russian companies and banks	–	18.8
• Bonds and eurobonds of foreign governments	–	5.3
Total debt securities	0.1	26.3
Equity securities	0.2	0.1
Total financial assets held for trading, pledged under repurchase agreements	**0.3**	**26.4**
Total financial assets held for trading	**277.2**	**226.1**

At 31 December 2017, bonds and eurobonds of Russian companies and banks are mostly those issued by banks and companies from oil, building construction and finance sectors; equity securities are mostly represented by metal companies.

Financial assets designated as at fair value through profit or loss

	2017	2016
Equity securities	17.4	21.2
Reverse sale and repurchase agreements to maturity	18.5	19.3
Debt securities		
• Bonds and eurobonds of foreign companies and banks	0.3	0.5
Total debt securities	0.3	0.5
Total financial assets designated as at fair value through profit or loss	**36.2**	**41.0**

At 31 December 2017 equity securities are represented mostly by securities issued by Russian retail companies.

20. NON-DERIVATIVE FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (CONTINUED)

Reclassifications

During the year ended 31 December 2017 the Group reclassified certain USD-denominated financial assets that met the definition of loans and receivables out of financial assets at fair value through profit or loss category to loans and receivables. The Group considered holding these investments for the foreseeable future or till maturity, due to lower market liquidity and reduced price transparency as well as positive outlook for the issuers' credit risk. The effective interest rate on the reclassified financial assets as determined on the reclassification date is 5.15%. As at the reclassification date the Group expected to recover the estimated cash flows of RUR 3.5 billion, of which the amount of RUR 1.8 billion were redeemed during the year ended 31 December 2017.

During the year ended 31 December 2016, the Group did not reclassify financial assets out of financial assets at fair value through profit or loss category.

The following table shows fair values of the reclassified debt securities as at the reclassification dates retranslated at the functional currency rate of exchange ruling at the reporting date:

	Due from other banks	Loans and advances to customers
Reclassifications in 2013	–	30.3
• of which redeemed in 2017	–	–
Reclassifications in 2014	1.1	77.2
• of which redeemed in 2017	(0.5)	(76.3)
Reclassifications in 2015	5.0	13.9
• of which redeemed in 2017	(5.0)	(13.9)
Reclassifications in 2016	–	–
• of which redeemed in 2017	–	–
Reclassifications in 2017	–	3.5
• of which redeemed in 2017	–	–
Total financial assets reclassified	**0.6**	**34.7**

The following table shows carrying values and fair values of the reclassified debt securities:

	2017		2016	
	Carrying value	Fair value	Carrying value	Fair value
Due from other banks	0.6	0.7	6.1	6.2
Loans and advances to customers	32.4	32.4	108.0	108.1
Total financial assets reclassified	**33.0**	**33.1**	**114.1**	**114.3**

Fair value gain or loss that would have been recognised for the year ended 31 December 2017 if the assets had not been reclassified and income or loss recognised for 2017, were as follows:

	Interest income	Provision charge	Fair value gain/(loss), that would have been recognised if the assets had not been reclassified
Due from other banks	0.3	–	0.1
Loans and advances to customers	4.8	(1.0)	(0.4)
Total financial assets reclassified	**5.1**	**(1.0)**	**(0.3)**

Fair value gain or loss that would have been recognised for the year ended 31 December 2016 if the assets had not been reclassified and income or loss recognised for 2016, were as follows:

	Interest income	Provision charge	Fair value loss, that would have been recognised if the assets had not been reclassified
Due from other banks	0.8	–	–
Loans and advances to customers	11.7	(0.3)	(2.5)
Total financial assets reclassified	**12.5**	**(0.3)**	**(2.5)**

21. DERIVATIVE FINANCIAL INSTRUMENTS

Foreign exchange and other financial instruments are generally traded in an over-the-counter market with professional market counterparties on standardised contractual terms and conditions.

The table below includes derivative contracts outstanding at 31 December 2017 and 31 December 2016:

	2017		2016	
	Positive fair value	Negative fair value	Positive fair value	Negative fair value
Derivative financial assets and liabilities at fair value through profit or loss held for trading				
Foreign exchange and precious metals contracts				
forwards	6.7	(1.9)	5.4	(3.3)
futures	–	(0.1)	0.3	–
swaps	21.2	(9.8)	9.2	(19.8)
options	2.2	(3.5)	3.6	(5.5)
Contracts with securities				
forward sale of equity securities	2.0	–	11.8	–
futures on equity securities	–	(0.2)	–	(0.1)
options	6.1	(6.9)	3.2	(3.4)
Interest Rate contracts				
single currency interest rate swaps	23.5	(26.8)	22.6	(22.6)
cross currency interest rate swaps	75.5	(51.2)	105.1	(97.1)
cap/floor	1.3	(0.5)	0.2	(0.4)
Contracts with other variables				
CDS protection sold	0.7	(0.2)	0.8	(0.7)
CDS protection purchased	0.1	(1.2)	0.1	(0.5)
futures on indexes	0.1	–	0.1	(0.2)
options on indexes	1.8	(0.8)	1.8	(1.1)
commodity swaps	3.9	(5.6)	2.2	(0.8)
commodity futures	1.4	(1.3)	0.2	(2.3)
commodity options	21.8	(22.7)	4.8	(3.5)
commodity forwards	1.1	(0.3)	1.3	(0.9)
Embedded derivatives on structured instruments				
embedded derivatives on foreign exchange instruments	2.4	(0.3)	5.4	(1.9)
embedded derivatives on commodity instruments	3.1	–	2.3	–
Total derivative financial assets and liabilities at fair value through profit or loss held for trading	**174.9**	**(133.3)**	**180.4**	**(164.1)**
Derivative financial assets and liabilities designated as hedging instruments				
Derivatives held as fair value hedges				
interest rate swaps	0.7	(0.3)	–	–
Derivatives held as cash flow hedges				
foreign exchange swaps	–	(0.1)	–	(0.9)
foreign exchange forwards	–	(0.3)	0.1	–
Total derivative financial assets and liabilities designated as hedging instruments	**0.7**	**(0.7)**	**0.1**	**(0.9)**
Total derivative financial assets and liabilities	**175.6**	**(134.0)**	**180.5**	**(165.0)**

21. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

The table below includes gains net of losses / (losses net of gains) arising from foreign exchange and precious metals derivative contracts held for trading:

	2017	2016
Foreign exchange and precious metals contracts	30.8	(44.6)
Contracts with other basic variables	0.7	2.1
Contracts with securities	(0.1)	(2.7)
Foreign currency derivatives embedded in structured instruments	(0.5)	(3.2)
Foreign currency component of interest rate swaps	(13.6)	(3.3)
Total gains net of losses/(losses net of gains) arising from foreign exchange and precious metals derivative contracts held for trading (Note 7)	**17.3**	**(51.7)**

22. DUE FROM OTHER BANKS

	2017	2016
Due from other banks		
• Russia	372.2	565.0
• OECD	75.5	92.3
• Other countries	405.9	382.0
Total gross due from other banks	**853.6**	**1,039.3**
Less: Allowance for impairment	(18.6)	(1.9)
Total net due from other banks	**835.0**	**1,037.4**
Due from other banks pledged under repurchase agreements		
• Russia	–	13.8
Total gross due from other banks, pledged under repurchase agreements	**–**	**13.8**
Total due from other banks	**835.0**	**1,051.2**

As at 31 December 2017, reverse sale and repurchase agreements with other banks amounted to RUR 33.4 billion (31 December 2016: RUR 211.8 billion).

These reverse sale and repurchase agreements with other banks were collateralised by securities with fair value of RUR 37.6 billion (31 December 2016: RUR 242.7 billion).As at 31 December 2017, amount included in due from other banks of RUR 1.0 billion is pledged against issued local mortgage-backed bonds (31 December 2016: RUR 1.0 billion).

As at 31 December 2017 and 2016, Due from other banks included subordinated loans to other banking institutions in the amount of RUR 21.2 billion and RUR 36.2 billion, net of related credit loss reserves. These subordinated loans have lower priority in relation to other creditors of these banks and may contain contractual provisions which require full or partial write-off in case of certain triggers specified in the underlying loan agreements, typically minimal capital levels. See also Note 52 “Related party transactions”.

The movements in allowances for impairment of due from other banks by classes were as follows:

	Russia	OECD	Other	Total
2015	**1.8**	**0.1**	**1.2**	**3.1**
Provision for impairment during the period	0.1	–	0.3	**0.4**
Write-offs	(0.7)	–	–	**(0.7)**
Effect of translation	(0.1)	–	(0.8)	**(0.9)**
2016	**1.1**	**0.1**	**0.7**	**1.9**
Provision for impairment during the period	17.7	–	–	**17.7**
Write-offs	(0.5)	–	(0.4)	**(0.9)**
Effect of translation	0.1	–	(0.2)	**(0.1)**
2017	**18.4**	**0.1**	**0.1**	**18.6**

23. LOANS AND ADVANCES TO CUSTOMERS

	2017	2016
Loans to legal entities		
• Current activity financing	4,974.9	4,957.2
• Project finance and other	1,686.4	1,553.0
• Reverse sale and repurchase agreements	370.2	369.4
• Finance leases	255.0	241.7
Total gross loans to legal entities	**7,286.5**	**7,121.3**
Less: Allowance for impairment	(437.4)	(446.5)
Net loans to legal entities	**6,849.1**	**6,674.8**
Loans to individuals		
• Consumer loans and other	1,153.4	955.0
• Mortgages	1,094.7	997.7
• Credit cards	127.5	127.6
• Car loans	102.9	89.5
• Reverse sale and repurchase agreements	7.8	5.8
Total gross loans to individuals	**2,486.3**	**2,175.6**
Less: Allowance for impairment	(164.0)	(185.6)
Net loans to individuals	**2,322.3**	**1,990.0**
Loans and advances to customers pledged under repurchase agreements		
• Current activity financing	–	190.1
Total gross loans and advances to customers pledged under repurchase agreements	**–**	**190.1**
Less: Allowance for impairment	–	(0.4)
Net loans and advances pledged under repurchase agreements	**–**	**189.7**
Total loans and advances to customers	**9,171.4**	**8,854.5**

As at 31 December 2017, the total amount of outstanding loans issued by the Group to 10 largest groups of interrelated borrowers comprises RUR 2,111.8 billion or 21.6% of the gross loan portfolio (31 December 2016: RUR 2,328.2 billion or 24.5%).

As at 31 December 2017, the Group received securities with a fair value of RUR 428.5 billion (31 December 2016: RUR 477.1 billion) as collateral under reverse sale and repurchase agreements with customers.

As at 31 December 2017, loans and advances to customers pledged under repurchase agreements include federal loan bonds (OFZ) with the carrying amount of RUR billion: nil (31 December 2016: RUR 34.3 billion).

As at 31 December 2017, the total amount of pledged loans to corporate customers is RUR 69.3 billion (31 December 2016: RUR 990.9 billion). The loans are pledged against the funds accounted for other borrowed funds (Note 32) and due to other banks (Note 30). Included in the above amount of pledged loans are car loans of RUR 3.9 billion (31 December 2016: RUR 10.2 billion) (Note 56).

As at 31 December 2017, the carrying value of mortgage loans pledged against debt securities issued under VEB securitization programme amounted to RUR 16.9 billion (31 December 2016: RUR 21.9 billion) (Note 56).

As at 31 December 2017, the gross amount of non-performing loans (Note 42) which the Group defines as impaired loans with repayments overdue by over 90 days was RUR 558.2 billion or 5.7 % of the aggregate of the gross loan portfolio, including loans pledged under repurchase agreements (31 December 2016: RUR 604.4 billion or 6.4%).

As at 31 December 2017, loans and advances to customers with the carrying amount of RUR 239.3 billion (31 December 2016: RUR 265.8 billion) represented by federal loan bonds with debt amortisation (OFZ-AD) purchased in September 2011 by former “Bank of Moscow”, OJSC are included in loans to government bodies for the purpose of economic sector risk concentrations disclosure.

Refer to Note 45 on restrictions related to certain loans represented by OFZ-AD.

23. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

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

	2017		2016	
	Amount	%	Amount	%
Individuals	2,486.3	25.4	2,175.6	22.9
Oil and gas	1,324.1	13.5	1,101.7	11.6
Building construction	973.8	10.0	978.0	10.3
Metals	800.2	8.2	812.5	8.6
Manufacturing	647.6	6.7	597.8	6.3
Trade and commerce	521.6	5.3	482.3	5.1
Transport	501.3	5.1	427.6	4.5
Government bodies	492.9	5.0	787.2	8.3
Energy	488.9	5.0	469.0	4.9
Chemical	402.3	4.1	417.5	4.4
Finance	331.5	3.4	443.4	4.7
Telecommunications and media	307.3	3.1	303.7	3.2
Food and agriculture	278.2	2.8	211.8	2.2
Other	141.1	1.6	121.0	1.3
Coal mining	75.7	0.8	157.9	1.7
Total gross loans and advances to customers	**9,772.8**	**100.0**	**9,487.0**	**100.0**

Finance industry includes loans issued to holding companies of industrial groups, mergers and acquisitions financing, and loans to leasing, insurance and other non-bank financial companies.

Finance lease

	2017	2016
Gross investment in leases	219.6	186.4
Less: unearned finance lease income	(51.1)	(34.4)
Net investment in leases before allowance	**168.5**	**152.0**
Less: allowance for impairment	(18.3)	(20.8)
Net investment in leases	**150.2**	**131.2**

Future minimum lease payments

	2017	2016
Within 1 year	89.0	59.1
From 1 to 5 years	85.1	107.0
More than 5 years	45.5	20.3
Minimum lease payments	**219.6**	**186.4**

Net investments in leases

	2017	2016
Within 1 year	82.1	54.0
From 1 to 5 years	61.9	81.1
More than 5 years	24.5	16.9
Net investment in leases	**168.5**	**152.0**

23. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

The movements in allowances for impairment of loans and advances to legal entities by class were as follows:

	Current activity financing	Project finance and other	Reverse sale and repurchase agreements with legal entities	Finance leases	Loans and advances pledged under repurchase agreements	Total
2015	**286.1**	**158.2**	**0.1**	**34.4**	**0.5**	**479.3**
Provision / (reversal of provision) for impairment during the period	71.7	29.5	0.1	(1.3)	(0.1)	**99.9**
Write-offs	(30.9)	(67.1)	–	(2.6)	–	**(100.6)**
Recoveries of amounts written-off in previous period	6.2	0.2	–	–	–	**6.4**
Effect of translation	(22.5)	(11.2)	(0.1)	(4.3)	–	**(38.1)**
2016	**310.6**	**109.6**	**0.1**	**26.2**	**0.4**	**446.9**
Provision / (reversal of provision) for impairment during the period	73.6	31.6	0.4	0.8	(0.4)	**106.0**
Write-offs	(73.3)	(32.4)	–	(6.7)	–	**(112.4)**
Recoveries of amounts written-off in previous period	2.7	0.4	–	–	–	**3.1**
Effect of translation	(4.3)	(1.0)	–	(0.6)	–	**(5.9)**
Reclassification of loans between categories	(0.3)	–	–	–	–	**(0.3)**
Reclass from/to allowance due to reclass of items from/to this category	(2.0)	–	–	2.0	–	**–**
2017	**307.0**	**108.2**	**0.5**	**21.7**	**–**	**437.4**

Provision charge for impairment of debt financial assets in the accompanying consolidated income statement for the year ended 31 December 2016 includes the effects of the government grant of 11.0 billion RUR received by the Group as compensation for certain credit losses (Note 39).

Allowance for finance leases represents allowances for loans to leasing companies and net investment in leases.

The movements in allowances for impairment of loans and advances to individuals by class were as follows:

	Mortgages	Consumer loans and other	Credit cards	Car loans	Total
2015	**17.2**	**145.4**	**21.1**	**9.5**	**193.2**
Provision for impairment during the period	4.4	41.1	8.5	1.8	**55.8**
Write-offs	(3.4)	(49.4)	(7.4)	(1.0)	**(61.2)**
Recoveries of amounts written-off in previous period	0.2	1.5	0.5	–	**2.2**
Effect of translation	(2.4)	(1.7)	(0.1)	(0.2)	**(4.4)**
2016	**16.0**	**136.9**	**22.6**	**10.1**	**185.6**
Provision for impairment during the period	1.6	37.1	6.8	–	**45.5**
Write-offs	(8.0)	(53.2)	(7.9)	(0.3)	**(69.4)**
Recoveries of amounts written-off in previous period	0.3	1.8	0.3	–	**2.4**
Effect of translation	–	(0.1)	0.1	(0.1)	**(0.1)**
2017	**9.9**	**122.5**	**21.9**	**9.7**	**164.0**

24. INVESTMENT FINANCIAL ASSETS

	2017	2016
Investment financial assets available-for-sale, including pledged under repurchase agreements	285.6	189.4
Investment financial assets held-to-maturity agreements	–	151.3
Total investment financial assets	**285.6**	**340.7**

Investment financial assets available-for-sale

	2017	2016
Investment financial assets available-for-sale		
Debt securities		
• Bonds and eurobonds of the Russian Federation	210.3	71.3
• Bonds and eurobonds of foreign governments	56.6	56.0
• Bonds and eurobonds of Russian companies and banks	4.8	8.9
• Russian municipal bonds	1.0	1.7
• Bonds and eurobonds of foreign companies and banks	–	16.1
• Promissory notes of Russian companies and banks	–	0.2
Total debt securities	272.7	154.2
Equity securities	12.5	33.2
Total investment financial assets available-for-sale	**285.2**	**187.4**
Investment financial assets available-for-sale, pledged under repurchase agreements		
Debt securities		
• Bonds and eurobonds of foreign governments	0.4	0.4
• Bonds and eurobonds of Russian companies and banks	–	1.6
Total debt securities	0.4	2.0
Total investments financial assets available-for-sale, pledged under repurchase agreements	**0.4**	**2.0**
Total investment financial assets available-for-sale	**285.6**	**189.4**

As at 31 December 2017, bonds and Eurobonds of foreign governments are mostly those issued by German governments and municipal bodies. Equity securities are mostly the shares of Russian metal and energy companies.

For the year ended 31 December 2017, the Group recognised reversal of impairment of RUR 0.3 billion before tax, impairment of RUR 5.7 billion before tax and the realised portion of positive revaluation of financial assets available-for-sale was reclassified to profit or loss due to the sale of financial assets available-for-sale with profit of RUR 19.0 billion before tax (for the year ended 31 December 2016: reversal of impairment RUR 8.7 billion and loss from negative revaluation of RUR 1.0 billion respectively).

Investment financial assets held-to-maturity

	2017	2016
Investment financial assets held-to-maturity		
• Bonds and eurobonds of the Russian Federation	–	77.4
• Bonds and eurobonds of Russian companies and banks	–	58.7
• Bonds and eurobonds of foreign governments	–	0.8
• Bonds and eurobonds of foreign companies and banks	–	–
Total gross investment financial assets held-to-maturity	**–**	**136.9**
Less: Allowance for impairment	–	(0.1)
Total net investment financial assets held-to-maturity	**–**	**136.8**
Investment financial assets held-to-maturity, pledged under repurchase agreements		
• Bonds and eurobonds of Russian companies and banks	–	11.3
• Bonds and eurobonds of the Russian Federation	–	3.2
Total gross investment financial assets held-to-maturity, pledged under repurchase agreements	**–**	**14.5**
Total net investment financial assets held-to-maturity, pledged under repurchase agreements	**–**	**14.5**
Total investment financial assets held-to-maturity	**–**	**151.3**

24. INVESTMENT FINANCIAL ASSETS (CONTINUED)

The movements in allowances for impairment of investment securities held-to-maturity were as follows:

2015	**0.1**
Recoveries of amounts written-off in previous period	0.4
Provision for impairment during the period	(0.4)
2016	**0.1**
Write-offs	(0.1)
2017	**–**

Reclassifications

In March 2017, as a result of a change in intention to hold certain debt securities till maturity, the Group decided that it is no longer appropriate to classify them as held to maturity. Since the amount of reclassified debt securities was deemed significant in relation to the total portfolio of investment financial assets held to maturity, the Group reclassified the entire portfolio (with carrying value of RUR 142.8 billion and with fair value of RUR 153.0 billion with RUR 8.2 billion recognised in other comprehensive income) of the investment financial assets held-to-maturity into available-for-sale investment portfolio in the first quarter of 2017.

In 2016, the Group reclassified certain financial assets that met the definition of loans and receivables out of investment financial assets available-for-sale category to due from other banks. The Group intended to hold these investments for the foreseeable future or till maturity, due to lower market liquidity and reduced price transparency as well as positive outlook for the issuers' credit risk. The effective interest rate on the reclassified financial assets as determined on the reclassification date ranged from 6.4% to 6.8%. As at the date of reclassification the Group expected to recover the estimated cash flows of RUR 12.4 billion, of which the amount of RUR 7.0 billion were received in 2016.

In 2016, the Group reclassified certain financial assets out of investment financial assets available-for-sale category to Investment financial assets held-to-maturity.

The following table shows fair values of the reclassified debt securities as at the reclassification dates retranslated at the functional currency rate of exchange ruling at the reporting date:

	Due from other banks	Loans and advances to customers	Investment securities held-to-maturity
Reclassifications in 2013	–	6.2	–
• of which redeemed in 2017	–	(6.2)	–
Reclassifications in 2014	60.0	114.3	–
• of which redeemed in 2017	(43.6)	(64.2)	–
Reclassifications in 2015	–	–	7.6
• of which redeemed in 2017	–	–	(7.6)
Reclassifications in 2016	4.3	–	4.2
• of which redeemed in 2017	(4.2)	–	(4.2)
Total financial assets reclassified	**16.5**	**50.1**	**–**

The following table show carrying values and fair values of the reclassified debt securities:

	2017		2016	
	Carrying value	Fair value	Carrying value	Fair value
Due from other banks	21.0	22.0	77.8	82.9
Loans and advances to customers	50.2	50.5	122.9	125.2
Investment financial assets held-to-maturity	–	–	10.7	10.5
Total financial assets reclassified	**71.2**	**72.5**	**211.4**	**218.6**

24. INVESTMENT FINANCIAL ASSETS (CONTINUED)

Reclassifications (continued)

Fair value gain or loss for financial assets reclassified before 2017 that would have been recognised for the year ended 31 December 2017 if the assets had not been reclassified and income or loss recognised for 2017, were as follows:

	Interest income	Provision charge	Fair value gain, that would have been recognised if the assets had not been reclassified
Due from other banks	3.6	–	0.6
Loans and advances to customers	7.4	0.1	2.7
Total financial assets reclassified	**11.0**	**0.1**	**3.3**

Fair value gain or loss for financial assets reclassified before 2016 that would have been recognised for the year ended 31 December 2016 if the assets had not been reclassified and income or loss recognised for 2016, were as follows:

	Interest income	Provision charge	Fair value gain/(loss), that would have been recognised if the assets had not been reclassified
Due from other banks	4.7	–	4.6
Loans and advances to customers	9.9	(0.6)	6.8
Investment financial assets held-to-maturity	0.5	–	(0.1)
Total financial assets reclassified	**15.1**	**(0.6)**	**11.3**

25. LAND, PREMISES AND EQUIPMENT

	Land and premises	Equipment	Construction in progress	Equipment in operating lease	Total
Net book amount at 31 December 2016	**119.8**	**32.4**	**65.5**	**135.0**	**352.7**
Cost or revalued amount					
Opening balance at 1 January 2017	122.9	72.8	65.5	151.9	**413.1**
Acquisitions of subsidiaries	1.0	0.3	0.4	–	**1.7**
Disposal of subsidiaries	(3.1)	(0.2)	–	–	**(3.3)**
Additions	2.5	17.9	18.6	33.8	**72.8**
Transfers and reclassifications	14.6	0.7	(22.4)	(20.3)	**(27.4)**
Disposals	(2.3)	(2.8)	–	(4.0)	**(9.1)**
Impairment	(13.2)	(0.8)	(6.5)	–	**(20.5)**
Reversal of impairment	0.3	–	–	0.1	**0.4**
Revaluation	(0.1)	–	–	–	**(0.1)**
Effect of translation	0.1	(0.2)	(0.2)	(5.7)	**(6.0)**
Closing balance at 31 December 2017	**122.7**	**87.7**	**55.4**	**155.8**	**421.6**
Accumulated depreciation					
Opening balance at 1 January 2017	3.1	40.4	–	16.9	**60.4**
Depreciation charge	3.4	7.7	–	8.9	**20.0**
Disposal of subsidiaries	(0.3)	(0.1)	–	–	**(0.4)**
Disposals	(0.5)	(2.2)	–	(0.4)	**(3.1)**
Transfers and reclassifications	(0.1)	(1.1)	–	(2.0)	**(3.2)**
Effect of translation	0.6	(0.4)	–	(0.5)	**(0.3)**
Closing balance at 31 December 2017	**6.2**	**44.3**	–	**22.9**	**73.4**
Net book amount at 31 December 2017	**116.5**	**43.4**	**55.4**	**132.9**	**348.2**

25. LAND, PREMISES AND EQUIPMENT (CONTINUED)

	Land and premises	Equipment	Construction in progress	Equipment in operating lease	Total
Net book amount at 31 December 2015	**124.4**	**26.8**	**12.9**	**146.2**	**310.3**
Cost or revalued amount					
Opening balance at 1 January 2016	124.4	64.3	12.9	159.8	**361.4**
Acquisitions of subsidiaries	1.7	–	–	–	**1.7**
Disposal of subsidiaries	(2.1)	(0.4)	–	–	**(2.5)**
Additions	4.6	11.4	52.1	33.4	**101.5**
Transfers and reclassifications	(3.3)	2.5	3.9	(5.5)	**(2.4)**
Disposals	(0.6)	(2.6)	(0.2)	(1.3)	**(4.7)**
Impairment	(0.1)	–	(3.1)	(11.5)	**(14.7)**
Effect of translation	(1.7)	(2.4)	(0.1)	(23.0)	**(27.2)**
Closing balance at 31 December 2016	**122.9**	**72.8**	**65.5**	**151.9**	**413.1**
Accumulated depreciation					
Opening balance at 1 January 2016	–	37.5	–	13.6	**51.1**
Depreciation charge	3.2	6.5	–	9.5	**19.2**
Disposal of subsidiaries	–	(0.2)	–	–	**(0.2)**
Disposals	–	(2.1)	–	(0.4)	**(2.5)**
Transfers and reclassifications	–	0.7	–	(2.1)	**(1.4)**
Effect of translation	(0.1)	(2.0)	–	(3.7)	**(5.8)**
Closing balance at 31 December 2016	**3.1**	**40.4**	–	**16.9**	**60.4**
Net book amount at 31 December 2016	**119.8**	**32.4**	**65.5**	**135.0**	**352.7**

Transfers and reclassifications include both transfers between the categories of the land, premises and equipment, and reclassifications to/from investment property and property intended for sale in the ordinary course of business in other assets.

In 2016, the Group identified signs of impairment for certain aircraft leasing assets included in equipment in operating lease category. In determining the recoverable value for these aircraft, dependent on their operating condition and leasing status, the Group used either (1) value-in-use method based on forecasted lease payments under the existing lease contracts with a discount rate of approximately 7.1%, or (2) the current-market-value method with an assumption of 12-month market exposure period and use of market values for aircraft and engines provided by independent aviation consultancy and appraisal agencies. The Group recognised impairment in the amount of RUR 11.5 billion in expenses related to equipment leased out (Note 11) in the accompanying consolidated income statement.

Land and premises were revalued at fair value at 31 December 2015. The valuation was carried out by an independent firm of appraisers, who hold a recognised and relevant professional qualification and who had experience in the valuation of assets in similar locations and in a similar category. Fair value was determined by reference to market-based evidence.

In 2017, the Group recognised impairment in amount of RUR 10.2 billion mostly due to the revision of amount of expenditure and the start date of putting into operation for the part of the premises related to the non-bank activity (the hotel and sport complex). The Group determined recoverable amount of the premises at their fair value less costs to sell.

As at 31 December 2017 and 31 December 2016, the Group analysed available market information in relation to its land and premises (apart from those described above) and concluded that the estimated fair value of its land and premises was not materially different from their carrying value, and accordingly, no revaluation was required.

If the premises were measured using the cost model, the carrying amounts would be as follows:

	2017	2016
Cost	161.6	149.2
Less: accumulated depreciation and impairment	(22.2)	(22.9)
Net carrying amount	**139.4**	**126.3**

26. INVESTMENT PROPERTY

	2017	2016
Investment property at 1 January	**235.5**	**245.0**
Acquisitions of subsidiaries (Note 46)	12.5	–
Disposal of subsidiaries	(1.6)	(3.1)
Additions	2.1	12.1
Disposals	(27.4)	(11.5)
Reclassified from premises	0.6	1.6
Reclassified (to)/from property intended for sale in the ordinary course of business	3.5	(7.4)
Net (losses)/gains from changes in fair value	(23.2)	7.9
Capitalisation of expenses	9.2	4.2
Effect of translation	(0.3)	(5.7)
Reclassified (to)/from assets of disposal groups held for sale	0.4	(12.1)
Reclassified (to)/from other accounts	(0.9)	4.5
Investment property at 31 December	**210.4**	**235.5**

Where the Group is the lessor, the future minimum lease payments receivable under non-cancellable operating leases are as follows:

	2017	2016
Not later than 1 year	3.7	3.0
Later than 1 year and not later than 5 years	13.1	16.7
Later than 5 years	–	0.5
Total operating lease payments receivable	**16.8**	**20.2**

For the year ended 31 December 2017 the Group recognised rental income as part of income arising from non-banking activities of RUR 5.5 billion (Note 12) and direct operating expenses of RUR 0.7 billion in relation to investment property that generated rental income (for the year ended 31 December 2016: RUR 7.2 billion and RUR 1.0 billion, respectively).

In 2017, the Group's investment property increased in the total amount of RUR 12.5 billion due to acquisition of subsidiaries (Note 46). In 2016, the Group has not acquired any investment property through business combinations.

In 2017, the Group's investment property decreased due to the disposal of subsidiaries in the total amount of RUR 1.6 billion (Note 46). In 2016, the Group's investment property decreased due loss of control of "Chaika" OJSC and "Moscow invest-construction company" OJSC in the total amount of RUR 3.1 billion.

In 2017 the Group received a property title for land plots, commercial and residential properties valued at RUR 1.2 billion (2016: RUR 2.8 billion) in exchange for settlement of the outstanding loans granted by the Group. The property of RUR 0.9 billion (2016: RUR 2.8 billion) was obtained through foreclosure of collateral under mortgage loans. The acquired investment properties were valued by an independent, professionally qualified appraiser at fair value at the acquisition date.

As at 31 December 2017 investment property in the amount of RUR 22.9 billion was under construction in progress or development (31 December 2016: RUR 29.1 billion).

The fair values of the investment properties were estimated using comparatives and the income approach under the highest and best use assumption. Actually used key valuation assumptions and fair value sensitivity to their changes are disclosed in Note 43.

27. GOODWILL AND OTHER INTANGIBLE ASSETS

The movements in goodwill and other intangible assets were as follows:

	Core deposit and customer loan intangible	Computer software	Relations with the major lessee	Other rights	Brands and trademarks	Goodwill	Total
Net book amount at 31 December 2016	**4.3**	**13.9**	**17.8**	**2.8**	**0.1**	**116.2**	**155.1**
Cost less impairment							
Opening balance at 1 January 2017	30.2	24.5	19.1	3.6	0.2	116.2	**193.8**
Additions	–	10.6	–	0.2	0.1	–	**10.9**
Acquisition through business combinations	–	0.1	–	0.1	–	2.2	**2.4**
Disposals	(9.0)	(1.3)	–	(0.1)	–	–	**(10.4)**
Disposals of subsidiaries	–	–	–	(0.6)	–	–	**(0.6)**
Write-offs through impairment	–	–	–	(0.4)	–	(2.7)	**(3.1)**
Effect of translation	–	–	(1.0)	0.1	(0.1)	0.3	**(0.7)**
Transfers	–	0.9	–	(0.1)	–	–	**0.8**
Closing balance at 31 December 2017	**21.2**	**34.8**	**18.1**	**2.8**	**0.2**	**116.0**	**193.1**
Accumulated amortisation							
Opening balance at 1 January 2017	25.9	10.6	1.3	0.8	0.1	–	**38.7**
Amortisation charge	2.8	3.5	1.0	0.1	–	–	**7.4**
Disposals	(9.0)	(1.2)	–	(0.1)	–	–	**(10.3)**
Disposals of subsidiaries	–	–	–	–	–	–	**–**
Effect of translation	–	0.1	(0.1)	–	–	–	**–**
Transfers	–	(0.1)	–	–	–	–	**(0,1)**
Closing balance at 31 December 2017	**19.7**	**12.9**	**2.2**	**0.8**	**0.1**	**–**	**35.7**
			–	–		–	
Net book amount at 31 December 2017	**1.5**	**21.9**	**15.9**	**2.0**	**0.1**	**116.0**	**157.4**

	Core deposit and customer loan intangible	Computer software	Relations with the major lessee	Other rights	Brands and trademarks	Goodwill	Total
Net book amount at 31 December 2015	**8.5**	**11.1**	**22.2**	**3.4**	**0.7**	**116.1**	**162.0**
Cost less impairment							
Opening balance at 1 January 2016	30.2	19.9	22.9	7.3	1.6	116.1	**198.0**
Additions	–	5.6	–	0.8	–	–	**6.4**
Acquisition through business combinations	–	–	–	1.4	–	0.5	**1.9**
Disposals	–	(1.3)	–	(2.9)	(1.0)	–	**(5.2)**
Disposals of subsidiaries	–	–	–	(2.5)	–	–	**(2.5)**
Write-offs through impairment	–	(0.3)	–	(0.4)	(0.4)	–	**(1.1)**
Effect of translation	–	(1.2)	(3.8)	0.1	–	(0.4)	**(5.3)**
Transfers	–	1.8	–	(0.2)	–	–	**1.6**
Closing balance at 31 December 2016	**30.2**	**24.5**	**19.1**	**3.6**	**0.2**	**116.2**	**193.8**
Accumulated amortisation							
Opening balance at 1 January 2015	21.7	8.8	0.7	3.9	0.9	–	**36.0**
Amortisation charge	4.3	3.2	0.8	0.9	0.1	–	**9.3**
Disposals	–	(0.9)	–	(2.2)	(1.0)	–	**(4.1)**
Disposals of subsidiaries	–	–	–	(1.6)	–	–	**(1.6)**
Effect of translation	(0.1)	(0.5)	(0.2)	(0.2)	0.1	–	**(0.9)**
Closing balance at 31 December 2016	**25.9**	**10.6**	**1.3**	**0.8**	**0.1**	**–**	**38.7**
Net book amount at 31 December 2016	**4.3**	**13.9**	**17.8**	**2.8**	**0.1**	**116.2**	**155.1**

27. GOODWILL AND OTHER INTANGIBLE ASSETS (CONTINUED)

The table below presents the carrying amount of goodwill, core deposit and customer loan intangible, and relations with the major lessee intangible allocated to relevant cash-generating units (CGU) of the following entities:

2017					2016				
CGU	Carrying amount of goodwill	Carrying amount of core deposit and customer loan intangible	Relations with the major lessee intangible	Total	CGU	Carrying amount of goodwill	Carrying amount of core deposit and customer loan intangible	Relations with the major lessee intangible	Total
"VTB Bank", PJSC and Bank VTB 24", PJSC					"VTB Bank", PJSC				
- IB-CIB	5.4	–	–	**5.4**	- IB-CIB	5.4	–	–	**5.4**
- CB-CIB	70.7	–	–	**70.7**	- CB-CIB	70.7	–	–	**70.7**
- MCB	25.9	1.2	–	**27.1**	- MCB	25.9	3.4	–	**29.3**
- SB	0.9	–	–	**0.9**	- RB	8.6	0.6	–	**9.2**
- RB	11.1	0.3	–	**11.4**					
"Avia Capital Management" Ltd.	–	–	15.9	**15.9**	"Avia Capital Management" Ltd.	–	–	17.8	**17.8**
					"Bank VTB 24", PJSC	3.4	0.3	–	**3.7**
Other subsidiaries	2.0	–	–	**2.0**	Other subsidiaries	2.2	–	–	**2.2**
Net book amount	**116.0**	**1.5**	**15.9**	**133.4**	**Net book amount**	**116.2**	**4.3**	**17.8**	**138.3**

Avia Capital Management Ltd.

Group recognised an intangible asset (relations with the major lessee) that arose following the acquisition of a subsidiary in 2013. It was allocated to the Avia Capital Management Ltd cash flow generating unit (further "CGU") and tested for impairment as a part of this CGU in accordance with IAS 36 *Impairment of Assets*.

As at 31 December 2017, the recoverable amount was calculated as value in use of the CGU. The key assumptions in determining the value in use were the discount rate in USD which represents the cost of equity and was calculated under CAPM (the Capital Asset Pricing Model) at 11.2%, as well as the effective funding rate in USD, gradually increasing in the forecasted period (2018-2030) from 3.83% to 5.18%. The funding rate was calculated under the Rouble funding strategy with a further swap into USD via the use of derivative financial instruments ("DFIs") (loans and DFIs were concluded with related parties). The discount rate (cost of equity) used is pre-tax, and reflects the specific risks related to the given CGU.

As at 31 December 2017, the recoverable amount of the Avia Capital Management Ltd. CGU exceeded its carrying amount by RUR 2.1 billion. The CGU's carrying amount would be equal to the recoverable amount either at a discount rate of 12.18% in USD or with the use of an effective funding rate in USD gradually increasing in the forecasted period (2018-2030) from 4.35% to 5.70% (all other inputs held constant).

As at 31 December 2016, the recoverable amount was calculated as value in use of the CGU. The key assumptions in determining the value in use were the discount rate in USD, which represents the cost of equity and was calculated under CAPM (the Capital Asset Pricing Model) at 11.3%, as well as the effective funding rate in USD, gradually increasing in the forecasted period (2017-2030) from 3.76% to 4.85%.

As at 31 December 2016, the recoverable amount of the Avia Capital Management Ltd. CGU exceeded its carrying amount by RUR 1.9 billion. The CGU's carrying amount would be equal to the recoverable amount either at a discount rate of 12.25% in USD or with the use of an effective funding rate in USD gradually increasing in the forecasted period (2017-2030) from 4.22% to 5.31% (all other inputs held constant).

"VTB Bank", PJSC and Bank VTB 24", PJSC

In 2015 the Group management approved and committed to a business reorganisation of "Bank of Moscow", OJSC. On 10 May 2016, the Group completed a transfer to "VTB Bank", PJSC of substantially all of the performing assets and certain customer accounts and other related liabilities of "Bank of Moscow", OJSC (BoM) related to the CGUs to which the goodwill was initially allocated. Upon transfer, these CGUs and their goodwill were merged with similar CGUs of VTB, and their assets were commingled with the assets of similar CGUs at VTB; therefore, their cash flows are not separately identifiable as at 31 December 2017 and 31 December 2016. Concurrent with the transfer, the subsidiary was renamed to "BM-Bank", PJSC (currently – "BM-Bank", JSC). The remaining assets of the subsidiary represent mostly loans subject to the CBR and DIA plan of support and other legacy assets. No goodwill was allocated to the remaining assets and CGUs of the subsidiary.

In 2017, the Group management approved and committed to a legal merger between "VTB Bank", PJSC and "Bank VTB 24", PJSC, which was completed in January 2018. As a result of the merger, the retail banking CGU of "Bank VTB 24" and the related goodwill were merged with the retail banking CGU of VTB. The forecasted cash flows of the retail banking of VTB and the former "Bank VTB 24", PJSC are not separately identifiable as the Management of the Group executes upon a united bank strategy which also provides for the united retail banking expansion. Therefore, for the purposes of goodwill impairment test the retail banking CGU was tested on a combined basis.

27. GOODWILL AND OTHER INTANGIBLE ASSETS (CONTINUED)

“VTB Bank”, PJSC and Bank VTB 24”, PJSC (continued)

The Group defined the following CGUs:

- Investment banking of CIB (“IB-CIB”)
- Corporate Business of CIB (“CB-CIB”)
- Mid-corporate banking (“MCB”)
- Small business (“SB”)
- Retail banking (“RB”)

For the purposes of goodwill impairment test, the recoverable amount of the above individual CGUs was determined based on their expected cash flows.

Carrying amount of CGU

At 31 December 2017 the carrying amount of the relevant CGUs was determined through allocation of the adjusted VTB capital. VTB capital was adjusted for investment in subsidiaries and other deductions related to Group Treasury functions.

Subsequently the adjusted VTB capital was allocated to IB-CIB through an economic capital model and the remaining adjusted VTB capital was allocated on a total assets base for other CGUs.

The model calculates the present value of the estimated cash flows that are expected to flow from CGUs while complying with the entity regulatory capital and other statutory requirements.

The goodwill recognised on the acquisition of former “TransCreditBank”, JSC and former “Bank VTB North-West”, OJSC of RUR 8.8 billion was allocated to CB-CIB and included in to the test.

The goodwill recognised on the acquisition of “Bank of Moscow”, OJSC of RUR 101.7 billion is allocated to IB-CIB, MCB, SB and RB CGUs.

The goodwill recognised on the acquisition of Bank VTB 24”, PJSC of RUR 3.4 billion is allocated to RB CGUs.

As at 31 December 2017 goodwill and intangible assets of core deposit and customer loan intangible were allocated to the relevant CGUs as follows:

	Goodwill	Intangible assets	Total
IB-CIB	5.4	–	**5.4**
CB-CIB	70.7	–	**70.7**
MCB	25.9	1.2	**27.1**
SB	0.9	–	**0.9**
RB	11.1	0.3	**11.4**
Total	**114.0**	**1.5**	**115.5**

In 2017 the Group has defined CGU “Small business”, which mainly includes operations with individual entrepreneurs and other small business entities, and reallocated goodwill in the amount of RUR 0.9 billion from CGU “Retail business” to CGU “Small business”. In 2016 this CGU was part of the CGU Retail business. This CGU is included in Retail business segment as at 31 December 2017 and 2016 (Note 3).

As at 31 December 2016 goodwill and intangible assets of core deposit and customer loan intangible were allocated to the relevant CGUs as follows:

	Goodwill	Intangible assets	Total
IB-CIB	5.4	–	**5.4**
CB-CIB	70.7	–	**70.7**
MCB	25.9	3.4	**29.3**
RB	8.6	0.6	**9.2**
Total	**110.6**	**4.0**	**114.6**

For the purpose of impairment testing the carrying amount of the relevant CGUs together with the allocated goodwill and intangible assets were compared to the recoverable amount of the respective CGUs.

DCF Model

The Group determines the recoverable amounts of its CGUs on the basis of value in use calculated using a DCF model, which reflects the specifics of the relevant CGU. Future cash flows were discounted at a rate that reflected a relevant level of risk for CGUs. Cash flows beyond 2021 period were extrapolated using the estimated growth rate of 4.5% p.a.

Estimates of future cash flows were based on the most recent financial statements, as well as figures, forecasts and budgets for the relevant CGUs, in addition to the economic and market forecasts that chief decision makers approve for internal management purposes. IB-CIB, CB-CIB, MCB and RB growth rate targets are based on growth rates implied by the Group’s strategy, its long-term growth plan and the goal to sustain market share in lending to corporate and retail clients.

The following assumptions were used in the DCF model in respect of expected cash flows and the discount rate.

COR: The Cost of Risk, representing the loan impairment provision to loans ratio for each CGU, was projected on the basis of each CGU’s key strategic targets and historical data.

NIM: The Net Interest Margin was projected on the basis of a CGU’s key strategic targets, expected business profitability and the historical level for each CGU.

CIR: The Cost to Income ratio was projected on the basis of a CGU’s key strategic targets, expected cost reduction, efficiencies following the legal merger and the historical levels for each CGU.

27. GOODWILL AND OTHER INTANGIBLE ASSETS (CONTINUED)

DCF Model (continued)

Discount rate: The CAPM-based discount rate was determined on the basis of RUB and foreign currency risk-free interest rates, a market risk premium and beta as a measure of systematic market risk. The market risk premium and beta were derived from public sources of information, while the risk-free interest rates for the terminal period were derived both from public and internal sources of information.

The Group applied different discount rate for different future periods based on its expectation of a decline in the risk free rate.

Variations in all of these components might impact the calculation of expected cash flows and might have a material effect on the recoverable amounts of respective CGUs.

Hereunder, we show the key assumptions as at 31 December 2017 for the relevant CGUs for the projection period (2018-2021):

CGU	COR, b.p.	NIM, % p.a.	CIR, % p.a.	Discount rate, % p.a.
IB-CIB	20-7	3.7%-4.3%	33.0%	
CB-CIB	148-97	2.0%-2.5%	24.1%-24.4%	
MCB	227-187	4.4%-4.1%	39.8%-37.0%	12.3%-12.0%
SB	142-197	12.0%-14.1%	27.8%-19.7%	
RB	158-157	5.1%-5.3%	56.6%-44.3%	

The key assumptions used as at 31 December 2016 for the relevant CGUs for the projection period (2017-2019) were as follows:

CGU	COR, b.p.	NIM, % p.a.	CIR, % p.a.	Discount rate, % p.a.
IB-CIB	0-25	2.9%-9.3%	33.0%	
CB-CIB	173-98	1.8%-2.1%	23.5%-25.9%	14.5%-12.8%
MCB	290-148	5.9%-5.8%	33.6%-28.9%	
RB	375-322	11.9%-10.0%	40.6%-42.3%	

Sensitivity of recoverable amount to possible changes in key assumptions

The tables show the impact that possible changes in our key assumptions might have on the recoverable amount of the relevant CGUs in terms of the goodwill impairment recognition. As at 31 December 2017 the possible changes in the key assumptions in respect the CGUs other than CB-CIB and MCB have not lead to goodwill impairment (31 December 2016: other than CB-CIB).

As at 31 December 2017:

CGU	Key assumption	Reasonably possible change	Goodwill impairment, RUR billion	Recoverable amount exceeds carrying amount, RUR billion	Change in key assumptions resulting in recoverable amount to equal carrying amount
	NIM	-0.30%	(70.8)		-0.04%
	COR	20 b.p.	(53.4)		4.7 b.p.
	COR	40 b.p.	(70.8)		4.7 b.p.
CB-CIB	CIR	2.00%	(4.0)	16.5	1.61%
	CIR	4.00%	(24.4)		1.61%
	Discount rate	0.50%	(7.3)		0.34%
	Discount rate	1.00%	(28.2)		0.34%
MCB	NIM	-0.60%	(5.1)	45.1	-0.54%

As at 31 December 2016:

CGU	Key assumption	Reasonably possible change	Goodwill impairment, RUR billion	Recoverable amount exceeds carrying amount, RUR billion	Change in key assumptions resulting in recoverable amount to equal carrying amount
	NIM	-0.3%	(70.7)		-0.01%
	COR	20 b.p.	(70.7)		1.7 b.p.
CB-CIB	CIR	2.0%	(12.6)	6.9	0.72%
	CIR	4.0%	(32.0)		0.72%
	Discount rate	0.5%	(11.8)		0.18%
	Discount rate	1.0%	(28.5)		0.18%

27. GOODWILL AND OTHER INTANGIBLE ASSETS (CONTINUED)

The following table summarises uncertainties of key assumptions used in the DCF model:

Input	Assumptions	Uncertainties of Assumptions
	IB-CIB	
CIR	Cost savings from recent cost optimisation initiatives	Cost savings and expected benefits from cost optimisation initiatives are not realised as anticipated
NIM	▪ Level of interest rates; and ▪ Recovery of Russian markets over the forecast period	Slower recovery of the Russian economy and its impact on trade volumes, interest rates and foreign exchange rates
COR	COR is based on anticipated dynamic of the IB-related loans	Unexpected market conditions that will increase the loan loss risks
Discount rate	Discount rate used is a reasonable estimate of a suitable market rate for the profile of the business	Major industry threats, i.e. market volatility, sovereign debt burden, increasing costs from possible regulatory changes
	CB-CIB	
CIR	▪ Continued focus on operating efficiency	Cost savings and expected benefits from BoM and VTB legal merger are not realised as anticipated
NIM	▪ Recovery of Russian markets over the forecast period ▪ Expected level of the market interest rates and likely decrease in the key rate ▪ Decreasing cost of liabilities in VTB, resulting from implementation of the Group's plans to optimise the funding structure	Unfavourable margin development and adverse competition levels in key products beyond expected levels Significant share of large corporates in VTB's loan book limits the Group's pricing power to re-price loans if the key rate is increased
COR	COR is based on anticipated dynamics of the CB loans	Unexpected market conditions that will increase loan loss risks
Discount rate	Discount rate used is a reasonable estimate of a suitable market rate for the profile of the business	Major industry threats, i.e. market volatility, sovereign debt burden, increasing costs from possible regulatory changes
	MCB	
CIR	▪ Strict discipline applied to operating expenses	Cost savings and expected benefits from BoM and VTB legal merger are not realised as anticipated
NIM	▪ Recovery of Russian markets over the forecast period ▪ Expected level of the market interest rates and likely decrease in the key rate	Unfavourable margin development and adverse competition levels in key products beyond expected levels
COR	Strict discipline applied to cost of risk	Significant economic decline to increase credit loss provisions
Discount rate	Discount rate used is a reasonable estimate of a suitable market rate for the profile of the business.	Major industry threats, i.e. market volatility, sovereign debt burden, increasing costs from possible regulatory changes
	SB	
CIR	Development of synergies and cost efficiencies following the VTB and VTB24 legal merger in the Retail segment	Synergies related to VTB and VTB24 legal merger are not realised or are realised later than foreseen
NIM	General economic conditions improve, which would result in the Group reassessing its risk appetite and help to increase the share of high margin banking products	Unfavourable margin development and adverse competition levels in key products beyond expected levels
COR	Solid management of cost of risk despite growth in share of higher margin but more risky products	Significant economic decline potentially resulting in higher unemployment rates, increasing credit loss provisions
Discount rate	Discount rate used is a reasonable estimate of a suitable market rate for the profile of the business	Major industry threats, i.e. market volatility, sovereign debt burden, increasing costs from possible regulatory changes
	RB	
CIR	Development of synergies and cost efficiencies following the VTB and VTB24 legal merger in the Retail segment	Synergies related to VTB and VTB24 legal merger are not realised or are realised later than foreseen
NIM	General economic conditions improve, which would result in the Group reassessing its risk appetite and help to increase the share of high margin banking products	Unfavourable margin development and adverse competition levels in key products beyond expected levels
COR	Solid management of cost of risk despite growth in share of higher margin but more risky products	Significant economic decline potentially resulting in higher unemployment rates, increasing credit loss provisions
Discount rate	Discount rate used is a reasonable estimate of a suitable market rate for the profile of the business	Major industry threats, i.e. market volatility, sovereign debt burden, increasing costs from possible regulatory changes

Current economic and industry risks such as volatility of the key interest rate determined by the CBR ("key rate"), oil prices, foreign exchange rates might negatively impact actual cash flows as compared to forecasted cash flows and result in impairment of goodwill allocated to CGUs. Management's forecast of NIM, WACC and loan portfolio growth takes into consideration existing expectations regarding the future changes in the key rate. Should the actual reductions in the key rate be slower that it was expected by the management, it might have negative influence on the actual future cash flows and rates.

28. OTHER ASSETS

	2017	2016
Other financial assets accounted at amortised cost:		
Initial margin and other performance collateral	13.4	2.8
Advances issued to leasing equipment suppliers	13.1	2.7
Accrued commission income	8.5	7.9
Trade receivables and prepayments	8.1	8.6
Reinsurance and insurance receivables	8.0	3.7
Amounts in course of settlement	7.6	15.9
Accrued income on operating leases	5.3	11.0
Other	5.2	5.0
Total other financial assets accounted at amortised cost before allowance for impairment	**69.2**	**57.6**
Less: allowance for impairment of other financial assets accounted at amortised cost	(3.6)	(3.6)
Total other financial assets accounted at amortised cost	**65.6**	**54.0**
Other financial assets accounted at fair value:		
Amounts in course of settlement related to regular way transactions with financial instruments	0.3	0.2
Other	0.1	0.1
Total other financial assets accounted at fair value	**0.4**	**0.3**
Total other financial assets	**66.0**	**54.3**
Insurance assets:		
Reinsurers' share of loss provisions	6.5	3.4
Deferred acquisition costs	4.2	3.0
Reinsurers' share of provision for unearned premiums	2.1	1.9
Total insurance assets	**12.8**	**8.3**
Other non-financial assets accounted at cost less impairment:		
Property intended for sale in the ordinary course of business	118.7	115.9
Other assets related to non-banking activities	23.6	27.5
Prepayments	22.5	32.6
Inventories	10.5	11.5
Tax prepayments	8.0	9.2
Deferred expenses	7.4	5.4
Equipment purchased for subsequent leasing	3.2	1.1
Other	23.5	21.6
Total other non-financial assets accounted at cost less impairment	**217.4**	**224.8**
Other non-financial assets accounted at fair value:		
Precious metals	112.2	118.8
Total other non-financial assets accounted at fair value	**112.2**	**118.8**
Total other non-financial assets	**329.6**	**343.6**
Total other assets	**408.4**	**406.2**

As at 31 December 2017 amounts in course of settlement includes settlements with Deposit Insurance Agency for the reimbursement of bankrupt banks' deposits in the amount of RUR 0.4 billion (31 December 2016: RUR 4.9 billion).

As at December 2017, inventories include the amount of RUR 10.2 billion (31 December 2016: RUR 11.0 billion) representing foreclosed collateral (goods, equipment, etc.) under default loans before further decision (Note 42).

The movements in allowances for impairment of other financial assets accounted at amortised cost were as follows:

2015	**4.8**
Provision for impairment during the period	1.2
Write-offs	(2.4)
Recoveries of amounts written-off in previous period	0.1
Effect of translation	(0.1)
2016	**3.6**
Provision for impairment during the period	0.9
Write-offs	(1.1)
Recoveries of amounts written-off in previous period	0.2
2017	**3.6**

28. OTHER ASSETS (CONTINUED)

As at 31 December 2017 and 2016, other assets related to non-banking activities were predominantly related to real estate and construction.

As at 31 December 2017, property intended for sale in the ordinary course of business under construction in progress or development amounted to RUR 85.7 billion (31 December 2016: RUR 76.7 billion) and property intended for sale in the ordinary course of business ready for use by buyer amounted to RUR 33.0 billion (31 December 2016: RUR 39.2 billion).

	2017	2016
Property intended for sale in the ordinary course of business at 1 January	**115.9**	**72.0**
Acquisitions of subsidiaries (Note 46)	9.7	21.1
Disposal of subsidiaries	–	(1.7)
Additions	–	4.3
Disposals	(32.0)	(13.1)
Reclassified to premises	–	(9.1)
Reclassified from premises	–	1.1
Reclassified from/(to) investment property	(3.5)	7.4
Impairment (Note 13)	(8.1)	(2.6)
Capitalisation of expenses	37.3	35.2
Reclassified (to)/from assets of disposal groups held for sale	(0.2)	–
Reclassified (to)/from other accounts	(0.4)	1.3
Property intended for sale in the ordinary course of business at 31 December	**118.7**	**115.9**

29. DISPOSAL GROUPS AND NON-CURRENT ASSETS HELD FOR SALE

The Group has non-current assets and investments in the disposal groups held for sale, including subsidiaries acquired exclusively with a view to resale, accounted for in accordance with IFRS 5. The Management of the Group is committed to dispose of these non-current assets and investments in the near future, within one year from the initial classification as a disposal group.

		2017	2016
Assets of disposal groups held for sale:			
VTB Bank (Belgrade), JSC	100% owned subsidiary	6.1	n.a.
Burger King Russia (Cyprus), Ltd	16.62% of shares in associate	4.6	n.a.
Irrico Ltd.	65.8% owned subsidiary	4.0	3.1
Hotel Altay, JSC	100% owned subsidiary	1.0	n.a.
Hotel Voshod, JSC	100% owned subsidiary	0.9	n.a.
Investment property	non-current asset held for sale	0.3	0.3
Premises	non-current asset held for sale	–	1.3
Hals-Invest-Development, LLC	100.0% owned subsidiary	n.a.	9.1
Estonian Credit Bank, JSC	59.7% owned associate	n.a.	0.9
Velozavodskii market, OJSC	100.0% owned subsidiary	n.a.	0.6
Other	100.0% owned subsidiary	0.3	0.3
Total assets of disposal groups and non-current assets held for sale		**17.2**	**15.6**
Liabilities of disposal groups held for sale:			
VTB Bank (Belgrade), JSC	100% owned subsidiary	5.2	n.a.
Irrico Ltd.	65.8% owned subsidiary	1.5	0.7
Hals-Invest-Development, LLC	100.0% owned subsidiary	n.a.	1.1
Velozavodskii market, OJSC	100.0% owned subsidiary	n.a.	0.1
Other	100.0% owned subsidiary	0.3	0.3
Total liabilities of disposal groups held for sale		**7.0**	**2.2**

As at 31 December 2017 the Group accounted for investments in VTB Bank (Belgrade), JSC as a disposal group held for sale under IFRS 5 and considered that sale was highly probable.

As at 31 December 2017 the Group classified 16.62% of shares in associated entity Burger King Russia (Cyprus, Ltd) as assets held for sale under IFRS 5 presented in segment "CIB" and considered that sale was highly probable.

As at 31 December 2017 the Group accounted for investments in Irrico Ltd. as a disposal group held for sale under IFRS 5 presented in segment "CIB" and considered that sale was highly probable.

As at 31 December 2017 the Group accounted for investments in Hotel Voshod, JSC and Hotel Altay, JSC as a disposal group held for sale under IFRS 5 presented in segment "Other Business" and considers that sale is highly probable.

29. DISPOSAL GROUP AND NON-CURRENT ASSETS HELD FOR SALE (CONTINUED)

In January 2017 the Group sold 59.7% of shares in Estonian Credit Bank, JSC, classified as assets held for sale, to a non-related party for the total cash consideration of RUR 0.8 billion with RUR 0.1 billion loss recognised in Net gain from disposal of disposal groups held for sale attributed to segment “Treasury”.

In February 2017 the Group sold 100.0% of shares in Velozavodskii market, OJSC, classified as assets held for sale, to a non-related party for the total cash consideration of RUR 0.7 billion. The net assets of Velozavodskii market, OJSC as at the date of disposal amounted to RUR 0.4 billion. The gain from disposal of subsidiary amounted to RUR 0.3 billion and was recognised in Net gain from disposal of disposal groups held for sale and was attributed to segment “Other”.

In March 2017 the Group sold its ownership interest of 100.0% in Hals-Invest-Development, LLC to a non-related party for total cash consideration of RUR 9.2 billion. The net assets of Hals-Invest-Development, LLC as at the date of disposal amounted to RUR 8.6 billion. The gain from disposal amounted to RUR 0.6 billion and was recognised in Net gain from disposal of disposal groups held for sale and was attributed to segment “Other”.

In September 2017 the Group sold 25% of shares in associated entity “Thalita Trading”, Ltd and 25% of subordinated loan to “Thalita Trading”, Ltd, which were classified as assets held for sale as at 30 June 2017, to a third party for the total cash consideration of EUR 236 million (RUR 15.9 billion) with no gain/loss recognised.

Major classes of non-current assets and assets of disposal groups held for sale are as follows:

	2017	2016
Assets of a disposal group held for sale:		
Cash and short-term funds	0.5	–
Mandatory cash balances with central banks	0.4	–
Due from other banks	1.1	–
Loans and advances to customers	3.4	–
Investment financial assets	0.5	–
Investments in associates and joint ventures	4.6	0.9
Premises and equipment	4.2	2.0
Intangible assets and goodwill	0.3	0.3
Investment property	–	9.6
Other assets	1.8	1.2
Non-current assets held for sale		
Investment property	0.4	0.8
Premises and equipment	–	0.8
Total assets of disposal groups and non-current assets held for sale	**17.2**	**15.6**

Major classes of liabilities of disposal groups held for sale are as follows:

	2017	2016
Due to other banks	1.1	0.2
Customer deposits	5.1	–
Trade creditors and prepayments received	–	0.2
Deferred income tax liability	–	0.5
Other liabilities	0.7	1.3
Subordinated debt	0.1	–
Total liabilities of disposal groups held for sale	**7.0**	**2.2**

30. DUE TO OTHER BANKS

	2017	2016
Term loans and deposits	694.8	1,002.0
Correspondent accounts and overnight deposits of other banks	114.6	130.3
Sale and repurchase agreements	0.9	76.6
Total due to other banks	**810.3**	**1,208.9**

30. DUE TO OTHER BANKS (CONTINUED)

The table below shows the amounts of pledged assets and carrying amount of associated liabilities as at 31 December 2017 and 31 December 2016.

	2017			2016		
	Amount of the assets pledged	Carrying amount of the associated liabilities	Net position	Amount of the assets pledged	Carrying amount of the associated liabilities	Net position
Term loans and deposits						
• loans and advances to customers (Note 23)	1.6	1.1	**0.5**	2.1	1.6	**0.5**
Sale and repurchase agreements						
• non-derivative financial assets at fair value through profit or loss (Note 20)	0.1	0.3	**(0.2)**	8.4	8.6	**(0.2)**
• investment financial assets available-for-sale (Note 24)	0.4	0.4	**–**	0.2	0.2	**–**
• loans and advances to customers, (Note 23)	–	–	**–**	17.8	17.8	**–**
• financial assets received under reverse sale and repurchase agreements	0.2	0.2	**–**	55.1	50.0	**5.1**
Total Sale and repurchase agreements	**0.7**	**0.9**	**(0.2)**	**81.5**	**76.6**	**4.9**
Total	**2.3**	**2.0**	**0.3**	**83.6**	**78.2**	**5.4**

31. CUSTOMER DEPOSITS

	2017	2016
Government bodies		
Current / settlement deposits	118.3	54.6
Term deposits	1,048.4	345.4
Other legal entities		
Current / settlement deposits	1,277.0	1,007.2
Term deposits	3,072.5	2,934.9
Individuals		
Current / settlement deposits	906.4	627.9
Term deposits	2,715.2	2,376.4
Sale and repurchase agreements	6.9	0.2
Total customer deposits	**9,144.7**	**7,346.6**

As at 31 December 2017, the Group’s 10 largest groups of interrelated customers had aggregated balances amounting to RUR 2,413.2 billion or 26.4% of total customer deposits (31 December 2016: RUR 1,779.2 billion or 24.2%).

As at 31 December 2017, deposits of RUR 386.5 billion (31 December 2016: RUR 62.4 billion) were held as collateral against irrevocable commitments under import letters of credit and guarantees (Note 50).

As at 31 December 2017, the deposit from the third party of RUR 210.6 billion (31 December 2016: RUR 0 billion) was held as collateral against loan agreement with carrying amount of RUR 210.3 billion.

31. CUSTOMER DEPOSITS (CONTINUED)

Economic sector risk concentrations within customer deposits are as follows:

	2017		2016	
	Amount	%	Amount	%
Individuals	3,621.6	39.6	3,004.3	40.9
Oil and Gas	1,321.5	14.5	1,119.9	15.2
Government bodies	1,166.7	12.8	400.0	5.4
Finance	709.4	7.8	572.9	7.8
Manufacturing	431.3	4.7	410.8	5.6
Building construction	426.0	4.7	346.6	4.7
Transport	305.9	3.3	283.4	3.9
Trade and commerce	254.8	2.8	220.1	3.0
Telecommunications and media	160.5	1.8	94.2	1.3
Energy	133.7	1.5	186.6	2.5
Food and agriculture	71.5	0.8	50.4	0.7
Metals	69.2	0.8	172.5	2.3
Chemical	51.1	0.6	45.2	0.6
Aircraft	20.1	0.2	37.8	0.5
Coal mining	15.0	0.2	4.2	0.1
Other	386.4	3.9	397.7	5.5
Total customer deposits	**9,144.7**	**100.0**	**7,346.6**	**100.0**

As at 31 December 2017 financial assets pledged against sale and repurchase agreements represent financial assets at fair value through profit or loss with fair value of RUR 0.2 billion (31 December 2016: RUR 0.2 billion) (Note 20) and securities received under reverse sale and repurchase agreements with fair value of RUR 8.5 billion (31 December 2016: RUR 0 billion).

32. OTHER BORROWED FUNDS

	2017	2016
Funds from local central banks:	71.1	1,063.5
• Term deposits from local central banks	71.1	627.6
• Sale and Repurchase Agreements	–	435.9
Syndicated loans	9.3	16.9
Other borrowings	224.1	226.8
Total other borrowed funds	**304.5**	**1,307.2**

The table below shows the amounts of pledged assets and carrying amount of associated liabilities as at 31 December 2017 and 31 December 2016.

	2017			2016		
	Amount of the assets pledged	Carrying amount of the associated liabilities	Net position	Amount of the assets pledged	Carrying amount of the associated liabilities	Net position
Funds from local central banks:						
Term deposits						
• loans and advances to customers (Note 23)	41.7	42.1	**(0.4)**	755.6	585.4	**170.2**
• investment financial assets available-for-sale (Note 24)	0.9	0.9	**–**	8.5	7.3	**1.2**
• due from other banks (Note 22)	0.7	0.7	**–**	0.6	0.5	**0.1**
Total Term deposits	**43.3**	**43.7**	**(0.4)**	**764.7**	**593.2**	**171.5**
Sale and Repurchase Agreements						
• loans and advances to customers (Note 23).	–	–	**–**	171.9	162.1	**9.8**
• investment financial assets held to maturity (Note 24)	–	–	**–**	14.5	14.6	**(0.1)**
• financial assets at fair value through profit or loss (Note 20)	–	–	**–**	17.8	16.1	**1.7**
• investment financial assets available-for-sale (Note 24)	–	–	**–**	1.8	1.7	**0.1**
• due from other banks (Note 22)	–	–	**–**	13.8	13.3	**0.5**
• financial assets received under reverse sale and repurchase agreements	–	–	**–**	202.7	213.8	**(11.1)**
• debt securities issued by the Group	–	–	**–**	–	14.3	**(14.3)**
Total Sale and Repurchase Agreements	**–**	**–**	**–**	**422.5**	**435.9**	**(13.4)**
Other borrowings						
• loans and advances to customers (Note 23)	26.0	93.8	**(67.8)**	43.5	97.1	**(53.6)**
Total	**69.3**	**137.5**	**(68.2)**	**1,230.7**	**1,126.2**	**104.5**

32. OTHER BORROWED FUNDS (CONTINUED)

In September 2011, "Bank of Moscow", OJSC received a RUR 294.8 billion deposit from the related party DIA at 0.51% p.a. maturing in 10 years under the plan of support (the "Plan") of "Bank of Moscow", OJSC approved by the CBR and the DIA. During the fourth quarter 2014, the DIA agreed to the deposit extension due to adverse effects of the current political and macro-economic environment on "Bank of Moscow", OJSC and its clients, which in turn influenced the execution of the Plan. In December 2014, the CBR and the DIA approved the extension of the deposit until September 2026 at 0.51% p.a.

As at 31 December 2017, the carrying amount of the deposit amounted to RUR 91.2 billion (31 December 2016: RUR 81.3 billion) and was included in Other Borrowings. The contractual amount of the deposit was RUR 266.0 billion at 31 December 2017 (31 December 2016: RUR 266.3 billion). The deposit was collateralised by loans and advances to customers with the carrying amount of RUR 22.1 billion at 31 December 2017 (31 December 2016: RUR 27.2 billion) (Note 23).

Under the terms of the deposit agreement, if certain reference distressed assets perform better than originally anticipated, the Group is required to repay a corresponding part of the deposit. For the year ended 31 December 2017, the Group recognised losses from early repayment of deposit in the amount of RUR 0.1 billion (for the year ended 31 December 2016: losses in the amount of RUR 1.9 billion) included in (Losses net of gains) / gains net of losses arising from extinguishment of liability in the accompanying consolidated income statement (Note 9).

33. DEBT SECURITIES ISSUED

	2017	2016
Bonds	244.4	345.7
Promissory notes	77.3	47.5
Deposit certificates	1.0	6.4
Total debt securities issued	**322.7**	**399.6**

Promissory notes represent notes primarily issued in the local market as an alternative to customer/bank deposits. As at 31 December 2017 promissory notes issued included both discount and interest bearing promissory notes denominated mainly in RUR with maturity ranging from demand to December 2044 (31 December 2016: from demand to December 2044).

The bonds represent eurobonds issued mostly under EMTN and ECP programmes and local bonds issued by VTB and other Group members with the carrying amounts at the end of the reporting periods as follows:

	Rates, p.a.	Maturity	2017	2016
USD Eurobonds (EMTN)	6.25% to 6.88%	2018-2035	151.9	255.5
Local bonds	3.00% to 9.25%	2018-2057	83.3	64.7
CHF Eurobonds (EMTN)	2.90%	2018	9.2	9.3
Other Eurobonds	n/a	n/a	–	16.2
Total bonds			**244.4**	**345.7**

Local bonds include bonds issued under an overnight bond programme on the Moscow Stock Exchange.

34. SUBORDINATED DEBT

	Rates, p.a.	Maturity	2017	2016
VTB Bank, PJCS:				
RUR 100 billion subordinated deposit	from 6.4% to 13.90%.	2044	101.7	102.9
USD 1.5 billion subordinated Eurobonds	6.95%	2022	78.0	82.1
CHF 350 million subordinated Eurobonds	5.00%	2024	13.5	13.6
USD 400 million subordinated Eurobonds (issued by former "Bank of Moscow", OJSC)	n/a	n/a	–	23.4
"Bank VTB 24", PJSC:				
RUR 2.0 billion subordinated loans	n/a	n/a	–	2.1
Total subordinated debt			**193.2**	**224.1**

35. OTHER LIABILITIES

	2017	2016
Other financial liabilities accounted at amortised cost:		
Amounts in course of settlement	15.3	20.2
Trade creditors and prepayments received	12.0	11.7
Liabilities related to option purchase agreements, which resulted in potential voting rights (Note 46)	10.1	–
Accrued expenses	7.5	6.6
Advances received from lessees	3.7	2.7
Reinsurance and insurance payables	2.9	2.3
Deferred income	1.3	2.8
Dividends payable	1.1	0.6
Other	5.5	3.4
Total other financial liabilities accounted at amortised cost	**59.4**	**50.3**
Other financial liabilities accounted at fair value:		
Obligation to deliver securities	35.4	44.6
Non-controlling interests in consolidated mutual funds	2.6	2.6
Amounts in course of settlement related to regular way transactions with financial instruments	–	0.1
Other financial liabilities accounted at fair value	1.4	4.2
Total other financial liabilities accounted at fair value	**39.4**	**51.5**
Total other financial liabilities	**98.8**	**101.8**
Insurance liabilities:		
Pension liabilities accounted under IFRS 4 Insurance contracts	143.2	125.1
Provision for unearned premiums	79.2	49.6
Loss provisions	50.1	28.6
Total insurance liabilities	**272.5**	**203.3**
Other non-financial liabilities accounted at cost:		
Other liabilities related to non-banking activities	97.1	75.2
Payable to employees	41.9	39.8
Liabilities to pay taxes	22.7	18.4
Provisions for credit related commitments and legal claims (Note 50)	18.9	19.9
Liabilities on pension plans	3.2	4.3
Deferred income	0.7	1.0
Other	26.7	22.8
Total other non-financial liabilities accounted at cost	**211.2**	**181.4**
Total other liabilities	**582.5**	**486.5**

As at 31 December 2017 and 2016, other liabilities related to non-banking activities are predominantly related to real estate and construction.

36. SHARE CAPITAL

Authorised, issued and fully paid share capital of the Bank comprises:

	2017		2016	
	Number of shares	Nominal amount	Number of shares	Nominal amount
Ordinary shares	12,960,541,337,338	138.1	12,960,541,337,338	138.1
Type 1 preference shares	21,403,797,025,000	214.0	21,403,797,025,000	214.0
Type 2 preference shares	3,073,905,000,000	307.4	3,073,905,000,000	307.4

Contributions to the Bank's share capital were originally made in RUR, foreign currency and gold bullion. All ordinary shares have nominal value of RUR 0.01, rank equally and carry one vote. Preference shares Type 1 have a nominal value of RUR 0.01 per share, preference shares Type 2 have a nominal value of RUR 0.1 per share. Type 1 and Type 2 preference shares are non-convertible and non-voting preference shares with dividends payable subject to the decision of the General Meeting of VTB shareholders.

As at 31 December 2017 the total authorised ordinary share capital comprised 14,000,000,000,000 shares (31 December 2016: 14,000,000,000,000 shares) with a par value of RUR 0.01 each.

For the year ended 31 December 2017 the net change in Group members' balances of the Bank's ordinary shares decreased by 1,637,859,501 (for the year ended 31 December 2016: decreased by 3,583,562,465) and the number of treasury shares decreased to 36,071,059,276 (31 December 2016: 37,708,918,777). As a result, the number of the outstanding ordinary shares at 31 December 2017 amounted to 12,924,470,278 (31 December 2016: 12,922,832,418,561).

37. PERPETUAL LOAN PARTICIPATION NOTES

In August 2012 and November 2012, VTB issued Perpetual Loan Participation Notes for the amount of USD 1.0 billion (RUR 32.5 billion) and USD 1,250 million (RUR 39.2 billion) respectively. The transaction included the issuance of Perpetual Loan Participation Notes by VTB Eurasia Limited (Ireland), a consolidated structured entity, which used the proceeds to provide a subordinated loan to VTB. The Perpetual loan participation notes have an unlimited term and are redeemable at VTB's option starting from December 2022 at their principal amount. Coupon rate is fixed at 9.5% p.a. and will be reset in 10.5 years and then every 10 years as 10 year US Treasury yield increased by 806.7 b.p. Coupon payments are paid semi-annually from December 2012 and may be cancelled or deferred in accordance with the terms of the notes. Such cancellation or deferral is at the discretion of VTB.

Due to the undefined maturity and optional non-cumulative cancellation of coupon payments, the Group accounts for the Perpetual loan participation notes as an equity instrument and as a Tier I eligible instrument for the purpose of Basel Capital Adequacy Ratio calculation. Further, the CBR approved the inclusion of the subordinated loan in the statutory capital ratio calculation of VTB Bank.

The Group accounts for the USD-denominated Perpetual loan participation notes in the amount of RUR equivalent amount using the foreign exchange rate at the reporting date with foreign exchange translation effects recorded in retained earnings. Issuance costs were also recorded in retained earnings. As at 31 December 2017, the carrying amount of the Perpetual Loan Participation Notes is RUR 129.6 billion (31 December 2016: RUR 136.5 billion).

Under the current terms of the Perpetual Loan Participation Notes, the payment of coupon is not mandatory, therefore, coupon amounts due under Perpetual Loan Participation Notes are recorded on their payment dates in June and December of each year, subject to VTB's decision to make such payments (Note 39).

In their capacity as market-makers, VTB Group subsidiaries buy and sell Perpetual loan participation notes in the market, usually with a short holding period. During the holding period, Perpetual loan participation notes are included in Treasury shares and bought back perpetual loan participation notes in equity.

38. OTHER RESERVES

Movements in other reserves were as follows:

	Unrealised gain/(loss) on financial assets available-for-sale and cash flow hedge	Assets of disposal groups held for sale revaluation reserve	Land and premises revaluation reserve	Currency translation difference	Total
2015	**(5.3)**	**–**	**22.2**	**55.3**	**72.2**
Total comprehensive (loss)/income for the period	9.0	0.8	(1.4)	(34.4)	**(26.0)**
Transfer of premises revaluation reserve upon disposal or depreciation	–	–	(1.1)	–	**(1.1)**
Disposal of subsidiaries	–	–	–	(0.3)	**(0.3)**
2016	**3.7**	**0.8**	**19.7**	**20.6**	**44.8**
Total comprehensive income/(loss) for the period	2.8	0.1	(0.1)	(0.6)	**2.2**
Transfer of premises revaluation reserve upon disposal or depreciation	–	(0.9)	(0.7)	–	**(1.6)**
Acquisition of non-controlling interests and other capital transactions	–	–	–	0.7	**0.7**
2017	**6.5**	**–**	**18.9**	**20.7**	**46.1**

39. DIVIDENDS AND AMOUNTS DUE AND PAID UNDER PERPETUAL LOAN PARTICIPATION NOTES AND OTHER DISTRIBUTIONS

In accordance with the VTB dividend policy as approved by the Supervisory Council 29 January 2016 dividends are distributed based on an annual IFRS net profit. The Supervisory Council proposes the amount of dividends for the approval by the Annual General Meeting of VTB. The approved dividend amounts are paid out to eligible shareholders within 25 working days.

Following the decision approved by the Extraordinary General Meeting of VTB shareholders 8 December 2016 the amount of dividends on Type 1 preference shares and Type 2 preference shares may be determined upon results of the first three months, six months and nine months of the reporting year, and/ or upon results of the reporting year by the General Shareholders Meeting on the recommendation of the Supervisory Council.

39. DIVIDENDS AND AMOUNTS DUE AND PAID UNDER PERPETUAL LOAN PARTICIPATION NOTES AND OTHER DISTRIBUTIONS (CONTINUED)

In April 2017, Annual General Meeting of VTB shareholders declared dividends for 2016 for ordinary shares in the total amount of RUR 15.2 billion (RUR 0.00117 per ordinary share); for Type 1 preference shares in the total amount of RUR 11.1 billion (RUR 0,00052 per Type 1 preference share); for Type 2 preference shares in the total amount of RUR 18.1 billion (RUR 0.00588849 per Type 2 preference share). Dividends declared were paid in May-June 2017.

In May 2017, the Annual General Meeting of VTB Capital AD shareholders approved dividends for 2016 in the amount of RUR 362,614 (EUR 5,658) for each Class B share, all payable to non-controlling shareholders, and paid in full in June 2017. The total amount of dividends to non-controlling shareholders was RUR 0.1 billion.

In August 2017, the Annual General Meeting of VTB Africa S.A. shareholders approved dividends for the previous years starting from 2013 to 2016 in amount of RUR 249.632 (AOA 713.9136) per ordinary share including dividends payable to non-controlling shareholders in amount of RUR 0.8 billion.

In June 2016, Annual General Meeting of VTB shareholders declared dividends for ordinary shares in the total amount of RUR 15.2 billion for 2015 (RUR 0.00117 per ordinary share); for preference shares in the total amount of RUR 0.1 billion (RUR 0.0000042 per preference share) and for Type A preference shares in the total amount of RUR 17.8 billion (RUR 0.0058 per Type A preference share). Dividends declared were paid in July-August 2016.

In December 2016, Extraordinary General Meeting of VTB shareholders declared dividends for Type 2 preference shares in the total amount of RUR 17.9 billion (RUR 0.00581369 per Type 2 preference share) for the nine-month period ended 30 September 2016. Dividends declared were paid in December 2016 – January 2017.

In June and December 2017 VTB paid the amounts under Perpetual Loan Participation Notes in the total amount of USD 213.7 million (RUR 12.3 billion). In June and December 2016 VTB paid the amounts under Perpetual Loan Participation Notes in the total amount of USD 213.8 million (RUR 14.0 billion).

Other distributions recognised in 2016 represent a deemed profit distribution of RUR 11.0 billion to the majority shareholder of the Bank. Management determined that the dividends on the preference shares for 2015 were reduced by RUR 11.0 billion which represented, in substance, a government grant compensating the Bank for current period and prior period credit losses on certain corporate loans which were subject to a pre-existing arrangement between the Bank and several government agencies. The government grant was recognised as an offset to credit losses in the line item Provision charge for impairment of debt financial assets in the accompanying consolidated income statement for the year ended 31 December 2016. The deemed distribution and the related government grant had no net effect on the retained earnings or total equity of the Bank at 31 December 2016.

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40. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS

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

Allowance for impairment of loans, receivables and provision for commitments to provide loans

The Group reviews its loans and receivables and loan commitments for impairment on a regular basis. The Group uses its experienced judgment to estimate the amount of any impairment loss in cases where a borrower is in financial difficulties and sufficient historical data relating to similar borrowers is not available. Similarly, the Group estimates changes in future cash flows based on observable data to obtain indication of any adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the group of loans and receivables. The Group uses its experienced judgment to adjust observable data for a group of loans or receivables to reflect current circumstances.

During the first quarter of 2017, the Group modified certain aspects of the loan loss provision estimation process in respect of allowances for loans granted to individuals, which resulted in the cumulative increase of the provision for loan losses of RUR 3.1 billion in the consolidated income statement for the year ended 31 December 2017. The changes in methodology relate to the modification in application of available statistical information on a loss-given-default parameter and of the segmentation process in migration models.

Impairment of financial assets

The Group determines whether financial assets are impaired whenever there is an indication that the financial assets may be impaired. The primary factors that the Group considers in determining whether a financial asset is impaired include its overdue status and realizability of related collateral, if any (Note 24).

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use or fair value less cost to sell of the cash-generating units, to which goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2017 was RUR 116.0 billion (31 December 2016: RUR 116.2 billion) (Note 27).

Impairment of intangible assets with finite useful lives

The Group assesses whether intangible assets with finite lives are impaired whenever there is an indication that the intangible asset may be impaired. This requires an estimation of the value in use or fair value less cost to sell of the corresponding intangible asset. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the intangible asset and also to choose a suitable discount rate in order to calculate the present value of those cash flows (Note 27).

Land and premises

The fair value of land and premises is determined by using valuation techniques. Further details of the judgements and assumptions made are presented in Note 43.

Property intended for sale in the ordinary course of non-banking activities

Property intended for sale in the ordinary course of non-banking activities is stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. Net realisable value for completed property is assessed with reference to market conditions and prices existing at the reporting date and is determined by the Group having taken suitable external advice and in the light of recent market transactions. Net realisable value for property under construction is assessed with reference to the selling market prices at the reporting date for similar completed property, less estimated cost to complete the construction provided in the current construction budget, adjusted for the time value of money if material (Note 28).

Lack of control over entities in which the Group holds more than half of voting right

The Group considers that it does not have control over certain investees although it owns more than 50% of their voting rights. Factors considered by the Group include placement of the company under external administration and other factors leading to inability to exercise effective control over the investee's operations (Notes 29, 47).

40. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

Control over entities in which the Group holds less than half of voting right

The Group has control over certain investees in accordance with IFRS 10 although it owns less than 50% of their voting rights. Factors considered by the Group include existence of potential voting rights, contractual arrangement between the Bank and other vote holders and other factors leading to ability to exercise control over the investee's operations (Note 45).

Existence of significant influence in other entities

The Group may have voting rights in other entities approaching to, but lower than 20%. In assessing whether the Group has significant influence over such entities, judgment is exercised to determine whether the Group has the power to participate in the financial and operating policy decisions of the investee including the ability to block certain changes which are unfavourable to the Group but without control or joint control in those entities. The Group's investments in those entities where the Group has significant influence are detailed in Note 47.

Deferred income tax asset recognition

Income tax expense in respect of the current tax assets and liabilities is recognised based on the income tax rates enacted by the end of the reporting period in relevant tax jurisdictions where the Group is presented. Income tax expense in respect of the deferred income tax assets and liabilities is measured at the income tax rates that are expected to be applied to the period when deferred assets are realised or liability are settled based on the income tax rates officially enacted by the end of the reporting period.

The recognised deferred income tax asset represents income taxes recoverable through future deductions from taxable profits, and is recorded in the statement of financial position. Deferred income tax assets are recorded to the extent that realisation of the related tax benefit is probable. The future taxable profits and the amount of tax benefits that are forecasted probable in the future are based on a medium term business plan prepared by management. The Group considers consolidating tax profitable entities with tax loss making entities for tax purposes. Refer to Note 18.

Structured entities

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

The Group does not consolidate structured entities that it does not control. As it can sometimes be difficult to determine whether the Group does control a structured entity, management makes judgments about its exposure to the risks and rewards, as well as about its ability to make operational decisions for the structured entity is in question. In many instances, elements that are presented, considered in isolation, indicate control or lack of control over a structured entity, but when considered together make it difficult to reach a clear conclusion. In cases where more arguments are in place towards existence of control, the structured entity is consolidated. Refer to Note 49 for further information about the Group's exposure to structured entities.

Fair value estimation of financial instruments where significant unobservable inputs have been used

Details of fair value estimation of unquoted shares classified as financial assets at fair value through profit or loss, investment financial assets available-for-sale and Investments in associates and joint ventures designated as at fair value through profit or loss are provided in Note 43. Assessment of significance of particular fair value measurement input requires management judgment and is disclosed in Note 43.

Investment property

The fair value of investment properties is determined by using valuation techniques. Further details of the judgements and assumptions made, see Note 43.

Net investment in a foreign operation

The Group classified certain intercompany amounts due from and loans to several foreign subsidiaries as part of the Group's net investment in these foreign operations. The settlement for these intercompany transactions is neither planned nor likely to occur in the foreseeable future.

As at 31 December 2017, net accumulated losses arising from the foreign exchange differences on these transactions in the amount of RUR 23.1 billion were included as part of the currency translation difference (Note 38) in the Group's equity (31 December 2016: net accumulated losses in the amount of RUR 20.6 billion). In 2017 and 2016, the net foreign exchange differences on these transactions amounted to RUR 2.5 billion (net loss) and RUR 8.5 billion (net loss), respectively.

Litigations

The Group is involved in a number of litigations. The Group uses its judgement to evaluate their expected outcome, and to estimate the necessary provision. Note 50 discloses information on claims where outflow of economic benefits was deemed to be possible, and provides information on the provision created on those claims where the outflow of economic benefits was deemed to be probable.

41. OPERATING ENVIRONMENT OF THE GROUP

The Russian Federation

The Group conducts the majority of its operations in the Russian Federation (Russia). The Russian Federation displays certain characteristics of an emerging market. The legal, tax and regulatory frameworks continue to develop and are subject to frequent changes and varying interpretations. Its economy is particularly sensitive to oil and gas prices. The Russian economy is susceptible also to the ongoing political tension in the region and international sanctions against certain Russian companies and individuals.

These matters may have significant impact on the Group's future operations and financial position, the effect of which is difficult to predict. The future economic and regulatory situation and its impact on the Group's operations may differ from management's current expectations. Additionally, certain economic factors, including contraction of real incomes of households, reduced corporate liquidity and profitability and increased corporate and personal insolvencies, may affect the Group's borrowers' ability to repay the amounts due to the Group.

Adverse changes in economic conditions may result in deterioration in the value of collateral held against loans and other obligations. The Group considered available current macro-economic information in its impairment assessments.

As of 31 December 2017 and 31 December 2016, select Russian macro-economic indicators were as follows:

(1) the CBR key interest rate was 7.75% p.a. and 10.0% p.a., respectively;

(2) the CBR foreign exchange rate was RUR 57.6002 per USD 1 and RUR 60.6569 per USD 1, respectively.

Ukraine

In 2014 and 2015, the economic and political situation in Ukraine deteriorated significantly. As a result, Ukraine has experienced a fall in gross domestic product, a significant negative balance of payments and a sharp reduction in foreign currency reserves. The National Bank of Ukraine imposed certain restrictions on foreign currency operations. Restrictions have also been introduced for certain cross-border settlements, including payments of dividends. International rating agencies have downgraded sovereign debt ratings for Ukraine.

While the monetary restrictions are being phased out gradually and the gross domestic product trends stabilised recently, the aforementioned factors still impacted the operating environment in 2017 to a considerable degree.

Effective March 2017, the Group's Ukraine-based two subsidiary banks (PJSC VTB Bank and PJSC BM) are subject to special targeted sanctions which were imposed for a one-year period and prohibit capital transfers outside the territory of Ukraine for the benefit of any affiliated entities, including loans and deposits to and repayment of loans and deposits from affiliated entities, acquisition of securities, dividend and interest payments, profit distribution and return of capital.
As at 31 December 2017, the Group's exposure to its Ukraine-based subsidiary banks included RUR 6.8 billion of the net assets of these subsidiary banks, excluding intergroup loans, deposits and other receivables from these subsidiary banks to other Group entities, and RUR 16.7 billion of net negative currency translation balances related to the operations of these subsidiaries and recorded in the Group's equity.

The combination of the above events has resulted in tighter credit conditions and deterioration of asset quality. Further significant negative developments in Ukraine could adversely impact the results and financial position of the Group and of the Group's Ukrainian subsidiaries in a manner not currently determinable.

Other jurisdictions

In addition to Russia, the Group conducts operations in Belarus, Kazakhstan, Azerbaijan, Armenia and Georgia, certain European countries (Austria, Germany, France, Great Britain and Serbia) and several other countries. Difficult economic and financial market situation in certain of these jurisdictions led to a decrease or negative growth of GDP, currency devaluation, reduced consumption, as well as a decline in investment activities.

Sectorial sanctions

Since the second half of 2014 the Group operates under limited sectorial sanctions imposed by several countries on the Group. The Group considers these sanctions in its activities, continuously monitors them and analyses the effect of the sanctions on the Group's financial position and its financial performance.

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

42. FINANCIAL AND INSURANCE RISK MANAGEMENT

The Group is exposed to financial risks, including credit, liquidity and market risks. Assumption of insurance risks in VTB Group is mainly related to the activity of insurance companies in the Group, in particular, VTB Insurance".

According with "VTB Group Consolidated Risk Management Concept" and the Group's business model risk management system of VTB Group has a matrix structure which:

- includes local (at the Company Group level) and consolidated (at the Group level in general) levels of risk management with a high degree of centralization of a group function of a risk management;
- is structured in the context of global business lines of the Group (corporate and investment business, medium and small business, retail business) and its risk specifics and also broken down by types of risk.

Risk management organization structure in VTB Group includes:

- collegial bodies (committees) of the Group;
- central office (chief risk manager of the Group and risk competence centres of the Group);
- local governing bodies, working collegial bodies (committees), structural divisions / authorized officers of the Group's participants.

In each bank of VTB Group risks are managed by the appropriate authorities, primary by Supervisory Council (Board of Directors) and Management Board. The standard organizational structure of VTB Group's banks includes a Chief Risk Officer and one or several Risk divisions responsible for risk management. In the subsidiary financial companies whose activity implies exposure to financial risks (such as "VTB Leasing", "VTB Factoring" and "VTB Capital") the general principles of risk management organization are the same as in banks of Group. Insurance risk is managed specifically by risk management function in insurance companies, members of VTB Group.

The consolidated risk management function of VTB Group is centralised and is carried out by VTB Bank. The main divisions responsible for risk management at the level of Group in VTB Bank organizational structure are Risk Department, Retail Credit Risks Department (founded according to decision taken in 2017) and Financial Department.

VTB Bank' Supervisory Council according to requirements of the Bank of Russia carries out risk management functions of Group (in particular, approves and regularly reconsiders the risk and capital management strategy of the Group, including key risk appetite parameters, considers regular significant risks and capital adequacy of the Group and its participant's reports).

The Management Board of VTB bank has overall responsibility for risk management at VTB Group.

Additionally on the Group level a number of collegial bodies performs day-to-day coordination of consolidated risk management activities. General supervision of risk management in the Group's participants is executed by the Group Management Committee ("GMC").

Being a high-level Group's management coordination body, GMC takes decisions in the area of the Group's risk management policies and procedures based on delegated powers. Decisions and recommendations of the GMC are basis for the respective management decisions of VTB Group's participants.

Risk management methodological and operational issues are considered by special committees / coordination commissions under GMC and authorized divisions / risk competence centres of the Group.

The Group Risk Committee ("GRC") functions under the GMC. The principal tasks of the GRC include:

- setting of priorities, the development, approval and implementation of the group-wide documents (methodologies, regulations) defining risk management methods (approaches, standards) in VTB Group;
- development of the system of aggregated limitations (limits, internal ratios, target goals), including the existing risk appetite control system in the VTB Group;
- regular review (monitoring, analysis) of the current profile and the level of risks assumed by the Group (within the competence of the Committee);
- elaboration and coordination of the necessary measures to be taken in the context of the current and perspective risk management in VTB Group. (including the issues concerning the development of unified risk management approaches / standards in the Group and monitoring / coordination of their implementation).

In particular, GRC is actively involved in the elaboration and monitoring of implementation of risk management strategic initiatives in VTB Group.

GRC includes:

- managers and representatives of VTB Bank's divisions involved in consolidated risk control including Risk Department, Financial Department;
- managers and representatives of VTB Bank's divisions which are responsible for global business lines;
- chief risk officers of a number key VTB Group subsidiaries.

42. FINANCIAL AND INSURANCE RISK MANAGEMENT (CONTINUED)

The Commission on the Implementation of Risk Management Methods and Business Continuity Management in VTB Group functions under the GRC. Its responsibilities include:

- coordination of work and consideration of the proposals of the Group companies concerning implementation of effective risk management methods and procedures in the VTB Group;
- creation of conditions to optimize the interaction of VTB Bank and its subsidiaries in respect of the risk function in the VTB Group;
- establishment of a general information and methodological platform for risk management operating processes within the Group, including the issues of coordination of project activities of VTB Bank and subsidiary companies and issues of business continuity in VTB Group companies;
- assessment of responses to non-standard and emergency situations in VTB Group companies;
- coordination and control of the recovery of critical activities of VTB Group, as a result of non-standard and emergency situations.

The Retail Risks Committee of VTB Group functions under GMC, its main responsibilities include:

- ensuring a development of general approaches and methods of retail risks management, its estimation on the centralized, systematic basis within Group standards, which are defined by GMC and GRC;
- optimisation of structure of retail risks taken by the Group (including in the context of its compliance to the Group risk appetite and distribution between the Group' companies and also between the business areas) under GMC and GRC decision.

The International CIB Risk Management Committee was formed under GMC in 2017, its main responsibilities include:

- unification of approaches to risk management in International CIB companies in accordance with VTB Group requirements and international best practices;
- centralisation of International CIB risk management and increasing the efficiency of risk management divisions by eliminating duplication of functions and internal arbitration between International CIB companies;
- ensuring unification of IT infrastructure for International CIB risk management.

Information on other committees and coordination commissions under GMC (credit committees; assets and liabilities management committee) of financial risks management of VTB Group is disclosed below in sections by types of risks.

One of the key approaches to VTB Group' financial risks management is ensuring VTB Group activities with respect to the risk-appetite.

VTB Group risk-appetite is a system of quantitative and quality measures, which defines a target aggregated level / risk profile that VTB Group is capable and/or willing to accept taking into account requirements of interested parties (shareholders, regulators, the management, rating agencies, investors) in order to achieve the established strategic goals.

CREDIT RISK

Credit risk means the risk of Group' losses, reduction of revenue and /or extra costs arising from non-performance or improper performance of financial obligations by counterparty to Group companies according to terms of the contract.

VTB Group's exposures to credit risk arise principally from banking activities such as granting loans to corporate and retail customers, interbank lending, issuance of unpaid letters of credit and guarantees, securities and derivative financial instruments business and leasing business.

Credit risk management within the VTB Group is based on a combination of the following approaches:

- local credit risk management at the level of individual Group members;
- consolidated credit risk management at the Group level.

As part of the local credit risk management system, the Group members assume and manage credit risks independently (including insurance, hedging, etc.) in the scope of the established powers and limits with regard to risk indicators, in accordance with the national regulations and the standards of the Group. The Group members are responsible for the results of their lending activity, for the quality of their loan portfolios and for monitoring and control of credit risk level in their portfolios.

As per the "VTB Group Consolidated Risk Management Concept", adopted by the GMC, the consolidated credit risk management comprises the following functions:

- consideration and approval of the Group-wide strategy, policies, unified basic principles and approaches related to the lending / investment activities and credit risk management;
- control of the current credit risk level (concentration) on a consolidated basis and elaboration of the necessary measures to mitigate risks (potential losses).

Consolidated credit risk management covers the main types of assets and off-balance sheet (contingent) exposures of the Group members, which bear credit risk and require control of their concentration at the Group level. In the context of consolidated control and reporting the scope and parameters of such operations are defined by the co-coordinating bodies of the Group.

42. FINANCIAL AND INSURANCE RISK MANAGEMENT (CONTINUED)

CREDIT RISK (CONTINUED)

The key elements of consolidated credit risk management in the VTB Group are as follows:

- periodic review of the credit risk policies of the VTB Group, harmonising and streamlining of credit policies of the subsidiaries with the Group's credit policy;
- setting of consolidated limits, portfolio limits (including limits on common counterparties / groups of related counterparties, countries, industry sectors), internal indicative limitations of large credit exposure;
- unifying credit procedures and methods of credit risk assessment (credit rating systems – for corporate customers and financial institutions, and also rating (scoring) systems – for retail customers);
- optimization of business procedures for problem (low-quality) assets, incl. with the involvement of the third parties on the terms and conditions of the contract in compliance with current legislation;
- improving the credit decision system quality;
- unification and standardization of the technological processes of credit products production and realization with "mass" credit conditions;
- assessment of economic capital (Capital-at-Risk) sufficient to cover Group credit risks;
- consolidated analytical reporting on credit risks;
- stress-testing;
- making/monitoring loss impairment provisions according to IFRS.

The Group-wide policies and other documents, which are adopted by the GMC and its relevant sub-committees, outline the main approaches and standards of risk management and organisation of credit operations in the Group. These principles should be complied with by each subsidiary bank and separate financial companies of the Group. The Group's credit policy covers, particularly, the following areas:

- roles and responsibilities of different bodies and divisions in the area of Group lending and credit risk management;
- regulations related to the approval and revision of credit policies in VTB subsidiary banks;
- Group-wide uniform basic methods, models, approaches to credit risk assessment and management;
- principles of pricing policy (interest rates and commissions), security policy and others.

Subsidiary banks should implement credit risk management system as well as credit policies and procedures in compliance with the Group's standards.

Credit risk policies are adopted by each subsidiary bank and are subject to a regular review, usually once in one or two years

The general (typical) procedure for adopting credit policies is as follows:

- the draft credit policies or significant amendments are subject to the preliminary consideration and agreement by VTB bank;
- the credit policies and amendments should be approved by the Supervisory Council (Board of Directors) of the subsidiary bank;
- VTB bank may propose amendments to the credit policies of a subsidiary bank as part of centralised regulation and credit risk control for the Group, provided that such amendments are in line with local regulations.

The authorities of management and executive bodies of the Group members in relation to decision making and lending transactions are determined by their constituent documents and applicable statutory legislation. On a Group-wide basis credit risk management is overseen and co-ordinated by the following collegiate bodies:

- the GMC;
- the GRC and its Commission on the Implementation of Risk Management Methods;
- VTB Group Retail Risk Committee (RRC).
- VTB Group Corporate Investment Business Credit Committee ("GCIBCC"),
- VTB Group Medium Business Credit Committee ("GMBCC").

GCIBCC and GMBCC are permanent collective decision-making (relevant to Corporate Investment Business Global line and Medium Business Global line customers respectively) committees under the GMC. GCIBCC chaired by the acting Head of VTB Risk Department (the VTB Bank Management Board Member responsible for the group-wide risk management) and GMBCC chaired by RD representative and includes representatives of divisions (Risk, Legal, Corporate Business Support, Investment Banking, Treasury etc.). The key tasks of this committee are as follows:

- taking decisions on VTB Group risk concentration policy (relevant to Corporate Investment Business Global line and Medium Business Global line customers respectively);
- setting consolidated limits for the credit risk;
- consideration of some individual operations and large-scale transactions of Group members.

RRC is a permanent working collective advisory committee under the GMC. RRC was formed in the context of consolidated retail risk management system development in VTB Group. The key tasks of this committee are as follows:

- setting of priorities, principles and approaches for retail risk management within VTB Group standards;
- approval and monitoring of risk appetite indicators for retail risks in the VTB Group, including the relevant issues for the purposes of strategic and business planning;
- regular review (monitoring, analysis) of the current profile and the level of retail risks assumed by the Group;
- development of the standards for the assessment of borrowers trustworthiness.

42. FINANCIAL AND INSURANCE RISK MANAGEMENT (CONTINUED)

CREDIT RISK (CONTINUED)

VTB Group is set to reduce the risk factors related to loan concentration per separate large corporate customers / group of related customers and to ensure credit risk diversification. For this purpose the benchmark for the share of VTB Group largest borrowers in Group's corporate loan portfolio is set. VTB Group Companies are recommended to determine reasonable local levels of similar benchmarks within their local credit policies/ risk strategies, based on the Group's acceptable credit risk concentration target.

In VTB Bank the Risk Department (RD) is responsible for corporate credit risk management on a Group-wide basis including development of credit risk management system, relevant Group data consolidation and consolidated limits monitoring.

Retail Credit Risk Department (RCRD) coordinates retail credit risk management across the Group and is responsible for:

- developing systems of retail credit risk limits;
- developing standards of monitoring and reporting of retail credit risks (methodology and formats);
- consolidating reports on retail lending of the Group;
- monitoring performance and management of retail loan portfolios across the Group.

The VTB subsidiary banks, which engage in retail credit granting, apply the "Basic statements of retail credit risk management in the VTB Group", other group-wide documents (in the field of retail risk management) and Credit policies applicable to VTB Group retail lending, approved by the GMC.

Credit risk monitoring at the Group level is supported by regular reporting from subsidiaries to the RD and RCRD for assessing of credit risk exposures on a consolidated basis.

Credit quality by class of due from other banks

Credit quality of due from other banks (gross), which are neither past due nor impaired at 31 December 2017 and 31 December 2016 is presented in the table below:

	2017		2016	
	Individually assessed	Collectively assessed	Individually assessed	Collectively assessed
Due from other banks	**99.1**	**719.8**	181.3	853.1
Russia	58.2	280.2	105.2	456.3
OECD	24.2	51.3	40.9	51.4
Other countries	16.7	388.3	35.2	345.4
Due from other banks pledged under repurchase agreements	–	–	–	13.8
Russia	–	–	–	13.8
Total due from other banks (gross) neither past due nor impaired	**99.1**	**719.8**	**181.3**	**866.9**

Not impaired individually assessed amounts due from other banks are subsequently included in the pools of collectively assessed loans.

42. FINANCIAL AND INSURANCE RISK MANAGEMENT (CONTINUED)

CREDIT RISK (CONTINUED)

Credit quality by class of debt securities

Credit quality of debt securities, which are neither past due nor impaired is presented in accordance with the long-term credit rating as presented below:

A rated			B (I) rated			B (II) rated			C rated		
Standard & Poor's	Moody's	Fitch IBCA	Standard & Poor's	Moody's	Fitch IBCA	Standard & Poor's	Moody's	Fitch IBCA	Standard & Poor's	Moody's	Fitch IBCA
AAA	Aaa	AAA	BBB+	Baa1	BBB+	BB+	Ba1	BB+	CCC+	Caa1	CCC+
AA+	Aa1	AA+	BBB	Baa2	BBB	BB	Ba2	BB	CCC	Caa2	CCC
AA	Aa2	AA	BBB-	Baa3	BBB-	BB-	Ba3	BB-	CCC-	Caa3	CCC-
AA-	Aa3	AA-				B+	B1	B+	CC	Ca	CC
A+	A1	A+				B	B2	B	C	C	C
A	A2	A				B-	B3	B-	D		D
A-	A3	A-									

Credit quality of debt securities at fair value through profit or loss, which are neither past due nor impaired at 31 December 2017, is presented in the tables below:

	A rated	B (I) rated	B (II) rated	C rated	Unrated	Total
Debt securities held for trading						
• Bonds and eurobonds of Russian companies and banks	–	40.4	107.1	–	5.0	**152.5**
• Bonds of the Central Bank of the Russian Federation	–	–	–	–	36.0	**36.0**
• Bonds and eurobonds of the Russian Federation	–	34.7	0.3	–	0.1	**35.1**
• Bonds and eurobonds of foreign governments	12.5	3.9	0.8	–	–	**17.2**
• Bonds and eurobonds of foreign companies and banks	6.2	1.2	2.0	0.1	1.7	**11.2**
• Russian municipal bonds	–	0.1	6.7	–	–	**6.8**
Debt securities held for trading, pledged under repurchase agreements						
• Bonds and eurobonds of the Russian Federation	–	0.1	–	–	–	**0.1**
Total neither past due nor impaired debt securities held for trading	**18.7**	**80.4**	**116.9**	**0.1**	**42.8**	**258.9**
Debt securities designated as at fair value through profit or loss						
• Bonds and eurobonds of foreign companies and banks	–	–	–	–	0.3	**0.3**
Total neither past due nor impaired debt securities designated as at fair value through profit or loss	**–**	**–**	**–**	**–**	**0.3**	**0.3**

Credit quality of debt securities at fair value through profit or loss, which are neither past due nor impaired at 31 December 2016, is presented in the tables below:

	A rated	B (I) rated	B (II) rated	C rated	Unrated	Total
Debt securities held for trading						
• Bonds and eurobonds of Russian companies and banks	–	21.2	80.1	0.6	10.4	**112.3**
• Bonds and eurobonds of foreign governments	18.8	8.1	1.2	–	0.4	**28.5**
• Bonds and eurobonds of the Russian Federation	–	25.3	1.0	–	–	**26.3**
• Bonds and eurobonds of foreign companies and banks	7.0	2.3	3.5	1.2	0.4	**14.4**
• Russian municipal bonds	–	–	6.6	–	0.2	**6.8**
Debt securities held for trading, pledged under repurchase agreements						
• Bonds and eurobonds of Russian companies and banks	–	0.2	18.6	–	–	**18.8**
• Bonds and eurobonds of foreign governments	–	5.3	–	–	–	**5.3**
• Bonds and eurobonds of the Russian Federation	–	2.2	–	–	–	**2.2**
Total neither past due nor impaired debt securities held for trading	**25.8**	**64.6**	**111.0**	**1.8**	**11.4**	**214.6**
Debt securities designated as at fair value through profit or loss						
• Bonds and eurobonds of foreign companies and banks	–	–	–	–	0.5	**0.5**
Total neither past due nor impaired debt securities designated as at fair value through profit or loss	**–**	**–**	**–**	**–**	**0.5**	**0.5**

42. FINANCIAL AND INSURANCE RISK MANAGEMENT (CONTINUED)

CREDIT RISK (CONTINUED)

Credit quality by class of debt securities (continued)

Credit quality of investment debt securities which are neither past due nor impaired at 31 December 2017 is presented in the tables below:

	A rated	B (I) rated	B (II) rated	C rated	Unrated	Total
Investment debt securities available-for-sale						
• Bonds and eurobonds of the Russian Federation	–	210.3	–	–	–	**210.3**
• Bonds and eurobonds of foreign governments	51.6	–	4.1	–	0.9	**56.6**
• Bonds and eurobonds of Russian companies and banks	–	0.1	1.3	–	3.4	**4.8**
• Russian municipal bonds	–	–	0.6	–	0.4	**1.0**
Investment debt securities available-for-sale, pledged under repurchase agreements						
• Bonds and eurobonds of Russian companies and banks						
• Bonds and eurobonds of foreign governments	–	–	0.4	–	–	**0.4**
Total neither past due nor impaired investment debt securities available-for-sale	**–**	**–**	**0.4**	**–**	**–**	**0.4**
Total neither past due nor impaired investment debt securities held-to-maturity, including pledged under repurchase agreements	**51.6**	**210.4**	**6.4**	**–**	**4.7**	**273.1**

Credit quality of investment debt securities which are neither past due nor impaired at 31 December 2016 is presented in the tables below:

	A rated	B (I) rated	B (II) rated	C rated	Unrated	Total
Investment debt securities available-for-sale						
• Bonds and eurobonds of the Russian Federation	–	71.3	–	–	–	**71.3**
• Bonds and eurobonds of foreign governments	48.9	–	2.0	2.9	2.2	**56.0**
• Bonds and eurobonds of foreign companies and banks	1.3	–	–	–	11.5	**12.8**
• Bonds and eurobonds of Russian companies and banks	–	5.0	0.5	–	3.4	**8.9**
• Russian municipal bonds	–	–	1.2	–	0.5	**1.7**
• Promissory notes of Russian companies and banks	–	–	–	–	0.2	**0.2**
Investment debt securities available-for-sale, pledged under repurchase agreements						
• Bonds and eurobonds of Russian companies and banks	–	–	1.6	–	–	**1.6**
• Bonds and eurobonds of foreign governments	–	–	–	–	0.4	**0.4**
Total neither past due nor impaired investment debt securities available-for-sale	**50.2**	**76.3**	**5.3**	**2.9**	**18.2**	**152.9**
Investment debt securities held-to-maturity						
• Bonds and eurobonds of the Russian Federation	–	77.4	–	–	–	**77.4**
• Bonds and eurobonds of Russian companies and banks	–	36.2	22.4	–	–	**58.6**
• Bonds and eurobonds of foreign governments	–	–	0.7	–	0.1	**0.8**
Investment debt securities held-to-maturity, pledged under repurchase agreements						
• Bonds and eurobonds of Russian companies and banks	–	–	11.3	–	–	**11.3**
• Bonds and eurobonds of the Russian Federation	–	3.2	–	–	–	**3.2**
Total neither past due nor impaired investment debt securities held-to-maturity	**–**	**116.8**	**34.4**	**–**	**0.1**	**151.3**

42. FINANCIAL AND INSURANCE RISK MANAGEMENT (CONTINUED)

CREDIT RISK (CONTINUED)

Maximum credit risk exposure

The following table discloses the Group's maximum credit risk exposure:

	2017	2016
Balance sheet exposure:		
Cash and short-term funds (excluding cash on hand)	483.9	315.0
Trading credit products at fair value through profit or loss	4.8	3.5
Debt securities	550.8	542.2
Financial assets held for trading	258.8	188.6
• debt securities of Russian companies and banks	152.5	112.6
• debt securities of Russian Federal and municipal authorities	77.9	33.1
• debt securities of foreign government and municipal authorities	17.2	28.5
• debt securities of foreign companies and banks	11.2	14.4
Financial assets held for trading, pledged under repurchase agreements	0.1	26.3
• debt securities of Russian Federal and municipal authorities	0.1	2.2
• debt securities of Russian companies and banks	–	18.8
• debt securities of foreign government and municipal authorities	–	5.3
Financial assets designated as at fair value through profit or loss	18.8	19.8
• reverse sale and repurchase agreements to maturity	18.5	19.3
• debt securities of foreign companies and banks	0.3	0.5
Investment financial assets available-for-sale	272.7	154.2
• debt securities of Russian Federal and municipal authorities	211.3	73.0
• debt securities of foreign government and municipal authorities	56.6	56.0
• debt securities of Russian companies and banks	4.8	9.1
• debt securities of foreign companies and banks	–	16.1
Investment financial assets available-for-sale, pledged under repurchase agreements	0.4	2.0
• debt securities of foreign government and municipal authorities	0.4	0.4
• debt securities of Russian companies and banks	–	1.6
Investment financial assets held-to-maturity	–	136.8
• debt securities of Russian Federal and municipal authorities	–	77.4
• debt securities of Russian companies and banks	–	58.6
• debt securities of foreign government and municipal authorities	–	0.8
Investment financial assets held-to-maturity, pledged under repurchase agreements	–	14.5
• debt securities of Russian companies and banks	–	11.3
• debt securities of Russian Federal and municipal authorities	–	3.2
Due from other banks	835.0	1,051.2
Due from other banks	835.0	1,037.4
• Other countries	405.8	381.3
• Russia	353.8	563.9
• OECD	75.4	92.2
Due to other banks pledged under repurchase agreements	–	13.8
• Russia	–	13.8
Loans and advances to customers	9,171.4	8,854.5
Loans to legal entities	6,849.1	6,674.8
• Current activity financing	4,667.9	4,646.6
• Project finance and other	1,578.2	1,443.4
• Reverse sale and repurchase agreements	369.7	369.3
• Finance leases	233.3	215.5
Loans to individuals	2,322.3	1,990.0
• Mortgages	1,084.8	981.7
• Consumer loans and other	1,030.9	818.1
• Credit cards	105.6	105.0
• Car loans	93.2	79.4
• Reverse sale and repurchase agreements	7.8	5.8
Loans and advances to customers pledged under repurchase agreements	–	189.7
• Current activity financing	–	189.7
Exposure arising from credit default swaps	0.8	0.9
• CDS protection sold	0.7	0.8
• CDS protection purchased	0.1	0.1
Other financial assets	65.6	54.0
Total balance sheet exposure	**11,112.3**	**10,821.3**

42. FINANCIAL AND INSURANCE RISK MANAGEMENT (CONTINUED)

CREDIT RISK (CONTINUED)

Maximum credit risk exposure (continued)

	2017	2016
Off-balance sheet exposure:		
Guarantees issued	966.9	652.5
Import letters of credit	46.4	60.7
Undrawn credit lines	21.4	16.1
Commitments to extend credit	3.7	6.6
Total off-balance sheet exposure	**1,038.4**	**735.9**
Total maximum exposure to credit risk	**12,150.7**	**11,557.2**

Where financial instruments are recorded at fair value the amounts shown above represent the current credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in values.

Credit quality by class of loans and advances to customers

The credit quality of loans and advances to customers is presented according to five categories:

- Pass – provision rate from 0% to 2%;
- Watch – provision rate from 2% to 5%;
- Substandard – provision rate from 5% to 20%;
- Doubtful – provision rate from 20% to 50%;
- Loss – provision rate from 50% to 100%.

The Group defines impaired loans as loans included into categories Doubtful and Loss.

Provision rate represents the weighted ratio of allowance for impairment to gross loans under each pool of loans with similar credit risk or individually impaired loan.

The table below shows credit quality by class of loans and advances to customers (gross) at 31 December 2017, individually assessed. For individually assessed loans if no impairment had been recognised as a result of individual assessment the allowance was calculated on a collective basis.

	Not impaired			Impaired		
	Pass	Watch	Sub-standard	Doubtful	Loss	Total
Loans to legal entities	**249.9**	**19.4**	**540.1**	**122.7**	**330.6**	**1,262.7**
Current activity financing	76.0	19.3	140.7	88.7	255.0	**579.7**
Project finance and other	137.0	–	386.7	17.7	61.4	**602.8**
Reverse sale and repurchase agreements	29.5	–	–	–	–	**29.5**
Finance leases	7.4	0.1	12.7	16.3	14.2	**50.7**
Loans to individuals	**0.7**	**0.1**	**0.4**	**0.1**	**3.4**	**4.7**
Mortgages	0.1	0.1	0.4	0.1	2.5	**3.2**
Consumer loans and other	0.6	–	–	–	0.6	**1.2**
Credit cards	–	–	–	–	0.1	**0.1**
Car loans	–	–	–	–	0.2	**0.2**
Total loans and advances to customers individually assessed	**250.6**	**19.5**	**540.5**	**122.8**	**334.0**	**1,267.4**

The table below shows credit quality by class of loans and advances to customers (gross) at 31 December 2017, collectively assessed.

	Not impaired			Impaired		
	Pass	Watch	Sub-standard	Doubtful	Loss	Total
Loans to legal entities	**5 344.5**	**507.2**	**137.3**	**13.7**	**21.1**	**6 023.8**
Current activity financing	3 889.0	369.2	103.8	12.4	20.8	4 395.2
Project finance and other	935.8	130.0	17.5	0.1	0.2	**1,083.6**
Reverse sale and repurchase agreements	335.4	5.3	–	–	–	**340.7**
Finance leases	184.3	2.7	16.0	1.2	0.1	**204.3**
Loans to individuals	**2,271.3**	**7.3**	**18.7**	**22.9**	**161.4**	**2,481.6**
Mortgages	1,072.9	2.3	3.6	7.7	5.0	**1,091.5**
Consumer loans and other	1,000.1	3.1	12.0	13.3	123.7	**1,152.2**
Credit cards	100.0	1.5	2.3	1.2	22.4	**127.4**
Car loans	90.5	0.4	0.8	0.7	10.3	**102.7**
Reverse sale and repurchase agreements	7.8	–	–	–	–	**7.8**
Total loans and advances to customers collectively assessed	**7 615.8**	**514.5**	**156.0**	**36.6**	**182.5**	**8 505.4**

42. FINANCIAL AND INSURANCE RISK MANAGEMENT (CONTINUED)

CREDIT RISK (CONTINUED)

Credit quality by class of loans and advances to customers (continued)

The table below shows credit quality by class of loans and advances to customers (gross) at 31 December 2016, individually assessed. For individually assessed loans if no impairment had been recognised as a result of individual assessment the allowance was calculated on a collective basis.

	Not impaired			Impaired		
	Pass	Watch	Sub-standard	Doubtful	Loss	Total
Loans to legal entities	**338.8**	**39.8**	**264.6**	**166.9**	**326.9**	**1,137.0**
Current activity financing	175.0	35.1	96.0	107.8	254.1	**668.0**
Project finance and other	152.0	0.1	156.8	37.5	58.9	**405.3**
Reverse sale and repurchase agreements	3.9	–	–	–	–	**3.9**
Finance leases	7.9	4.6	11.8	21.6	13.9	**59.8**
Loans and advances to customers pledged under repurchase agreements	**2.9**	**–**	**–**	**–**	**–**	**2.9**
Current activity financing	2.9	–	–	–	–	**2.9**
Loans to individuals	**0.1**	**–**	**0.1**	**0.6**	**9.8**	**10.6**
Mortgages	–	–	–	0.4	8.1	**8.5**
Consumer loans and other	0.1	–	0.1	0.1	1.4	**1.7**
Credit cards	–	–	–	0.1	0.1	**0.2**
Car loans	–	–	–	–	0.2	**0.2**
Total loans and advances to customers individually assessed	**341.8**	**39.8**	**264.7**	**167.5**	**336.7**	**1,150.5**

The table below shows credit quality by class of loans and advances to customers (gross) at 31 December 2016, collectively assessed.

	Not impaired			Impaired		
	Pass	Watch	Sub-standard	Doubtful	Loss	Total
Loans to legal entities	**5,105.7**	**737.3**	**96.4**	**13.0**	**31.9**	**5,984.3**
Current activity financing	3,892.4	308.0	48.2	9.1	31.5	**4,289.2**
Project finance and other	693.3	424.8	29.2	0.1	0.3	**1,147.7**
Reverse sale and repurchase agreements	362.5	3.0	–	–	–	**365.5**
Finance leases	157.5	1.5	19.0	3.8	0.1	**181.9**
Loans and advances to customers pledged under repurchase agreements	**187.2**	**–**	**–**	**–**	**–**	**187.2**
Current activity financing	187.2	–	–	–	–	**187.2**
Loans to individuals	**1,930.9**	**8.9**	**18.1**	**25.1**	**182.0**	**2,165.0**
Mortgages	969.5	2.1	3.2	8.8	5.6	**989.2**
Consumer loans and other	782.1	4.9	11.0	13.0	142.3	**953.3**
Credit cards	98.1	1.2	2.5	2.1	23.5	**127.4**
Car loans	75.4	0.7	1.4	1.2	10.6	**89.3**
Reverse sale and repurchase agreements	5.8	–	–	–	–	**5.8**
Total loans and advances to customers collectively assessed	**7,223.8**	**746.2**	**114.5**	**38.1**	**213.9**	**8,336.5**

The table below shows credit quality by class of loans and advances to customers (gross) at 31 December 2017, neither past due nor impaired.

	Pass	Watch	Sub-standard	Total
Loans to legal entities	**5 571.5**	**504.9**	**629.1**	**6 705.5**
Current activity financing	3 944.7	367.0	199.8	**4 511.5**
Project finance and other	1,072.4	129.9	403.7	**1,606.0**
Reverse sale and repurchase agreements	364.9	5.3	–	**370.2**
Finance leases	189.5	2.7	25.6	**217.8**
Loans to individuals	**2,247.3**	**4.7**	**0.2**	**2,252.2**
Mortgages	1,056.9	0.7	–	**1,057.6**
Consumer loans and other	994.2	2.6	0.1	**996.9**
Credit cards	99.1	1.4	–	**100.5**
Car loans	89.3	–	0.1	**89.4**
Reverse sale and repurchase agreements	7.8	–	–	**7.8**
Total loans and advances to customers	**7 818.8**	**509.6**	**629.3**	**8 957.7**

42. FINANCIAL AND INSURANCE RISK MANAGEMENT (CONTINUED)

CREDIT RISK (CONTINUED)

Credit quality by class of loans and advances to customers (continued)

The table below shows credit quality by class of loans and advances to customers (gross) at 31 December 2016, neither past due nor impaired.

	Pass	Watch	Sub-standard	Total
Loans to legal entities	**5,316.2**	**707.5**	**321.5**	**6,345.2**
Current activity financing	4,024.6	294.6	120.2	**4,439.4**
Project finance and other	767.0	407.0	182.2	**1,356.2**
Reverse sale and repurchase agreements	366.4	3.0	–	**369.4**
Finance leases	158.2	2.9	19.1	**180.2**
Loans and advances to customers pledged under repurchase agreements	**190.1**	**–**	**–**	**190.1**
Current activity financing	190.1	–	–	**190.1**
Loans to individuals	1,904.0	5.7	0.6	**1,910.3**
Mortgages	955.8	–	–	**955.8**
Consumer loans and other	771.5	4.2	0.3	**776.0**
Credit cards	97.1	1.0	0.1	**98.2**
Car loans	73.8	0.5	0.2	**74.5**
Reverse sale and repurchase agreements	5.8	–	–	**5.8**
Total loans and advances to customers	**7,410.3**	**713.2**	**322.1**	**8,445.6**

Analysis of loans and advances to customers (gross) individually impaired by economic sector at 31 December 2017 and 2016, is presented in the table below.

	2017	2016
Building construction	118.7	118.5
Finance	63.5	82.3
Manufacturing	51.7	37.2
Trade and commerce	44.2	52.6
Energy	39.7	63.8
Transport	39.8	41.0
Food and agriculture	30.3	17.8
Metals	22.4	33.4
Telecommunications and media	17.0	16.2
Oil and gas	6.6	8.9
Chemical	6.4	14.1
Individuals	3.5	10.4
Government bodies	0.1	–
Other	12.9	8.0
Total loans and advances to customers individually impaired	**456.8**	**504.2**

As at 31 December 2017, the Group has a pool of collectively assessed impaired loans and advances in the amount of RUR 219.1 billion (31 December 2016: RUR 252.1 billion).

Ageing analysis (by days of delay in repayment) of past due, but not impaired loans and advances to customers (gross) by class at 31 December 2017, is presented in the table below.

	From 1 to 30 days	From 31 to 60 days	From 61 to 90 days	From 91 to 180 days	From 181 days to 1 year	More than 1 year	Total
Loans to legal entities	**22.4**	**3.1**	**0.7**	**4.5**	**7.0**	**55.2**	**92.9**
Current activity financing	20.8	2.0	0.6	4.5	4.8	53.8	**86.5**
Project finance and other	–	0.5	–	–	–	0.5	**1.0**
Finance leases	1.6	0.6	0.1	–	2.2	0.9	**5.4**
Loans to individuals	**35.6**	**4.8**	**2.1**	**2.7**	**1.0**	**0.1**	**46.3**
Mortgages	14.4	2.1	1.8	2.4	1.0	0.1	**21.8**
Consumer loans and other	16.4	2.3	0.1	0.1	–	–	**18.9**
Credit cards	3.2	0.1	–	–	–	–	**3.3**
Car loans	1.6	0.3	0.2	0.2	–	–	**2.3**
Total loans and advances to customers past due but not impaired	**58.0**	**7.9**	**2.8**	**7.2**	**8.0**	**55.3**	**139.2**

42. FINANCIAL AND INSURANCE RISK MANAGEMENT (CONTINUED)

CREDIT RISK (CONTINUED)

Credit quality by class of loans and advances to customers (continued)

Ageing analysis (by days of delay in repayment) of past due, but not impaired loans and advances to customers (gross) by class at 31 December 2016 is presented in the table below.

	From 1 to 30 days	From 31 to 60 days	From 61 to 90 days	From 91 to 180 days	From 181 days to 1 year	More than 1 year	Total
Loans to legal entities	**50.1**	**6.8**	**8.8**	**2.6**	**54.5**	**114.6**	**237.4**
Current activity financing	24.1	4.2	1.3	2.0	50.8	32.9	**115.3**
Project finance and other	18.2	0.2	–	0.5	0.5	80.6	**100.0**
Finance leases	7.8	2.4	7.5	0.1	3.2	1.1	**22.1**
Loans to individuals	**36.4**	**5.8**	**2.0**	**2.9**	**0.7**	**–**	**47.8**
Mortgages	12.9	1.9	1.2	2.3	0.7	–	**19.0**
Consumer loans and other	17.9	3.2	0.6	0.5	–	–	**22.2**
Credit cards	3.4	0.2	–	–	–	–	**3.6**
Car loans	2.2	0.5	0.2	0.1	–	–	**3.0**
Total loans and advances to customers past due but not impaired	**86.5**	**12.6**	**10.8**	**5.5**	**55.2**	**114.6**	**285.2**

Collateral

The financial effect of collateral is presented below by disclosing the gross carrying value of the customer loan portfolio values separately for "over-collateralised" and "under-collateralised".

The Group defines "over-collateralised" loans as loans for which the value of collateral is above or equal 100% of the loan gross amount.

The effect of collateral at 31 December 2017 and 2016 by class is presented below:

	2017		2016	
	Over-collateralised	Under-collateralised	Over-collateralised	Under-collateralised
Loans to legal entities	**3 445.2**	**3 841.3**	**3,270.4**	**3,850.9**
Current activity financing	1 873.6	3 101.3	1,596.6	3,360.6
Project finance and other	1 021.3	665.1	1,206.4	346.6
Reverse sale and repurchase agreements	355.9	14.3	335.6	33.8
Financial lease	194.4	60.6	131.8	109.9
Loans and advances to customers pledged under repurchase agreements	**–**	**–**	**11.6**	**178.5**
Current activity financing	–	–	11.6	178.5
Loans to individuals	**1,078.8**	**1,407.5**	**1,000.8**	**1,174.8**
Mortgage	952.4	142.3	892.9	104.8
Consumer loans and other	21.1	1,132.3	15.3	939.7
Credit cards	1.2	126.3	1.7	125.9
Car loans	96.3	6.6	85.1	4.4
Reverse sale and repurchase agreements	7.8	–	5.8	–
Total loans and advances to customers	**4 524.0**	**5 248.8**	**4,282.8**	**5,204.2**

42. FINANCIAL AND INSURANCE RISK MANAGEMENT (CONTINUED)

CREDIT RISK (CONTINUED)

Collateral and other credit enhancements

Exposure to credit risk is managed, in part, by obtaining collateral and guarantees issued by state authorities, entities and individuals.

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

Collateral received by the Group from borrowers as a result of loan settlement is usually represented by real estate, financial instruments and other assets.

Securities and guarantees are also obtained from counterparties for all types of lending.

The list of acceptable forms of credit support is subject to periodical review. Different forms of credit support may be used in combination. In cases when a loan is secured by guarantees received, the Group performs an analysis of the guarantor's financial performance, except for the state authorities.

The Group has a set of requirements applicable to each form of credit support. The value of the pledged property is determined by reference to its market value taking into account a liquidity margin. The value of the assets determined for these purposes must be sufficient to recover principal, interest, commissions and expenses related to the enforcement of the pledge. A liquidity margin related to different types of pledges varies from 10% to 70%.

The valuation and acceptance of each type and item of collateral may vary depending on individual circumstances. Generally, the Group takes collateral with a view to ensure that an adequate margin is obtained and maintained throughout the term of the facility, where applicable. The appropriate department responsible for collateral assessment establishes parameters for each individual facility.

In cases where a loan is secured by a pledge, the borrower is required to insure such assets and name the Group as the beneficiary of the insurance policy. The Group takes a complex approach to pledged assets insured. It depends on the level of risk involved in the loan operation, the borrower's financial condition and the risk of loss of the pledged property.

Collateral is taken to enhance an acceptable credit proposal, rather than being used as the sole rationale for any credit approval. Where facilities are approved against security, full details, including the type, value, and the frequency of review of the security should be detailed in the Application for Credit Facility Form. Where practical, a bank officer conducts inspection the physical existence of collateral offered.

The Group reassesses the fair value of pledged property with frequency stated for each form of pledge and, if necessary, requires additional collateral or other acceptable forms of credit support.

Collateral repossessed

The Group's policy is to dispose of repossessed properties in accordance with the established internal and legal procedures. The proceeds are used to reduce or repay the outstanding claim.

During 2017 and 2016 the Group obtained assets by taking possession in accordance with additional agreements with its borrowers of collateral held as security in exchange for the indebtedness of these borrowers.

The carrying values and the nature of assets received as the collateral repossessed during the relevant year are as follows:

	2017	2016
Investments in associates	26.8	–
Other assets	5.4	16.0
Investment property	2.1	5.6
Premises and equipment	–	38.3
Total collateral repossessed during the period	**34.3**	**59.9**

After finalisation of transferring procedures these assets were accounted in accordance with the Group accounting policies and included in the relevant items in the statement of financial position.

The table below shows carrying amount and the nature of the assets obtained and held as at the reporting date:

	2017	2016
Investment property	90.6	92.8
Premises and equipment	49.5	52.1
Investments in associates	25.6	–
Other assets	10.2	11.0
Investment financial assets available-for-sale	1.4	3.8
Total collateral repossessed	**177.3**	**159.7**

42. FINANCIAL AND INSURANCE RISK MANAGEMENT (CONTINUED)

MARKET RISK

Market Risk, for the purpose hereof, shall mean a risk of worsening of either the Group financial result or its capital base under the IFRS due to unfavourable changes in the value of the Group assets/liabilities affected by market indicators – risk factors.

In VTB Group Asset and Liability Management Committee ("ALCO") acts as a permanent collegial body under GMC for consolidated assets and liabilities management. The main goals of ALCO functioning are resolution of the following issues:

- VTB Group consolidated assets and liabilities management;
- VTB Group treasury risks management;
- determination of principles of internal and external pricing in VTB Group;
- determination of approaches to capital allocation by types of risks in VTB Group;
- determination of approaches to capital distribution between VTB Group companies.

The Coordination commission on management of assets and liabilities and interaction with financial institutions was formed under ALCO in 2017, its main responsibilities include:

- ensuring an effective functioning of a consistent group principles, procedures and limits system of assets and liabilities management;
- realization of an effective interaction within intragroup frames of business rules with financial institutions.

INTEREST RATE RISK EXPOSURE AND SENSITIVITY ANALYSIS

The Group is exposed to interest rate risk. Interest rate Risk – risk of financial loss (damage) due to unfavourable change in the Basic yield curve corresponding to assets, liabilities and off-balance sheet claims and commitments under the IFRS.

The RD presents to the ALCO on a monthly basis interest rate risk indicators of the Group and of individual banks of the Group, including net present value of assets and liabilities exposed to interest rate risk, Economic Capital, and sensitivity analysis of Net Interest Income as well as of present value of assets and liabilities to stress scenario of interest rates changes as well as to 100 b.p.. Valuations are made by using Kamakura Risk Manager software.

To mitigate the interest rate risk the ALCO set up limits and triggers on Economic Capital and on sensitivity of Net Interest Income to cover interest rate risk of the Group and/or of individual banks of the Group.

To mitigate interest rate risk the Treasury manages and hedges VTB's exposures by entering into interest rate derivative transactions within the limits and parameters set by the ALCO.

As at 31 December 2017, the Group has the following interest rate exposures based on information provided internally to key management personnel. Included in the table are Group's monetary assets and liabilities, categorised by the contractual repricing date.

	On demand and up to 1 month	From 1 month to 3 months	From 3 months to 6 months	From 6 months to 1 year	From 1 year to 3 years	From 3 years to 5 years	More than 5 years	Total
Assets								
Interest bearing assets								
RUR	2,074.1	574.3	602.6	707.5	1,901.7	1,007.5	1,275.6	**8,143.3**
USD	1,436.8	1,423.0	430.4	737.5	857.6	271.5	67.1	**5,223.9**
EUR	661.1	414.7	108.9	123.0	84.3	36.6	38.6	**1,467.2**
Other currencies	343.6	171.2	50.6	133.9	153.8	38.2	52.7	**944.0**
Total assets	**4,515.6**	**2,583.2**	**1,192.5**	**1,701.9**	**2,997.4**	**1,353.8**	**1,434.0**	**15,778.4**
Liabilities								
Interest bearing liabilities								
RUR	4,155.1	1,277.7	1,008.0	589.8	451.9	36.4	404.3	**7,923.2**
USD	1,348.8	970.4	493.7	598.8	1,526.6	368.5	24.9	**5,331.7**
EUR	858.5	54.5	95.7	30.8	75.6	378.0	17.2	**1,510.3**
Other currencies	396.6	167.2	29.8	190.9	110.3	1.3	34.8	**930.9**
Total liabilities	**6,759.0**	**2,469.8**	**1,627.2**	**1,410.3**	**2,164.4**	**784.2**	**481.2**	**15,696.1**
Net repricing gap	**(2,243.4)**	**113.4**	**(434.7)**	**291.6**	**833.0**	**569.6**	**952.8**	**82.3**

42. FINANCIAL AND INSURANCE RISK MANAGEMENT (CONTINUED)

INTEREST RATE RISK EXPOSURE AND SENSITIVITY ANALYSIS (CONTINUED)

As at 31 December 2016, the Group has the following interest rate exposures based on information provided internally to key management personnel. Included in the table are Group's monetary assets and liabilities, categorised by the contractual repricing date.

	On demand and up to 1 month	From 1 month to 3 months	From 3 months to 6 months	From 6 months to 1 year	From 1 year to 3 years	From 3 years to 5 years	More than 5 years	Total
Assets								
Interest bearing assets								
RUR	540.4	1,546.8	569.3	696.9	1,586.3	771.6	1,187.5	**6,898.8**
USD	1,221.3	1,687.9	441.4	103.6	516.7	174.6	221.4	**4,366.9**
EUR	236.6	215.9	58.6	79.2	122.0	43.2	34.4	**789.9**
Other currencies	127.7	233.3	49.7	104.3	115.8	80.2	59.9	**770.9**
Total assets	**2,126.0**	**3,683.9**	**1,119.0**	**984.0**	**2,340.8**	**1,069.6**	**1,503.2**	**12,826.5**
Liabilities								
Interest bearing liabilities								
RUR	3,356.3	1,478.6	638.7	441.2	254.9	9.2	394.3	**6,573.2**
USD	1,316.2	1,034.8	395.5	465.4	778.2	264.1	252.5	**4,506.7**
EUR	319.1	173.0	99.3	109.3	108.1	40.9	9.4	**859.1**
Other currencies	249.6	269.0	35.4	45.1	163.9	12.4	40.4	**815.8**
Total liabilities	**5,241.2**	**2,955.4**	**1,168.9**	**1,061.0**	**1,305.1**	**326.6**	**696.6**	**12,754.8**
Net repricing gap	**(3,115.2)**	**728.5**	**(49.9)**	**(77.0)**	**1,035.7**	**743.0**	**806.6**	**71.7**

The interest rate sensitivities set out in the tables below represent an effect on the historical net interest income for one-year period in case of a parallel shift in all yield curves. The calculations are based on the Group's actual interest rate risk exposures at the relevant reporting dates.

Interest rate sensitivity analysis as at 31 December 2017 as an effect on net interest income is as follows.

Currency	Interest rate increase, b.p.	Effect on net interest income	Interest rate decrease, b.p.	Effect on net interest income
RUR	50	(10.3)	(150)	30.9
USD	70	4.5	(8)	(0.5)
Total		**(5.8)**		**30.4**

Interest rate sensitivity analysis as at 31 December 2016 as an effect on net interest income is as follows.

Currency	Interest rate increase, b.p.	Effect on net interest income	Interest rate decrease, b.p.	Effect on net interest income
RUR	200	(39.8)	(400)	79.6
USD	60	3.8	(8)	(0.5)
Total		**(36.0)**		**79.1**

The total interest rate sensitivity, disclosed in the above tables, is attributable to assets and liabilities sensitive to possible changes of interest rates except current/ settlement customer accounts.

Management considers sensitivity of these accounts to fluctuations of interest rates in the financial market as low based on historical performance and competitive environment.

42. FINANCIAL AND INSURANCE RISK MANAGEMENT (CONTINUED)

CURRENCY RISK AND VAR ANALYSIS

The Group is exposed to currency risk. Currency risk arises from open positions in foreign currencies and adverse movements of market exchange rates that may have a negative impact on financial performance of the Group.

The Group manages its currency risk by seeking to match the currency of its assets with that of its liabilities on a currency-by-currency basis within established limits and triggers. For VTB Bank, such limits set by the ALCO include internal triggers and limits for economic capital and risk appetite for structural open currency position (OCP), internal VaR limits and stop-loss limits for trading operations and regulatory OCP limits set by the CBR.

The RD of VTB performs evaluations of ECap to cover currency risk of structural OCP by using hypothetical stress scenario of fluctuation of foreign currencies against RUR, calculates actual risk appetite for structural open currency position (OCP) based on VaR approach, analyses the structure of open currency positions and prepares reports for the ALCO on a monthly basis. The ALCO approves the methodology of the currency risk analysis, management and control procedures and sets limits on open currency positions. The Treasury manages and hedges VTB's currency positions on a daily basis by entering into foreign exchange spot and forward/option transactions within the limits set by the ALCO. Compliance with these limits and the relevant CBR limits is monitored by the Bank on a daily basis.

The VaR methodology is a statistically defined, probability-based approach that takes into account market volatilities as well as risk diversification by recognising offsetting positions and correlations between products and markets. Risks can be measured consistently across all markets and products, and risk measures can be aggregated to arrive at a single risk measurement.

The use of VaR has limitations because it is based on historical correlations and volatilities in market prices and assumes that future price movements will follow a statistical distribution. Due to the fact that VaR relies heavily on historical data to provide information and may not clearly predict the future changes and modifications of the risk factors, the probability of large market moves may be underestimated if changes in risk factors fail to align with the normal distribution assumption. Even though positions may change throughout the day, the VaR only represents the risk of the open currency positions at the close of the reporting dates, and it does not account for any losses that may occur beyond the 95% confidence level. The use of one-day holding period assumes as well that all positions can be liquidated or hedged in 1 business day. In practice, the actual effect on profit or loss before tax will differ from the VaR calculation and, in particular, the calculation does not provide a meaningful indication of profits and losses in stressed market conditions.

The VaR model used by the Group is based on the historical simulation approach, which incorporates exchange rates interdependency. When calculating VaR the following parameters and assumptions were used:

- Currency exposures of the Group on the relevant reporting dates;
- Historical data on exchange rates for the last 2 years;
- 95% confidence level;
- 1 business day holding period.

As at 31 December 2017 and 2016, the Group had the following exposures to currency risk, which include balance sheet positions and off-balance sheet foreign currency derivatives positions against RUR (open positions).

	Open positions	
Currency	2017	2016
USD	158.4	162.8
EUR	54.4	31.1
CHF	11.6	7.5
HKD	8.8	2.6
BYN	7.7	7.3
SEK	7.4	7.2
JPY	6.9	6.8
AMD	5.1	4.4
AOA	4.5	3.1
GEL	3.8	4.8
UAH	2.8	7.4
CNY	1.1	(1.6)
A98	(0.1)	0.7
TRY	(0.2)	0.5
KZT	(0.2)	(0.9)
GBP	(2.3)	(4.8)
AZN	(5.8)	(2.6)
NOK	(7.0)	(6.9)
AUD	–	1.7
Other	0.6	0.2

42. FINANCIAL AND INSURANCE RISK MANAGEMENT (CONTINUED)

CURRENCY RISK AND VAR ANALYSIS (CONTINUED)

As at 31 December 2017 and 2016, the Group had the following VaR for its foreign currency positions:

	2017	2016
Value at Risk	4.06	5.61

The VaR figures above take into account all currencies with exposures over RUR 100 million.

PRICE RISK

The Group is exposed to market risk of its securities portfolio, which is the risk of loss resulting from changes in market quotes of securities and stock indices. To mitigate Group's market risk a risk appetite to market risk of the Group is used (e.g. stress-limits, VaR limits, stop-loss limits), which is then allocated by GRC across legal entities and business lines.

On a weekly basis RD controls Group market risk limits utilisation. Local risk management controls local market risk limits on a daily basis. On a weekly basis RD reports limits usage to the Business Departments, on a monthly basis RD reports limits discipline ALCO, suggests/reviews limit values and risks mitigation/hedging strategies. VTB measures its securities portfolio risk exposures using VaR measurement of risk. The basic assumptions applicable to the calculation of VaR for currency risk, as described above, are also applicable for the calculation of VaR for securities portfolio market risk.

Parameters for VaR calculation are following:

- historical period – 2 year;
- holding period – 1 trading day;
- confidence level – 95%;
- method – historical simulation.

Due to limited liquidity of the Russian market of corporate fixed income instruments (typical for emerging markets), historical quotes were chosen according to the following methodology.

Original historical data are used for instruments with quotes history at least for 200 days and not more than 10 successive days without quotes and the issue date of the instrument is as early as the reporting year.

Quote history of proxy instruments are used to estimate the VaR for less liquid securities which do not meet those requirements. Proxy instrument should fulfil following criteria:

- proxy instrument should be the same type of financial instruments as original security;
- issuer country and industry of proxy instrument has to be the same as original security and credit rating should be close to the original security rating;
- currencies of proxy instrument and original security have to coincide;
- the durations of the proxy instrument and the original one should be comparable.

Approximately one fourth of the portfolio by volume was interchanged by proxy instruments for VaR evaluation. Total Group's VaR 1d.95% measure for 2017 amounts to RUR 1.2 billion (2016: RUR 1.5 billion).

LIQUIDITY RISK AND CONTRACTUAL MATURITY ANALYSIS

Liquidity risk is a risk resulting from inability of the Group to meet in full its obligations when they fall due and without borrowing funds at rates higher than market rates. The Group's exposure to liquidity risk arises due to a mismatch of maturities of assets and liabilities.

Liquidity risk management within the Group is carried out at two main levels:

- Bank/company level: Each bank / company of the Group manages its liquidity on an individual basis to meet its obligations and to comply with the requirements of its national regulator and standards of the Group.
- Group level: Liquidity of the Group is managed on the basis of centralised control and management of key activities of the Group including:
  - universal policy and approaches to liquidity management;
  - integrated methodology of liquidity risk;
  - centralised system of on-going reporting and data warehousing.

The tools used by VTB for measurement, management and mitigation of liquidity risk include:

- Contractual maturity analysis (gap analysis) and cash flow forecasts including planned transactions; forecasted roll-over of clients' term funds (deposits and promissory notes); possible outflow of unstable "on-demand" funds (clients' current accounts and Nostro accounts).
- Analysis of deposit base concentration;
- Stress-test analysis;
- Setting of internal liquidity indicators/limits, including (1) the minimum amount of highly liquid assets to cover possible outflow of resources on demand/one day and other short-term liabilities (up to 30 days); (2) Liquidity of Treasury portfolio limits which are monitored on a daily basis;
- Allocation and utilisation of securities from Treasury portfolio, which provide financing from the CBR through reverse repo operations and help manage short-term liquidity; and
- Development of emergency plans (funding contingency plans).

42. FINANCIAL AND INSURANCE RISK MANAGEMENT (CONTINUED)

LIQUIDITY RISK AND CONTRACTUAL MATURITY ANALYSIS (CONTINUED)

VTB and other banks of the Group are also subject to liquidity requirements set by regulatory authorities, including those set by the CBR in the form of prudential ratios.

The RD analyses cash flow of the Group and prepares liquidity report for ALCO on a monthly basis. VTB's Treasury manages short-term liquidity on an ongoing basis through its cash position and portfolio of highly liquid securities and prepares information on short-term liquidity of the Bank and reports to the ALCO on a weekly basis.

The Inflow column in the tables below includes gross amounts to be received by the Group within a certain time band upon contractual maturities/redemptions of financial instruments (assets/claims). Outflow column includes gross amounts to be repaid by the Group in a certain time band upon contractual maturities/redemptions of financial instruments (liabilities/obligations except current and settlement accounts). Gap represents the difference between Inflow and Outflow columns. Gap Cumulative column represents the cumulative gap. FX Swap Cumulative column represents the cumulative gaps of notional amounts of foreign exchange transactions (FX Swaps, FX Spot and Forwards, NDFs). Dynamic Gap (total) Cumulative column represents the cumulative gap including FX Swap Cumulative. Opening balance represents highly liquid assets, which mostly consist of cash and Nostro accounts with other banks.

The performed analysis confirms that in spite of a substantial portion of customer accounts being on demand or short-term, diversification of these deposits by number and type of depositors, and the past experience of the Group would indicate that these customer accounts provide, in a substantial part, a long-term and stable source of funding for the Group. Also portfolios of Treasury and Securities held for trading could be used for short-term liquidity management through reverse sale and repurchase operations.

VTB Group medium-term liquidity needs are managed through interbank and customer deposits (new borrowings and renewal of existing deposits), repurchase agreements and in the form of collateralised loans (against corporate loans or securities) which allow the Group to reduce the negative medium-term liquidity gaps.

VTB Group has a number of additional funding facilities made available by Bank of Russia to bridge negative medium term liquidity gaps.

Currency mismatches in the structure of liquidity gaps are managed with the use of foreign exchange transactions (FX Swaps).

Traditionally, at the end of the year, the state authorities place the funds in short term instruments, and as a result, a significant part of these resources has maturity up to 1 month. While the performed analysis confirms that, given the efforts of CBR to extend refinancing facilities to the banking system and the expected inflow of funds on customer accounts of budget organisations, the Group will be able to roll over the major part of these resources.

As at 31 December 2017, VTB Group had the following cash flow by remaining contractual maturities.

Time Band	Inflow	Outflow	Gap	Gap Cumulative	FX Swap Cumulative	Dynamic Gap (total) Cumulative
RUR positions						
Opening balance	–	–	297.7	297.7	–	297.7
Up to 1 month	348.7	(2,026.5)	(1,677.8)	(1,380.1)	(284.8)	(1,664.9)
From 1 to 3 months	520.0	(1,623.7)	(1,103.7)	(2,483.8)	(165.3)	(2,649.1)
From 3 months to 1 year	1,987.2	(1,575.3)	411.9	(2,071.9)	(57.7)	(2,129.6)
From 1 to 3 years	2,939.3	(358.4)	2,580.9	509.0	(105.7)	403.3
More than 3 years	4,421.6	(1,008.2)	3,413.4	3,922.4	(112.2)	3,810.2
Other currency positions						
Opening balance	–	–	478.1	478.1	–	478.1
Up to 1 month	584.8	(311.4)	273.4	751.5	384.2	1,135.7
From 1 to 3 months	265.8	(287.5)	(21.7)	729.8	184.6	914.4
From 3 months to 1 year	1,060.3	(1,029.9)	30.4	760.2	92.1	852.3
From 1 to 3 years	1,578.4	(1,514.9)	63.5	823.7	147.7	971.4
More than 3 years	1,621.3	(1,056.3)	565.0	1,388.7	147.8	1,536.5
Total						
Opening balance	–	–	775.8	775.8	–	775.8
Up to 1 month	933.5	(2,337.9)	(1,404.4)	(628.6)	99.4	(529.2)
From 1 to 3 months	785.8	(1,911.2)	(1,125.4)	(1,754.0)	19.3	(1,734.7)
From 3 months to 1 year	3,047.5	(2,605.2)	442.3	(1,311.7)	34.4	(1,277.3)
From 1 to 3 years	4,517.7	(1,873.3)	2,644.4	1,332.7	42.0	1,374.7
More than 3 years	6,042.9	(2,064.5)	3,978.4	5,311.1	35.6	5,346.7

42. FINANCIAL AND INSURANCE RISK MANAGEMENT (CONTINUED)

LIQUIDITY RISK AND CONTRACTUAL MATURITY ANALYSIS (CONTINUED)

As at 31 December 2016, VTB Group had the following cash flow by remaining contractual maturities.

Time Band	Inflow	Outflow	Gap	Gap Cumulative	FX Swap Cumulative	Dynamic Gap (total) Cumulative
RUR positions						
Opening balance	–	–	192.8	192.8	–	192.8
Up to 1 month	563.9	(2,722.0)	(2,158.1)	(1,965.3)	(148.8)	(2,114.1)
From 1 to 3 months	439.3	(1,442.1)	(1,002.8)	(2,968.1)	(102.7)	(3,070.8)
From 3 months to 1 year	1,723.0	(1,221.3)	501.7	(2,466.4)	(73.5)	(2,539.9)
From 1 to 3 years	2,892.6	(428.1)	2,464.5	(1.9)	(57.0)	(58.9)
More than 3 years	3,252.6	(955.6)	2,297.0	2,295.1	(57.1)	2,238.0
Other currency positions						
Opening balance	–	–	356.7	356.7	–	356.7
Up to 1 month	829.2	(966.1)	(136.9)	219.8	148.1	367.9
From 1 to 3 months	576.2	(535.7)	40.5	260.3	104.9	365.2
From 3 months to 1 year	1,139.5	(1,688.1)	(548.6)	(288.3)	76.2	(212.1)
From 1 to 3 years	1,871.6	(1,651.7)	219.9	(68.4)	61.2	(7.2)
More than 3 years	1,611.0	(898.8)	712.2	643.8	60.8	704.6
Total						
Opening balance	–	–	549.5	549.5	–	549.5
Up to 1 month	1,393.1	(3,688.1)	(2,295.0)	(1,745.5)	(0.7)	(1,746.2)
From 1 to 3 months	1,015.5	(1,977.8)	(962.3)	(2,707.8)	2.2	(2,705.6)
From 3 months to 1 year	2,862.5	(2,909.4)	(46.9)	(2,754.7)	2.7	(2,752.0)
From 1 to 3 years	4,764.2	(2,079.8)	2,684.4	(70.3)	4.2	(66.1)
More than 3 years	4,863.6	(1,854.4)	3,009.2	2,938.9	3.7	2,942.6

The table below shows undiscounted cash flows payable under financial liabilities and credit-related commitments at 31 December 2017 by their remaining contractual maturity.

	On demand and up to 1 month	From 1 month to 3 months	From 3 month to 6 months	From 6 months to 1 year	More than 1 year	Total
Non-derivative liabilities:						
Due to other banks	765.2	11.9	1.6	0.3	33.1	**812.1**
Customer deposits	4,155.8	1,622.4	1,061.3	685.5	1,778.0	**9,303.0**
Other borrowed funds	1.2	4.0	4.5	127.0	372.2	**508.9**
Debt securities issued	33.4	64.8	94.8	39.0	122.2	**354.2**
Other liabilities	87.9	5.4	1.1	2.0	2.4	**98.8**
Subordinated debt	–	6.0	2.7	9.6	536.5	**554.8**
Total cash flows payable under non-derivative liabilities	**5,043.5**	**1,714.5**	**1,166.0**	**863.4**	**2,844.4**	**11,631.8**
Derivative financial instruments – gross settled:						
Positive fair value of derivatives						
(Inflow)	(917.5)	(178.1)	(164.3)	(205.4)	(416.4)	**(1,881.7)**
Outflow	912.4	170.6	144.3	192.8	377.2	**1,797.3**
Negative fair value of derivatives:						
(Inflow)	(761.9)	(104.8)	(75.6)	(172.5)	(299.5)	**(1,414.3)**
Outflow	770.4	110.6	73.9	187.3	309.8	**1,452.0**
Derivative financial instruments – net settled:						
(Inflow)	(9.2)	(7.5)	(8.7)	(13.1)	(35.7)	**(74.2)**
Outflow	12.9	6.3	11.0	8.7	15.0	**53.9**
Credit related commitments	1,057.2	–	–	–	–	**1,057.2**

42. FINANCIAL AND INSURANCE RISK MANAGEMENT (CONTINUED)

LIQUIDITY RISK AND CONTRACTUAL MATURITY ANALYSIS (CONTINUED)

The table below shows undiscounted cash flows payable under financial liabilities and credit-related commitments at 31 December 2016 by their remaining contractual maturity.

	On demand and up to 1 month	From 1 month to 3 months	From 3 month to 6 months	From 6 months to 1 year	More than 1 year	Total
Non-derivative liabilities:						
Due to other banks	470.0	362.8	1.6	64.8	328.8	**1,228.0**
Customer deposits	3,623.7	1,017.0	763.3	727.2	1,359.0	**7,490.2**
Other borrowed funds	831.4	176.5	7.9	14.8	511.0	**1,541.6**
Debt securities issued	31.1	12.1	117.4	31.5	255.0	**447.1**
Other liabilities	87.7	2.9	6.5	3.6	2.0	**102.7**
Subordinated debt	–	5.9	31.8	9.7	636.2	**683.6**
Total cash flows payable under non-derivative liabilities	**5,043.9**	**1,577.2**	**928.5**	**851.6**	**3,092.0**	**11,493.2**
Derivative financial instruments – gross settled:						
Positive fair value of derivatives						
(Inflow)	(264.4)	(170.4)	(121.6)	(148.0)	(456.5)	**(1,160.9)**
Outflow	258.9	162.6	115.1	123.6	326.8	**987.0**
Negative fair value of derivatives:						
(Inflow)	(361.4)	(84.8)	(117.5)	(250.8)	(350.1)	**(1,164.6)**
Outflow	368.7	90.9	124.4	284.6	423.6	**1 292.2**
Derivative financial instruments – net settled:						
(Inflow)	(9.9)	(17.8)	(8.4)	(9.1)	(14.5)	**(59.7)**
Outflow	12.4	16.9	9.3	11.9	7.7	**58.2**
Credit related commitments	755.3	–	–	–	–	**755.3**

Included in amounts due to customers are term deposits of individuals. In accordance with the Russian legislation, the Group is obliged to repay such deposits upon demand of a depositor.

The table below shows assets and liabilities at 31 December 2017 by their remaining contractual maturity (expected maturity match the remaining contractual maturity) by which the Group has right to realise the assets and settle the liabilities.

	Less than 1 year	More than 1 year	Maturity undefined	Total
Assets				
Cash and short-term funds	773.8	–	–	**773.8**
Mandatory cash balances with central banks	82.7	14.4	–	**97.1**
Non-derivative financial assets at fair value through profit or loss	296.0	–	17.4	**313.4**
Derivative financial assets	73.1	102.5	–	**175.6**
Due from other banks	683.5	151.5	–	**835.0**
Loans and advances to customers	1,891.0	7,280.4	–	**9,171.4**
Investment financial assets	45.3	227.8	12.5	**285.6**
Investments in associates and joint ventures	–	–	117.1	**117.1**
Assets of disposal group and non-current assets held for sale	17.2	–	–	**17.2**
Land, premises and equipment	–	–	348.2	**348.2**
Investment property	–	–	210.4	**210.4**
Goodwill and other intangible assets	–	–	157.4	**157.4**
Deferred income tax asset	–	–	98.7	**98.7**
Other assets	269.6	8.7	130.1	**408.4**
Total assets	**4,132.2**	**7,785.3**	**1,091.8**	**13,009.3**
Liabilities				
Due to other banks	777.4	32.9	–	**810.3**
Customer deposits	7,419.9	1,724.8	–	**9,144.7**
Derivative financial liabilities	73.9	60.1	–	**134.0**
Other borrowed funds	129.3	175.2	–	**304.5**
Debt securities issued	222.8	99.7	0.2	**322.7**
Liabilities of disposal group held for sale	7.0	–	–	**7.0**
Deferred income tax liability	–	–	30.7	**30.7**
Other liabilities	269.4	273.3	39.8	**582.5**
Subordinated debt	3.1	190.1	–	**193.2**
Total liabilities	**8,902.8**	**2,556.1**	**70.7**	**11,529.6**

42. FINANCIAL AND INSURANCE RISK MANAGEMENT (CONTINUED)

LIQUIDITY RISK AND CONTRACTUAL MATURITY ANALYSIS (CONTINUED)

Management believes that although equity securities included in financial assets held for trading category have no contractual maturity these equity securities could be sold in less than one year and therefore they are included in respective contractual maturity category. Debt securities included in financial assets held for trading category are also classified as instruments with contractual maturity less than one year as Management believes that these debt securities could be sold in less than one year and it has no intentions to hold these debt securities until maturity.

The table below shows assets and liabilities at 31 December 2016 by their remaining contractual maturity (expected maturity match the remaining contractual maturity) by which the Group has right to realise the assets and settle the liabilities.

	Less than 1 year	More than 1 year	Maturity undefined	Total
Assets				
Cash and short-term funds	452.9	–	–	**452.9**
Mandatory cash balances with central banks	82.5	12.6	–	**95.1**
Non-derivative financial assets at fair value through profit or loss	245.4	0.5	21.2	**267.1**
Derivative financial assets	47.3	133.2	–	**180.5**
Due from other banks	765.8	285.4	–	**1,051.2**
Loans and advances to customers	2,013.0	6,841.5	–	**8,854.5**
Investment financial assets	65.7	241.8	33.2	**340.7**
Investments in associates and joint ventures	–	–	90.6	**90.6**
Assets of disposal group and non-current assets held for sale	15.6	–	–	**15.6**
Land, premises and equipment	–	–	352.7	**352.7**
Investment property	–	–	235.5	**235.5**
Goodwill and other intangible assets	–	–	155.1	**155.1**
Deferred income tax asset	–	–	87.8	**87.8**
Other assets	246.7	26.8	132.7	**406.2**
Total assets	**3,934.9**	**7,541.8**	**1,108.8**	**12,585.5**
Liabilities				
Due to other banks	881.0	327.9	–	**1,208.9**
Customer deposits	6,021.1	1,325.5	–	**7,346.6**
Derivative financial liabilities	67.5	97.5	–	**165.0**
Other borrowed funds	1,019.7	287.5	–	**1,307.2**
Debt securities issued	179.0	220.6	–	**399.6**
Liabilities of disposal group held for sale	2.2	–	–	**2.2**
Deferred income tax liability	–	–	35.2	**35.2**
Other liabilities	165.9	226.6	94.0	**486.5**
Subordinated debt	27.8	196.3	–	**224.1**
Total liabilities	**8,364.2**	**2,681.9**	**129.2**	**11,175.3**

42. FINANCIAL AND INSURANCE RISK MANAGEMENT (CONTINUED)

GEOGRAPHICAL CONCENTRATION

Geographical concentration information is based on registration of the Group's counterparts. As at 31 December 2017, the geographical concentration of the Group's assets and liabilities is set out below:

	Russia	OECD	Other countries	Total
Assets				
Cash and short-term funds	530.0	208.8	35.0	**773.8**
Mandatory cash balances with central banks	90.1	–	7.0	**97.1**
Non-derivative financial assets at fair value through profit or loss	243.3	32.3	37.8	**313.4**
Derivative financial assets	87.2	71.0	17.4	**175.6**
Due from other banks	353.8	75.4	405.8	**835.0**
Loans and advances to customers	7,311.0	432.5	1,427.9	**9,171.4**
Investment financial assets	218.7	54.3	12.6	**285.6**
Investments in associates and joint ventures	29.2	58.3	29.6	**117.1**
Assets of disposal group and non-current assets held for sale	2.6	–	14.6	**17.2**
Land, premises and equipment	232.7	7.5	108.0	**348.2**
Investment property	200.0	0.1	10.3	**210.4**
Goodwill and other intangible assets	136.7	2.9	17.8	**157.4**
Deferred income tax asset	95.6	2.6	0.5	**98.7**
Other assets	331.8	68.0	8.6	**408.4**
Total assets	**9,862.7**	**1,013.7**	**2,132.9**	**13,009.3**
Liabilities				
Due to other banks	349.6	63.3	397.4	**810.3**
Customer deposits	8,397.8	301.5	445.4	**9,144.7**
Derivative financial liabilities	30.2	98.2	5.6	**134.0**
Other borrowed funds	165.4	23.2	115.9	**304.5**
Debt securities issued	156.9	161.1	4.7	**322.7**
Liabilities of disposal group held for sale	0.3	0.1	6.6	**7.0**
Deferred income tax liability	29.7	–	1.0	**30.7**
Other liabilities	512.9	51.3	18.3	**582.5**
Subordinated debt	101.7	91.5	–	**193.2**
Total liabilities	**9,744.5**	**790.2**	**994.9**	**11,529.6**
Net balance sheet position	**118.2**	**223.5**	**1,138.0**	**1,479.7**
Gross off-balance sheet position – Credit Related Commitments	**1,027.6**	**11.7**	**17.9**	**1,057.2**

42. FINANCIAL AND INSURANCE RISK MANAGEMENT (CONTINUED)

GEOGRAPHICAL CONCENTRATION (CONTINUED)

Geographical concentration information is based on registration of the Group's counterparts. As at 31 December 2016, the geographical concentration of the Group's assets and liabilities is set out below:

	Russia	OECD	Other countries	Total
Assets				
Cash and short-term funds	274.1	153.6	25.2	**452.9**
Mandatory cash balances with central banks	85.7	0.5	8.9	**95.1**
Non-derivative financial assets at fair value through profit or loss	177.3	40.3	49.5	**267.1**
Derivative financial assets	101.9	57.0	21.6	**180.5**
Due from other banks	577.7	92.2	381.3	**1,051.2**
Loans and advances to customers	7,117.1	568.4	1,169.0	**8,854.5**
Investment financial assets	264.1	53.2	23.4	**340.7**
Investments in associates and joint ventures	3.4	57.1	30.1	**90.6**
Assets of disposal group and non-current assets held for sale	11.4	0.8	3.4	**15.6**
Land, premises and equipment	246.9	2.8	103.0	**352.7**
Investment property	220.5	4.8	10.2	**235.5**
Goodwill and other intangible assets	133.3	2.0	19.8	**155.1**
Deferred income tax asset	84.6	2.5	0.7	**87.8**
Other assets	361.2	36.3	8.7	**406.2**
Total assets	**9,659.2**	**1,071.5**	**1,854.8**	**12,585.5**
Liabilities				
Due to other banks	743.1	102.0	363.8	**1,208.9**
Customer deposits	6,810.2	295.8	240.6	**7,346.6**
Derivative financial liabilities	34.4	126.3	4.3	**165.0**
Other borrowed funds	1,144.1	52.5	110.6	**1,307.2**
Debt securities issued	113.3	281.1	5.2	**399.6**
Liabilities of disposal group held for sale	1.3	–	0.9	**2.2**
Deferred income tax liability	32.8	1.5	0.9	**35.2**
Other liabilities	420.1	43.4	23.0	**486.5**
Subordinated debt	105.0	119.1	–	**224.1**
Total liabilities	**9,404.3**	**1,021.7**	**749.3**	**11,175.3**
Net balance sheet position	**254.9**	**49.8**	**1,105.5**	**1,410.2**
Gross off-balance sheet position – Credit Related Commitments	**657.6**	**18.5**	**79.2**	**755.3**

INSURANCE RISK

The risk under any one insurance contract is the possibility that the insured event occurs and the uncertainty of the amount of the resulting claim. By the very nature of an insurance contract, this risk is random and therefore unpredictable.

For a portfolio of insurance contracts where the theory of probabilities is applied to pricing and reserving, the principal risk that the Group faces under its insurance contracts is that the actual claims and benefit payments exceed the carrying amount of the insurance liabilities. This could occur because the frequency or severity of claims and benefits are greater than estimated. Insurance events are random and the actual number and amount of claims and benefits will vary from year to year from the estimate established using actuarial techniques.

Experience shows that the larger the portfolio of similar insurance contracts, the smaller the relative variability of the expected outcome will be. In addition, a more diversified portfolio is less likely to be affected pervasively by a change in any subset of the portfolio. The Group is working to diversify the gender, age and geography of insurance risks accepted and within each of these categories to achieve a sufficiently large population to reduce the variability of the expected outcome.

The Group conducts a liability adequacy test (LAT) to assess whether its recognised insurance liabilities are adequate, using current estimates of future cash flows under its insurance contracts. The test considers current estimates of all contractual cash flows, and of related cash flows. If a test shows that liabilities are insufficient, the total amount of deficit is charged to profit or loss.

The Group also discloses results of a sensitivity analysis that shows how its liabilities would have been affected if changes in the relevant risk variables that were reasonably possible at the end of the reporting period had occurred.

The Group is exposed to insurance risk which is analysed using actuarial techniques.

The key reserving assumptions are expected loss ratio and development factors (that reflect the claim settlement pattern). Changes in those assumptions directly influence the loss provisions. The following analysis is performed for reasonably possible movements in the key assumptions with all other assumptions held constant, showing the impact on loss provision.

42. FINANCIAL AND INSURANCE RISK MANAGEMENT (CONTINUED)

INSURANCE RISK (CONTINUED)

The table below represents the sensitivity of values of loss provision to changes in actuarial assumptions as at 31 December 2017.

Lines of insurance business	Increase in loss provisions			
Increase in variable:				
- confident level	75%	75%	95%	95%
- loss ratio	5%	10%	5%	10%
Motor own damage insurance	–	–	–	–
Voluntary Medical insurance	0.1	0.3	0.1	0.3
Property insurance and Third party liability insurance	0.1	0.2	0.2	0.2
Personal Accident insurance	0.2	0.4	0.2	0.4
Obligatory Military State Insurance	–	0.1	–	0.1
Obligatory motor third party liability insurance	–	–	–	–
Other non-life insurance	0.1	0.2	0.1	0.3
Total	**0.5**	**1.2**	**0.6**	**1.3**

The table below represent the sensitivity of values of loss provision to changes in actuarial assumptions as at 31 December 2016.

Lines of insurance business	Increase in loss provisions			
Increase in variable:				
- confident level	75%	75%	95%	95%
- loss ratio	5%	10%	5%	10%
Motor own damage insurance	–	–	0.1	0.1
Voluntary Medical insurance	0.1	0.1	0.2	0.2
Property insurance and Third party liability insurance	0.3	0.6	0.5	0.7
Personal Accident insurance	0.2	0.2	0.4	0.4
Obligatory Military State Insurance	0.1	0.1	0.2	0.2
Obligatory motor third party liability insurance	0.1	0.1	0.1	0.1
Other non-life insurance	0.1	0.1	0.3	0.5
Total	**0.9**	**1.2**	**1.8**	**2.2**

43. FAIR VALUE MEASUREMENT

Fair value of financial instruments measured at fair value

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 economic 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.

Fair value measurements are analysed by level in the fair value hierarchy as follows: (i) Level 1 are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities, (ii) Level 2 measurements are valuations techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices), and (iii) Level 3 measurements are valuations not based on observable market data (that is, unobservable inputs). Management applies judgment in categorising financial instruments using the fair value hierarchy. If a fair value measurement uses observable inputs that require significant adjustment based on unobservable inputs, that measurement is a Level 3 measurement. The significance of a valuation input is assessed against the fair value measurement of a financial instrument in its entirety.

43. FAIR VALUE MEASUREMENT (CONTINUED)

Assets and liabilities measured at fair value

The following table shows an analysis of assets and liabilities recorded at fair value by level of the fair value hierarchy as at 31 December 2017:

	Quoted prices in active markets Level 1	Significant observable inputs Level 2	Significant unobservable inputs Level 3	Total
Financial assets measured at fair value				
Non-derivative financial assets at fair value through profit or loss				
Financial assets held for trading				
• Debt securities	178.7	76.0	4.1	**258.8**
• Equity securities	13.2	–	0.1	**13.3**
• Trading credit products	–	–	4.8	**4.8**
Financial assets held for trading, pledged under repurchase agreements				
• Equity securities	0.2	–	–	**0.2**
• Debt securities	0.1	–	–	**0.1**
Financial assets designated as at fair value through profit or loss				
• Reverse sale and repurchase agreements to maturity	–	18.5	–	**18.5**
• Equity securities	8.4	–	9.0	**17.4**
• Debt securities	–	–	0.3	**0.3**
Derivative financial assets at fair value through profit or loss				
Derivative financial assets at fair value through profit or loss held for trading				
• Interest rate contracts	–	94.1	6.2	**100.3**
• Other basic assets contracts	0.4	29.2	1.3	**30.9**
• Foreign exchange and precious metals contracts	–	30.1	–	**30.1**
• Contracts with securities	–	5.4	2.7	**8.1**
• Embedded derivatives on structured instruments	–	–	5.5	**5.5**
Derivative financial liabilities designated as hedging instruments				
• Derivatives held as fair value hedges	–	0.7	–	**0.7**
Investment financial assets available-for-sale				
Investment financial assets available-for-sale				
• Debt securities	203.0	69.3	0.4	**272.7**
• Equity securities	7.8	–	4.7	**12.5**
Investment financial assets available-for-sale, pledged under repurchase agreements				
• Debt securities	–	0.4	–	**0.4**
Investments in associates and joint ventures designated as at fair value through profit or loss	–	–	66.7	**66.7**
Other financial assets				
Amounts in course of settlement related to regular way transactions with financial instruments	–	0.3	–	**0.3**
Other financial assets accounted at fair value	–	0.1	–	**0.1**
Non-financial assets measured at fair value				
Investment property	–	–	210.4	**210.4**
Land and premises	–	–	116.5	**116.5**
Precious metals within Other Assets	–	112.2	–	**112.2**
Financial liabilities measured at fair value				
Derivative financial liabilities				
Derivative financial liabilities at fair value through profit or loss held for trading				
• Interest rate contracts	–	78.5	–	**78.5**
• Other basic assets contracts	0.4	31.7	–	**32.1**
• Foreign exchange and precious metals contracts	–	15.3	–	**15.3**
• Contracts with securities	–	4.5	2.6	**7.1**
• Embedded derivatives on structured instruments	–	–	0.3	**0.3**
Derivative financial liabilities designated as hedging instruments				
• Derivatives held as cash flow hedges	–	0.4	–	**0.4**
• Derivatives held as fair value hedges	–	0.3	–	**0.3**
Other financial liabilities				
Obligation to deliver securities	34.3	1.1	–	**35.4**
Non-controlling interests in consolidated mutual funds	–	–	2.6	**2.6**
Other financial liabilities accounted at fair value	–	0.2	1.2	**1.4**

43. FAIR VALUE MEASUREMENT (CONTINUED)

Assets and liabilities measured at fair value (continued)

The following table shows an analysis of assets and liabilities recorded at fair value by level of the fair value hierarchy as at 31 December 2016 (restated):

	Quoted prices in active markets Level 1	Significant observable inputs Level 2	Significant unobservable inputs Level 3	Total
Financial assets measured at fair value				
Non-derivative financial assets at fair value through profit or loss				
Financial assets held for trading				
• Debt securities	114.8	69.1	4.7	**188.6**
• Equity securities	7.6	–	–	**7.6**
• Trading credit products	–	–	3.5	**3.5**
Financial assets held for trading, pledged under repurchase agreements				
• Debt securities	25.4	0.9	–	**26.3**
• Equity securities	0.1	–	–	**0.1**
Financial assets designated as at fair value through profit or loss				
• Equity securities	9.9	–	11.3	**21.2**
• Reverse sale and repurchase agreements to maturity	–	19.3	–	**19.3**
• Debt securities	–	–	0.5	**0.5**
Derivative financial assets at fair value through profit or loss				
Derivative financial assets at fair value through profit or loss held for trading				
• Interest rate contracts	–	111.6	16.3	**127.9**
• Foreign exchange and precious metals contracts	–	18.5	–	**18.5**
• Contracts with securities	–	3.2	11.8	**15.0**
• Other basic assets contracts	–	10.8	0.5	**11.3**
• Embedded derivatives on structured instruments	–	1.2	6.5	**7.7**
Derivative financial liabilities designated as hedging instruments				
• Derivatives held as cash flow hedges	–	0.1	–	**0.1**
Investment financial assets available-for-sale				
Investment financial assets available-for-sale				
• Debt securities	72.3	77.0	4.9	**154.2**
• Equity securities	10.9	–	22.3	**33.2**
Investment financial assets available-for-sale, pledged under repurchase agreements				
• Debt securities	1.6	0.4	–	**2.0**
Investments in associates and joint ventures designated as at fair value through profit or loss	–	5.9	61.8	**67.7**
Other financial assets				
Amounts in course of settlement related to regular way transactions with financial instruments	–	0.2	–	**0.2**
Other financial assets accounted at fair value	–	0.1	–	**0.1**
Non-financial assets measured at fair value				
Investment property	–	–	235.5	**235.5**
Land and premises	–	–	119.8	**119.8**
Precious metals within Other Assets	–	118.8	–	**118.8**
Financial liabilities measured at fair value				
Derivative financial liabilities				
Derivative financial liabilities at fair value through profit or loss held for trading				
• Interest rate contracts	–	120.0	0.1	**120.1**
• Foreign exchange and precious metals contracts	–	28.6	–	**28.6**
• Other basic assets contracts	–	10.0	–	**10.0**
• Contracts with securities	–	3.4	0.1	**3.5**
• Embedded derivatives on structured instruments	–	–	1.9	**1.9**
Derivative financial liabilities designated as hedging instruments				
• Derivatives held as cash flow hedges	–	0.9	–	**0.9**
Other financial liabilities				
Obligation to deliver securities	44.2	0.4	–	**44.6**
Non-controlling interests in consolidated mutual funds	–	–	2.6	**2.6**
Amounts in course of settlement related to regular way transactions with financial instruments	–	0.1	–	**0.1**
Other financial liabilities accounted at fair value	–	3.1	1.1	**4.2**

43. FAIR VALUE MEASUREMENT (CONTINUED)

Assets and liabilities measured at fair value (continued)

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

A significant portion of the available-for-sale financial assets in Level 3 is invested in shares of non-listed companies which are valued based on non-market observable information. Changes in assumptions can lead to adjustments in the fair value of these investments.

Movement in Level 3 financial instruments measured at fair value

A reconciliation of movements in Level 3 of the fair value hierarchy by class of financial instruments for the year ended 31 December 2017 is as follows:

	Non-derivative financial assets at fair value through profit or loss					Other financial liabilities		
	Financial assets held for trading including pledged under repurchase agreements	Financial assets designated as at fair value through profit or loss	Investment financial assets available-for-sale including pledged under repurchase agreements	Investments in associates and joint ventures at fair value through profit or loss	Derivative financial assets and liabilities held for trading (net)	Obligation to deliver securities	Non-controlling interests in consolidated mutual funds	Other financial liabilities accounted at fair value
Fair value at 1 January 2017 (restated)	**8.2**	**11.8**	**27.2**	**61.8**	**33.0**	**–**	**(2.6)**	**(1.1)**
Gains or (losses) recognised in income statement	0.1	(2.5)	0.2	6.4	1.1	–	–	(0.1)
• of which unrealised gains or (losses)	0.1	(2.5)	(5.7)	6.4	(2.4)	–	–	(0.1)
Gains or (losses) recognised in other comprehensive income	–	–	(2.1)	0.2	(0.9)	–	–	–
Purchase	6.4	–	29.1	0.1	(1.5)	0.1	–	–
Sale	(1.3)	–	(12.5)	–	–	(0.1)	–	–
Settlement	(2.7)	–	(30.7)	(0.3)	(19.7)	–	–	2.7
Transfers into Level 3	9.0	–	0.3	6.1	0.7	–	–	(2.7)
Transfers out of Level 3	(7.2)	–	(6.5)	(3.0)	0.1	–	–	–
Transfer out of Level 3 into categories not measured at fair value	(3.5)	–	–	(4.6)	–	–	–	–
Transfers into Level 3 from categories not measured at fair value	–	–	0.1	–	–	–	–	–
Fair value at 31 December 2017	**9.0**	**9.3**	**5.1**	**66.7**	**12.8**	**–**	**(2.6)**	**(1.2)**

A reconciliation of movements in Level 3 of the fair value hierarchy by class of financial instruments for the year ended 31 December 2016 (restated) is as follows:

	Non-derivative financial assets at fair value through profit or loss					Other financial liabilities	
	Financial assets held for trading including pledged under repurchase agreements	Financial assets designated as at fair value through profit or loss	Investment financial assets available-for-sale including pledged under repurchase agreements	Investments in associates and joint ventures at fair value through profit or loss	Derivative financial assets and liabilities held for trading (net)	Non-controlling interests in consolidated mutual funds	Other financial liabilities accounted at fair value
Fair value at 1 January 2016 (restated)	**22.5**	**6.1**	**36.2**	**69.0**	**70.0**	**(2.7)**	**(4.2)**
Gains or (losses) recognised in income statement	(3.9)	0.3	(0.8)	(2.3)	(32.8)	0.1	1.3
• of which unrealised gains or (losses)	(3.5)	0.3	(0.1)	(2.3)	(33.2)	0.1	1.3
Gains or (losses) recognised in other comprehensive income	–	–	1.0	(0.2)	(0.3)	–	–
Purchase	8.5	5.1	9.4	2.3	1.4	–	(1.1)
Sale	(6.8)	(0.1)	(5.6)	(1.1)	–	–	–
Settlement	(4.9)	(0.3)	(1.9)	–	(5.5)	–	–
Transfers into Level 3	8.1	0.7	2.2	–	–	–	–
Transfers out of Level 3	(15.3)	–	(0.9)	(5.9)	–	–	2.9
Transfers into categories not measured at fair value	–	–	(12.4)	–	–	–	–
Reclassification into liabilities of disposal groups held for sale	–	–	–	–	0.2	–	–
Fair value at 31 December 2016 (restated)	**8.2**	**11.8**	**27.2**	**61.8**	**33.0**	**(2.6)**	**(1.1)**

43. FAIR VALUE MEASUREMENT (CONTINUED)

Movement in Level 3 non-financial assets measured at fair value

A reconciliation of movements in Level 3 of the fair value hierarchy by class of non-financial assets measured at fair value for the year ended 31 December 2017 is as follows:

	Land and premises	Investment property
Fair value at 1 January 2017	**119.8**	**235.5**
Losses net of gains recognised in profit or loss	(16.3)	(23.2)
Losses recognised in other comprehensive income	(0.6)	(0.3)
Purchase	2.5	2.1
Capitalisation of expenses	–	9.2
Sale	(1.8)	(27.4)
Acquisition of subsidiaries	1.0	12.5
Sale of subsidiaries	(2.8)	(1.6)
Transfers within Level 3	(0.6)	0.6
Net transfers into categories not measured at fair value	15.3	3.0
Fair value at 31 December 2017	**116.5**	**210.4**

A reconciliation of movements in Level 3 of the fair value hierarchy by class of non-financial assets measured at fair value for the year ended 31 December 2016 is as follows:

	Land and premises	Investment property
Fair value at 1 January 2016	**124.4**	**245.0**
(Losses net of gains) / gains net of losses recognised in profit or loss	(3.3)	7.9
Losses recognised in other comprehensive income	(1.6)	(5.7)
Purchase	4.6	12.1
Capitalisation of expenses	–	4.2
Sale	(0.6)	(11.5)
Acquisition of subsidiaries	1.7	–
Sale of subsidiaries	(2.1)	(3.1)
Transfers within Level 3	(1.6)	1.6
Net transfers into categories not measured at fair value	(1.7)	(15.0)
Fair value at 31 December 2016	**119.8**	**235.5**

Net transfers into categories not measured at fair value in the above table include amounts reclassified to property intended for sale in the ordinary course of business and to assets of disposal groups held for sale and reclassifications from other accounts.

There were no transfers out of Level 3 of the fair value hierarchy of non-financial assets.

Transfers between levels

For the year ended 31 December 2017	Reason for transfer (valuation at the reporting date)	Non-derivative financial assets held for trading including pledged under repurchase agreements	Non-derivative financial assets designated as at fair value through profit or loss	Investments financial assets available-for-sale including pledged under repurchase agreements	Investments in associates and joint ventures at fair value through profit or loss	Other financial liabilities accounted at fair value	Total
From Level 1:							
- to Level 2	valuation models with market observable inputs	53.4	–	14.8	–	–	**68.2**
- to Level 3	valuation models with non-market-observable inputs	1.8	–	–	–	–	**1.8**
From Level 2:							
- to Level 1	active market quotes	61.0	–	24.4	–	–	**85.4**
- to Level 3	valuation models with non-market-observable inputs	7.2	–	0.3	6.1	2.7	**16.3**
From Level 3:							
- to Level 1	active market quotes	1.4	–	6.4	–	–	**7.8**
- to Level 2	valuation models with market observable inputs	5.8	–	0.1	3.0	–	**8.9**
Total		**130.6**	**–**	**46.0**	**9.1**	**2.7**	**188.4**

For the year ended 31 December 2016	Reason for transfer (valuation at the reporting date)	Non-derivative financial assets held for trading including pledged under repurchase agreements	Non-derivative financial assets designated as at fair value through profit or loss	Investments financial assets available-for-sale including pledged under repurchase agreements	Investments in associates and joint ventures at fair value through profit or loss	Other financial liabilities accounted at fair value	Total
From Level 1:							
- to Level 2	valuation models with market observable inputs	47.8	–	5.8	–	–	**53.6**
- to Level 3	valuation models with non-market-observable inputs	2.1	–	1.0	–	–	**3.1**
From Level 2:							
- to Level 1	active market quotes	43.9	–	8.1	–	–	**52.0**
- to Level 3	valuation models with non-market-observable inputs	6.0	0.7	1.2	–	–	**7.9**
From Level 3:							
- to Level 1	active market quotes	7.9	–	0.8	–	–	**8.7**
- to Level 2	valuation models with market observable inputs	7.4	–	0.1	5.9	2.9	**16.3**
Total		**115.1**	**0.7**	**17.0**	**5.9**	**2.9**	**141.6**

43. FAIR VALUE MEASUREMENT (CONTINUED)

Impact on fair value of Level 3 financial instruments of changes to key assumptions

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

	Fair value	Valuation techniques	Unobservable input description	Reasonable range (values used)
Non-derivative financial assets at fair value through profit or loss				
Financial instruments held for trading, including pledged under repurchase agreements				
Equity securities				
Other economic sectors	0.1	Other	n/a	n/a
Other economic sectors				
Debt securities				
Finance companies servicing mortgage and real estate debts	1.4	Other	n/a	n/a
Other economic sectors	2.7	Other	n/a	n/a
Trading credit products				
Coal and mining industry	2.4	Discounted Cash flow	XIRR	24.2%-40.2% (32.2%)
	2.4	Discounted Cash flow	XIRR	24.2%-40.2% (32.2%)
Financial assets designated as at fair value through profit or loss				
Equity securities				
Retail	5.9	Gordon and Comparable method	Weighted average cost of capital	11.1%-13.1% (12.1%)
			Weight of DCF and multiple valuations	0%-100.0% (50.0%-50.0%)
			Terminal growth rate	3.0%-5.0% (4.0%)
			Average Gross margin (total sales) 2018-2021	29.8%-31.8% (30.8%)
Other economic sectors	3.1	Other	n/a	n/a
Debt securities				
Other economic sectors	0.3	Other	n/a	n/a
Trading derivative financial instruments				
Equity derivatives	2.0	Discounted Cash flow	Credit Spread	4.5%-6.5% (5.5%)
	(1.9)	Other	n/a	n/a
Index derivatives	1.3	Other	n/a	n/a
Embedded derivatives on structured instruments	2.4	Discounted Cash flow	Credit spread	0.5%-2.5% (1.5%)
	(0.3)	Black model	Implied volatility	9.3%-16.7% (13.0%)
	3.1	Other	n/a	n/a
Interest rate derivatives	6.2	Discounted Cash flow	Credit spread	-0.1%-1.9% (0.9%)
Investment financial assets available-for-sale, including pledged under repurchase agreements				
Debt securities				
Other economic sectors	0.4	Other	n/a	n/a
Equity securities				
Finance companies and banks	2.4	Discounted Cash flow	Discount rate	8.6%-12.6% (10.6%)
			exit multiple	0.5-0.9 (0.7)
Other economic sectors	2.3	Other	n/a	n/a

43. FAIR VALUE MEASUREMENT (CONTINUED)

Impact on fair value of Level 3 financial instruments of changes to key assumptions (continued)

	Fair value	Valuation techniques	Unobservable input description	Reasonable range (values used)
Investments in associates and joint ventures designated as at fair value through profit or loss				
Services: Air transportation	3.1	Discounted Dividend flow	Base equity risk premium	7.0%-8.0% (7.5%)
Telecommunication	53.5	Discounted Cash flow	CAGR 2018-2022 of ARPU	0%-3.6% (1.4%)
			CAGR 2018-2022 of subscriber base	1.5%-4.0% (3.2%)
			Terminal growth	1%-2.5% (2.5%)
			CAPEX/Revenue	12.3%-17.7% (15.0%)
			Multiple EV/Revenue и EV/EBITDA	1.5x and 4.9x (2.0x and 5.9x)
			Weight of core and strategic value	75.0%/15.0%/15.0% (average 50.0%/25.0%/25.0% and 33.0%/33.0%/33.0%)
			Premium of strategic valuation scenario 1 to base scenario	50.0%-74.0% (74.0%)
			Premium of strategic valuation scenario 2 to base scenario	15.0%-22.0% (22.0%)
	2.8	Discounted Cash flow	WACC	7.2%-10.2% (8.2%)
			Terminal Growth Rate	1%-3% (2%)
			Special situation discount	50.0%-30.0% (40.0%)
			Weight of DCF and multiple valuations	0%-50%-50% (33%-33%-33%)
Food industry	5.6	Discounted Cash flow	Liquidity discount	10.0%-30.0% (25%)
			Weight of multiples-based valuation	0%-100.0% (50.0%-50.0%)
			LFL sales CAGR 2018-2023	7.2%-9.2% (8.2%)
Other economic sectors	1.5	Discounted Cash flow EV/EBITDA multiple	Change in Growth of Cards Sold (%)	-2% - +2% (0%)
			Change in PT Growth per Client (%)	1.5%-5.5% (3.5%)
			WACC	11.5%-15.5% (13.5%)
			Weight of DCF and multiple valuations	0%-100.0% (50.0%-50.0%)
	0.2	Other	n/a	n/a
Non-derivative financial liabilities measured at fair value				
Non-controlling interests in consolidated mutual funds	(2.6)	Net asset value	n/a	n/a
Other financial liabilities accounted at fair value	(1.2)	Discounted Cash flow	Discount rate	22.5%-24.0% (23.2%)

43. FAIR VALUE MEASUREMENT (CONTINUED)

Impact on fair value of Level 3 financial instruments of changes to key assumptions (continued)

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

	Fair value	Valuation techniques	Unobservable input description	Reasonable range (values used)
Non-derivative financial assets at fair value through profit or loss				
Financial instruments held for trading				
Debt securities				
Finance companies and banks	1.5	Discounted Cash flow	Uncertainty factor	-8.3%-8.3% (0.0%)
	0.6	Other	n/a	n/a
Finance Companies Servicing Mortgage And Real Estate Debts	1.6	Other	n/a	n/a
Oil	0.3	Other	n/a	n/a
Government bodies	0.5	Other	n/a	n/a
Other economic sectors	0.2	Other	n/a	n/a
Trading credit products				
Railway transportation	3.5	Discounted Cash flow	Uncertainty factor	-8.3%-8.3% (0.0%)
Financial assets designated as at fair value through profit or loss				
Equity securities				
Finance companies	3.4	Gordon and Comparable method	Cost of Equity	22.8%-24.8% (23.8%)
			Terminal growth	2.0%-6.0% (4.0%)
			Terminal ROE	12.0%-14.0% (13.0%)
Retail	5.0	Gordon and Comparable method	Weighted average cost of capital	12.9%-14.9% (13.9%)
			Weight of DCF and multiple valuations	0%-100.0% (50.0%-50.0%)
			Terminal growth rate	3.0%-5.0% (4.0%)
			Gross margin (total sales)	34.1%-36.1% (35.1%)
Other economic sectors	2.9	Other	n/a	n/a
Debt securities				
Other economic sectors	0.5	Other	n/a	n/a
Trading derivative financial instruments				
Equity derivatives	11.8	Discounted Cash flow	Credit Spread	4.5%-6.5% (5.5%)
Index derivatives	0.4	Other	n/a	n/a
Embedded derivatives on structured instruments	5.3	Discounted Cash flow	Credit spread	2.5%-4.5% (3.5%)
	(1.9)	Black model	Implied volatility	16.0%-28.6% (22.3%)
	1.2	Other	n/a	n/a
Interest rate derivatives	16.3	Discounted Cash flow	Credit spread	0.8%-2.8% (1.8%)
	(0.1)	Other	n/a	n/a
Investment financial assets available-for-sale				
Debt securities				
Finance companies and banks	1.3	Discounted Cash flow	Uncertainty factor	-8.3%-8.3% (0.0%)
	0.2	Other	n/a	n/a
Other economic sectors	3.4	Other	n/a	n/a
Equity securities				
Finance companies and banks	1.8	Discounted Cash flow	Discount rate that can be changed based on changes in macroeconomic backdrop	10.2%-14.2% (12.2%)
			exit multiple	0.5-0.9 (0.7)
	5.6	Gordon and Comparable method	Cost of Equity	22.8%-24.8% (23.8%)
			Terminal growth	2.0%-6.0% (4.0%)
			Terminal ROE	12.0%-14.0% (13.0%)
	0.8	Other	n/a	n/a
Non-ferrous metals	12.3	Discounted Cash flow	Weighted average cost of capital	13.2%-14.8% (14.0%)
			Terminal growth	4.0%-4.0% (4.0%)
Other economic sectors	1.8	Other	n/a	n/a

43. FAIR VALUE MEASUREMENT (CONTINUED)

Impact on fair value of Level 3 financial instruments of changes to key assumptions (continued)

	Fair value	Valuation techniques	Unobservable input description	Reasonable range (values used)
Investments in associates and joint ventures designated as at fair value through profit or loss				
Telecommunication	53.5	Discounted Cash flow	Weighted average cost of capital	12.0%-15.0% (12.0%)
			Terminal growth	1.5%-3.5% (2.5%)
			CAGR 2017-2021 of subscriber base	2.3%-2.7% (2.5%)
			CAGR 2017-2021 of ARPU	3.3%-3.7% (3.5%)
			CAPEX/Revenue	14.0%-16.0% (14.0%)
			Weight of core and strategic value	70.0%/30.0% (50.0%/50.0%)
			Maximum EBITDA	30.0%-35.0% (32.5%)
	1.3	Discounted Cash flow	WACC	-9.1%-11.1% (10.1%)
			Weight of DCF and multiple valuations	0%-100.0% (50.0%-50.0%)
			Special situation discount	80.0%-50.0% (66.0%)
Food industry	5.5	Discounted Cash flow	Liquidity discount	10.0%-30.0% (25.0%)
			Weight of multiples-based valuation	0%-100.0% (50.0%-50.0%)
			LFL sales CAGR 2018-2023	4.0%-8.0% (6.0%)
Other economic sectors	1.5	Discounted Cash flow; EV/EBITDA multiple	Change in Growth of Cards Sold (%)	-2.0%-2.0% (0.0%)
			Change in PT Growth per Client (%)	2.0%-6.0% (4.0%)
			WACC	12.6%-14.6% (13.6%)
			Weight of DCF and multiple valuations	0%-100.0% (50.0%-50.0%)
Non-derivative financial liabilities measured at fair value				
Non-controlling interests in consolidated mutual funds	(2.6)	Net asset value	n/a	n/a
Other financial liabilities accounted at fair value	(1.1)	Discounted Cash flow	Discount rate	22.5%-24.0% (23.2%)
			Other	n/a

Fair value of investment in telecommunication industry as at 31 December 2017 and 2016 was determined by the Group with assistance of an independent appraiser. The model developed by the independent appraiser determined fair value as a combination of core value and strategic value. Core value was determined as an average between DCF valuation and market valuation based on 2018 projected EBITDA. Strategic value incorporated additional factors that, in the view of independent appraiser, the market participants would consider when determining the fair value of this investment, such as expansion of client base, value of available frequencies and ARPU synergies. Changes in the weights of core and strategic values, DCF assumptions, projected EBITDA, or strategic value components might have a significant effect on the valuation of the investment.

For financial instruments which fair value is estimated using significant unobservable inputs, parameters and assumptions, the exact value of such inputs at the reporting date might be drawn from a range of reasonably possible alternatives. For each unobservable input to which the fair value is most sensitive, the Group calculates its impact on valuation by taking each individual input to the extreme point of its reasonably possible range, while keeping other inputs unchanged. The table below presents the range of fair value of the respective class of financial instruments calculated using the approach discussed above. Should all the parameters be changed simultaneously to the extreme points of their reasonable ranges, the impact on the fair value would be more significant than disclosed in the table, however, the Group considers that it is unlikely that all parameters and assumptions will be simultaneously at their extreme points.

This disclosure is intended to illustrate the magnitude of the relative uncertainty in the fair value of financial instruments for which valuation is dependent on unobservable parameters, however, the disclosure is not indicative of future movements in fair value.

43. FAIR VALUE MEASUREMENT (CONTINUED)

Impact on fair value of Level 3 financial instruments of changes to key assumptions (continued)

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

	2017		2016 (restated)	
	Carrying amount	Effect of reasonably possible alternative assumptions	Carrying amount	Effect of reasonably possible alternative assumptions
Non-derivative financial assets held for trading	9.0	8.1-10.1	8.2	7.9-8.8
Derivative financial instruments held for trading	12.8	12.7-12.8	33.0	28.5-33.7
Financial assets designated as at fair value through profit or loss	9.3	8.7-10.4	11.8	11.1-12.8
Investment financial assets – available-for-sale	5.1	4.5-5.6	27.2	26.3-32.6
Investments in associates and joint ventures designated as at fair value through profit or loss	66.7	53.2-70.9	61.8	49.0-62.7
Non-controlling interests in consolidated mutual funds	(2.6)	(2.3)-(2.9)	(2.6)	(2.3)-(2.9)
Other financial liabilities accounted at fair value	(1.2)	(1.1)-(1.2)	(1.1)	(1.0)-(1.1)

Impact on fair value of Level 3 non-financial assets of changes to key assumptions

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

			Inputs used		
Assets	Fair value	Valuation technique	Input	Min	Max
Land and premises					
Land and premises	116.5	Comparative method	trade discount	10.0%	20.0%
Investment property					
Land	**111.1**				
Project 1	49.9	Comparative method	trade discount	10.0%	30.0%
Project 2	21.4	Comparative method	trade discount	16.0%	25.1%
Project 14	17.0	Comparative method	trade discount	20.0%	20.0%
		DCF method	discount rate	14.4%	15.5%
Project 3	14.6	Comparative method	trade discount	20.0%	30.0%
		DCF method	discount rate	15.5%	22.5%
Project 4	8.2	Comparative method	trade discount	20.0%	20.0%
		DCF method	discount rate	14.4%	15.5%
Commercial property	**55.1**				
Project 6	25.6	DCF method (completed investment property)	discount rate	14.0%	15.5%
	5.0	DCF method (investment property under construction)	discount rate	14.0%	15.5%
Project 7	7.9	DCF method (investment property under construction)	discount rate	13.0%	15.0%
			average annual rental indexation	2.8%	4.8%
			terminal capitalization rate	7.5%	9.5%
Project 8	3.1	DCF method (completed investment property)	discount rate	15.0%	18.1%
	5.0	DCF method (investment property under construction)	discount rate	15.0%	18.1%
Project 9	2.2	Comparative method	trade discount	20.0%	20.0%
		DCF method (completed investment property)	terminal capitalization rate	10.6%	10.6%
Project 10	1.8	Comparative method	trade discount	10.0%	10.0%
		DCF method (completed investment property)	discount rate	14.9%	14.9%
			average annual rental indexation	4.2%	6.4%
			terminal capitalization rate	10.7%	10.7%
Project 11	1.3	Comparative method	trade discount	20.0%	20.0%
		DCF method (completed investment property)	discount rate	13.5%	13.5%
			average annual rental indexation	4.0%	4.3%
			terminal capitalization rate	11.3%	11.3%
Project 15	3.2	DCF method (investment property under construction)	discount rate	10.7%	10.7%
			average annual indexation	0.2%	4.5%
			terminal capitalization rate	5.0%	5.0%
Other	**44.2**				
Other	44.2	Comparative method	trade discount	10.0%	20.0%

43. FAIR VALUE MEASUREMENT (CONTINUED)

Impact on fair value of Level 3 non-financial assets of changes to key assumptions (continued)

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

			Inputs used		
Assets	Fair value	Valuation technique	Input	Min	Max
Land and premises					
Land and premises	117.8	Comparative method	trade discount	10.0%	20.0%
	2.0	Other	trade discount	10.0%	20.0%
Investment property					
Land	**135.1**				
Project 1	57.1	Comparative method	trade discount	13.5%	15.0%
Project 2	26.0	Comparative method	trade discount	11.9%	14.0%
Project 14	20.5	Comparative method	trade discount	10.0%	20.0%
		DCF method	discount rate	11.9%	27.1%
Project 4	14.5	Comparative method	trade discount	10.0%	10.0%
		DCF method	discount rate	14.7%	23.0%
Project 3	10.0	Comparative method	trade discount	15.0%	15.0%
		DCF method	discount rate	21.5%	25.0%
Other	7.1	Comparative method	trade discount	10.0%	20.0%
Commercial property	**85.0**				
Project 6	32.1	DCF method (completed investment property)	discount rate	14.0%	15.0%
			average annual rental indexation	3.5%	7.0%
			terminal capitalisation rate	9.5%	13.0%
	15.7	DCF method (investment property under construction)	discount rate	15.3%	35.0%
			average annual rental indexation	5.0%	5.0%
			terminal capitalisation rate	10.0%	11.0%
Project 7	7.9	DCF method (investment property under construction)	discount rate	14.0%	19.0%
			average annual rental indexation	2.0%	4.8%
			terminal capitalisation rate	8.5%	8.5%
Project 8	2.9	DCF method (completed investment property)	discount rate	15.0%	20.0%
			average annual rental indexation	5.0%	12.0%
			terminal capitalisation rate	9.0%	9.0%
	5.5	DCF method (investment property under construction)	discount rate	15.0%	25.0%
			average annual rental indexation	5.0%	12.0%
			terminal capitalisation rate	9.0%	9.0%
Project 15	4.8	DCF method (investment property under construction)	discount rate	10.7%	10.7%
			average annual indexation	1.3%	5.5%
			terminal capitalisation rate	5.0%	5.0%
Project 9	2.2	Comparative method	trade discount	20.0%	20.0%
		DCF method (completed investment property)	terminal capitalisation rate	10.6%	10.6%
Project 10	1.8	Comparative method	trade discount	10.0%	10.0%
		DCF method (completed investment property)	discount rate	14.9%	14.9%
			average annual rental indexation	4.2%	6.4%
			terminal capitalisation rate	10.7%	10.7%
Project 11	1.7	Comparative method	trade discount	20.0%	20.0%
		DCF method (completed investment property)	discount rate	15.2%	15.2%
			average annual rental indexation	0.0%	5.5%
			terminal capitalisation rate	11.0%	11.0%
Other	10.4	Comparative method	trade discount	10.0%	20.0%
		DCF method (completed investment property)	discount rate	13.0%	18.0%
			average annual rental indexation	2.5%	7.0%
			terminal capitalisation rate	9.5%	13.0%
		DCF method (investment property under construction)	discount rate	15.3%	35.0%
			average annual rental indexation	2.5%	7.0%
			terminal capitalisation rate	8.0%	13.0%
Other	**15.3**				
Other	15.3	Comparative method	trade discount	10.0%	20.0%

43. FAIR VALUE MEASUREMENT (CONTINUED)

Impact on fair value of Level 3 non-financial assets of changes to key assumptions (continued)

The following table summarises the sensitivity of the fair value measurement categorised within Level 3 of the fair value hierarchy to changes in unobservable inputs as at 31 December 2017:

Input	Description of input	Description of sensitivity
Trade discount (difference between supply and demand)	The leading realtors were interviewed, and the resulted adjustment for offer was found to be between 10% and 30%.	Depending on change in the demand on the investment objects, the corrective adjustment for offer may vary from 5% up to 30%.The change of this input might lead to a substantial change in the fair value of the investment property of the Group.
Discount rate	Discounting rate-interest rate used to discounting future cash payments received or payed. The discounting rate reflects the relationship between risk and rate of return and also various types of risks associated with the investment property. The discounting rate is between 10.7% and 22.5%, depending on the individual characteristics of an object.	Depending on the market situation on the investment property market, the discounting rate may vary from 10% up to 30%.The change of this input might lead to a substantial change in the fair value of the investment property of the Group.
Terminal capitalisation rate	The capitalisation rate-ratio of the net year income, received on investment, to its market value. The capitalisation rate accounts for 5% to 12%, depending on the individual characteristics of an object.	Depending on the market situation on the investment property market, capitalisation rate may vary from 5% up to 15%. The change of this input might lead to a substantial change in the fair value of the investment property of the Group.
Average annual rental indexation	Indexation of the current annual rental rate from 0.2% to 6.4% according to the market situation	Depending on the market situation on the investment property market, rental rate indexation may vary from 0% up to 13%. The change of this input might lead to a substantial change in the fair value of the investment property of the Group.

The following table summarises the sensitivity of the fair value measurement categorised within Level 3 of the fair value hierarchy to changes in unobservable inputs as at 31 December 2016:

Input	Description of input	Description of sensitivity
Trade discount (difference between supply and demand)	The leading realtors were interviewed, and the resulted discount interval on bargain was found to be between 10% and 30%.	Depending on change in the demand on the investment objects, the corrective adjustment on bargain may vary from 5% up to 30%.The change of this input might lead to a substantial change in the fair value of the investment property of the Group.
Discount rate	Discounting rate-interest rate used to discounting future cash payments received or payed. The discounting rate reflects the relationship between risk and rate of return and also various types of risks associated with the investment property. The discounting rate is between 12% and 30%, depending on the individual characteristics of an object.	Depending on the market situation on the investment property market, the discounting rate may vary from 10% up to 30%.The change of this input might lead to a substantial change in the fair value of the investment property of the Group.
Terminal capitalisation rate	The capitalisation rate-ratio of the net year income, received on investment, to its market value. The capitalisation rate accounts for 9% to 13%, depending on the individual characteristics of an object.	Depending on the market situation on the investment property market, capitalisation rate may vary from 8% up to 18%. The change of this input might lead to a substantial change in the fair value of the investment property of the Group.
Average annual rental indexation	Indexation of the current annual rental rate from 1.3% to 7.0% according to the market situation	Depending on the market situation on the investment property market, rental rate indexation may vary from 0% up to 13%. The change of this input might lead to a substantial change in the fair value of the investment property of the Group.

43. FAIR VALUE MEASUREMENT (CONTINUED)

Impact on fair value of Level 3 non-financial assets of changes to key assumptions (continued)

As at 31 December 2017 and 31 December 2016 for a number of projects fair value was determined on the base of the highest and best use that differs from its current use:

- As at 31 December 2017 and 31 December 2016 the Group had agricultural land plots under Project 3 that it intends to use for residential and commercial real estate development. Within the impairment test The Group used for fair value measurement the highest and best use of the Project 3 land as land under residential development.
- As at 31 December 2017 and 31 December 2016 the Group had agricultural land plots under Project 4 that it intends to use for residential and commercial real estate development. Within the impairment test The Group used for fair value measurement the highest and best use of the Project 4 land as land under residential development, under a special economic zone projects and wholesale and distribution centre.
- As at 31 December 2017 and 31 December 2016 the Group had agricultural land plots under Project 14 that it intends to use for residential and commercial real estate development. Within the impairment test The Group used for fair value measurement the highest and best use of the Project 14 land as land under residential development and residential, commercial and agricultural land plots for sale.

Methods and assumptions for Level 2 financial instruments

The fair value of financial assets at fair value through profit or loss, available for sale and derivative financial instruments valued according to Level 2 models was estimated based on DCF (projected cash flows) method using the assumption of future coupon payment, recent transactions prices and the quotes of non-active markets if based on the Group's analysis such quotes represent the best estimate of the fair value of the financial instrument as at the reporting date. Probability models were calibrated using market indicators (currency forward, ITRAX Index).

Valuation methods for level 3 fair value measurements

In order to value Level 3 equity investments, the Group utilizes comparable trading multiples. Management (if deemed necessary based on external valuators' reports) determines comparable public companies (peers) based on industry, size, developmental stage and strategy. Management then calculates a trading multiple for each comparable company identified. The multiple is calculated by dividing the enterprise value of the comparable company by its earnings before interest, taxes, depreciation and amortization (EBITDA). The trading multiple is then discounted for considerations such as illiquidity and differences between the comparable companies based on company-specific facts and circumstances.

Internal valuation of the fair value of joint ventures and associates designated as at fair value is performed at the time of commencing the project. Internal valuations of the fair value are performed on the quarterly basis, which are reviewed by business owners of the portfolio on at least a quarterly basis to make decisions on the best timing to exit the investment according to the investment strategy.

The Level 3 debt instruments are valued at the net present value of estimated future cash flows. The Group also considers liquidity, credit and market risk factors, and adjusts the valuation model as deemed necessary.

Non-financial assets and liabilities measured at fair value

Investment property. Investment property is measured at fair value reflecting market conditions at the end of the reporting period (valuation date). The valuation was carried out by independent appraisers or management. Sales comparison, discounted cash flow methods or their combination was used for the revaluation. The following non-observable assumptions (Level 3) were applied in determining of the fair value of the investments properties: discount rates, terminal capitalization rates, price dynamics, vacancy allowance, discounts for asking prices, adjustments reflecting comparables and subjects differences in location, area (volume), class and other conditions.

Land and premises. Land and premises of the Group are subject to revaluation on a regular basis. The frequency of revaluation depends upon the change in the fair values. When the fair value of a revalued asset differs materially from its carrying amount further revaluation is performed. The basis used for valuation was market approach (sales comparison method). The following non-observable assumptions (Level 3) were applied in determining the fair value of land and premises: adjustments reflecting comparables and subjects differences in location, area (volume), class and other conditions.

43. FAIR VALUE MEASUREMENT (CONTINUED)

Non-financial assets and liabilities measured at fair value (continued)

Assets and liabilities of disposal group held for sale. Held for sale disposal groups as a whole are measured at the lower of their carrying amount and fair value less costs to sell. Reclassified financial instruments, deferred taxes and investment properties held at fair value shall be remeasured in accordance with applicable IFRSs before the fair value less cost to sell of the disposal group is remeasured.

Precious metals. Precious metals are measured at fair value using reference prices for refined precious metals. Reference prices are calculated based on London fixing prices translated into RUR using the closing rate of exchange USD to Russian roubles at the reporting date.

Fair value of financial assets and liabilities not carried at fair value

Set out below is a comparison by class of the carrying amounts and fair values of the Group's financial instruments that are not carried at fair value in the consolidated statement of financial position. The table does not include the fair values of non-financial assets and non-financial liabilities.

The following describes the methodologies and assumptions used to determine fair values for those financial instruments which are not already recorded at fair value in the financial statements.

Assets for which fair value approximates carrying value. For financial assets and financial liabilities that are liquid or having a short term maturity it is assumed that the carrying amounts approximate to their fair value. This assumption is also applied to customer current/settlement deposits without a specific maturity.

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

As at 31 December 2017 fair values analysed by level in the fair value hierarchy and carrying value of financial assets and liabilities not measured at fair value are as follows:

	Quoted prices in active markets Level 1	Significant observable inputs Level 2	Significant unobservable inputs Level 3	Total fair value	Carrying amount
Financial assets for which fair values are disclosed					
Cash and short-term funds	289.9	483.9	–	773.8	773.8
Mandatory cash balances with central banks		97.1	–	97.1	97.1
Due from other banks	–	789.1	33.1	822.2	835.0
• Russia	–	308.9	31.7	340.6	353.8
• OECD	–	74.0	1.4	75.4	75.4
• Other countries	–	406.2	–	406.2	405.8
Loans and advances to customers	164.0	357.9	8,757.4	9,279.3	9,171.4
• Loans to legal entities	164.0	357.9	6,383.4	6,905.3	6,849.1
• Loans to individuals	–	–	2,374.0	2,374.0	2,322.3
Financial assets within assets of disposal groups held for sale	0.4	5.3	4.7	10.4	10.4
Other financial assets	–	–	65.6	65.6	65.6
Financial liabilities for which fair values are disclosed					
Due to other banks	–	810.3	–	810.3	810.3
Customer deposits	–	9,207.6	–	9,207.6	9,144.7
• Deposits of legal entities	–	5,632.7	–	5,632.7	5,523.1
• Deposits of individuals	–	3,574.9	–	3,574.9	3,621.6
Other borrowed funds	–	346.5	–	346.5	304.5
Debt securities issued	124.2	180.2	26.5	330.9	322.7
Financial liabilities within liabilities of disposal groups held for sale	–	6.4	–	6.4	6.4
Other financial liabilities	–	–	59.4	59.4	59.4
Subordinated debt	84.2	115.6	–	199.8	193.2

43. FAIR VALUE MEASUREMENT (CONTINUED)

Fair value of financial assets and liabilities not carried at fair value (continued)

As at 31 December 2016 fair values analysed by level in the fair value hierarchy and carrying value of financial assets and liabilities not measured at fair value are as follows:

	Quoted prices in active markets Level 1	Significant observable inputs Level 2	Significant unobservable inputs Level 3	Total fair value	Carrying amount
Financial assets for which fair values are disclosed					
Cash and short-term funds	137.9	315.0	–	452.9	452.9
Mandatory cash balances with central banks	–	95.1	–	95.1	95.1
Due from other banks	11.5	981.7	70.7	1,063.9	1,051.2
• Russia	10.8	515.7	65.1	591.6	577.7
• OECD	0.7	84.2	5.6	90.5	92.2
• Other countries	–	381.8	–	381.8	381.3
Loans and advances to customers	25.30	878.3	8,073.5	8,977.1	8,854.5
• Loans to legal entities	25.3	878.3	6,026.9	6,930.5	6,864.5
• Loans to individuals	–	–	2,046.6	2,046.6	1,990.0
Investment securities held-to-maturity	114.5	45.3	0.6	160.4	151.3
Financial assets within assets of disposal groups held for sale	–	–	0.8	0.8	0.8
Other financial assets	–	–	54.0	54.0	54.0
Financial liabilities for which fair values are disclosed					
Due to other banks	–	1,247.6	–	1,247.6	1,208.9
Customer deposits	–	7,326.5	–	7,326.5	7,346.6
• Deposits of legal entities	–	4,330.6	–	4,330.6	4,342.3
• Deposits of individuals	–	2,995.9	–	2,995.9	3,004.3
Other borrowed funds	–	1,351.1	–	1,351.1	1,307.2
Debt securities issued	282.8	131.4	–	414.2	399.6
Financial liabilities within liabilities of disposal groups held for sale	–	–	0.4	0.4	0.4
Other financial liabilities	–	–	50.3	50.3	50.3
Subordinated debt	112.6	119.0	–	231.6	224.1

43. FAIR VALUE MEASUREMENT (CONTINUED)

Analysis of financial assets and liabilities by measurement basis

Financial assets and financial liabilities are measured on an ongoing basis either at fair value or at amortized cost. The summary of principal accounting policies in Note 57 describes how the classes of financial instruments are measured, and how income and expenses, including fair value gains and losses, are recognised.

The following tables disclose the carrying amounts of financial assets and liabilities by category as defined in IAS 39 and by lines in the statement of financial position.

As at 31 December 2017:

	Held for trading	Designated as at fair value through profit or loss	Derivatives designated as hedging instruments	Loans and receivables	Available-for-sale	Financial liabilities measured at amortized cost	Financial liabilities measured at fair value	Total
Financial assets								
Cash and short-term funds	–	–	–	773.8	–	–	–	**773.8**
Mandatory cash balances with central banks	–	–	–	97.1	–	–	–	**97.1**
Non-derivative financial assets at fair value through profit or loss	277.2	36.2	–	–	–	–	–	**313.4**
Derivative financial assets	174.9	–	0.7	–	–	–	–	**175.6**
Due from other banks	–	–	–	835.0	–	–	–	**835.0**
Loans and advances to customers	–	–	–	9,171.4	–	–	–	**9,171.4**
Investment financial assets	–	–	–	–	285.6	–	–	**285.6**
Investments in associates and joint ventures at fair value through profit or loss	–	66.7	–	–	–	–	–	**66.7**
Financial assets within Assets of disposal group held for sale	–	–	–	10.4	–	–	–	**10.4**
Other financial assets	0.4	–	–	65.6	–	–	–	**66.0**
Total financial assets	**452.5**	**102.9**	**0.7**	**10,953.3**	**285.6**	**–**	**–**	**11,795.0**
Financial liabilities								
Due to other banks	–	–	–	–	–	810.3	–	**810.3**
Customer deposits	–	–	–	–	–	9,144.7	–	**9,144.7**
Derivative financial liabilities	133.3	–	0.7	–	–	–	–	**134.0**
Other borrowed funds	–	–	–	–	–	304.5	–	**304.5**
Debt securities issued	–	–	–	–	–	322.7	–	**322.7**
Financial liabilities within Liabilities of disposal group held for sale	–	–	–	–	–	6.4	–	**6.4**
Other financial liabilities	35.7	–	–	–	–	59.4	3.7	**98.8**
Subordinated debt	–	–	–	–	–	193.2	–	**193.2**
Total financial liabilities	**169.0**	**–**	**0.7**	**–**	**–**	**10,841.2**	**3.7**	**11,014.6**

As at 31 December 2016 (restated):

	Held for trading	Designated as at fair value through profit or loss	Derivatives designated as hedging instruments	Held-to-maturity	Loans and receivables	Available-for-sale	Financial liabilities measured at amortized cost	Financial liabilities measured at fair value	Total
Financial assets									
Cash and short-term funds	–	–	–	–	452.9	–	–	–	**452.9**
Mandatory cash balances with central banks	–	–	–	–	95.1	–	–	–	**95.1**
Non-derivative financial assets at fair value through profit or loss	226.1	41.0	–	–	–	–	–	–	**267.1**
Derivative financial assets	180.4	–	0.1	–	–	–	–	–	**180.5**
Due from other banks	–	–	–	–	1,051.2	–	–	–	**1,051.2**
Loans and advances to customers	–	–	–	–	8,854.5	–	–	–	**8,854.5**
Investment financial assets	–	–	–	151.3	–	189.4	–	–	**340.7**
Investments in associates and joint ventures at fair value through profit or loss	–	67.7	–	–	–	–	–	–	**67.7**
Financial assets within Assets of disposal group held for sale	–	–	–	–	0.8	–	–	–	**0.8**
Other financial assets	0.3	–	–	–	54.0	–	–	–	**54.3**
Total financial assets	**406.8**	**108.7**	**0.1**	**151.3**	**10,508.5**	**189.4**	**–**	**–**	**11,364.8**
Financial liabilities									
Due to other banks	–	–	–	–	–	–	1,208.9	–	**1,208.9**
Customer deposits							7,346.6	–	**7,346.6**
Derivative financial liabilities	164.1	–	0.9	–	–	–	–	–	**165.0**
Other borrowed funds	–	–	–	–	–	–	1,307.2	–	**1,307.2**
Debt securities issued	–	–	–	–	–	–	399.6	–	**399.6**
Financial liabilities within Liabilities of disposal group held for sale	–	–	–	–	–	–	0.4	–	**0.5**
Other financial liabilities	44.9	–	–	–	–	–	50.3	6.6	**101.8**
Subordinated debt	–	–	–	–	–	–	224.1	–	**224.1**
Total financial liabilities	**209.0**	**–**	**0.9**	**–**	**–**	**–**	**10,537.1**	**6.6**	**10,753.7**

44. CAPITAL MANAGEMENT AND CAPITAL ADEQUACY

The Group's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of its business.

Capital adequacy ratio in accordance with CBR requirements

The CBR requires Russian banks to maintain a minimum capital adequacy ratios in percentage of risk-weighted assets, determined in accordance with CBR's requirements by following categories of capital: common equity adequacy ratio (N 1.1); core capital adequacy ratio (N 1.2) and total capital adequacy ratio (N 1.0). As at 31 December 2017 the minimum required was 4.5% for base capital adequacy ratio (N 1.1); 6.0% for core capital adequacy ratio (N 1.2) and 8.0% for total capital adequacy ratio (N 1.0) (31 December 2016: 4.5%, 6.0% and 8.0%, respectively). In other countries, the Group members comply with the regulatory capital requirements of the local central banks or other supervisory authorities.

During 2017 and 2016 the Bank's capital adequacy ratios in accordance with CBR requirements (calculated prior to the accounting for adjusting subsequent events) exceeded the minimum level and as at 31 December 2017 and 31 December 2016 are as follows:

	2017	2016
Capital	1,061.7	1,017.8
Risk-weighted assets	9,413.1	9,162.0
Common equity adequacy ratio (N 1.1)	8.9%	9.6%
Core capital adequacy ratio (N 1.2)	9.1%	9.7%
Total capital adequacy ratio (N1.0)	11.3%	11.1%

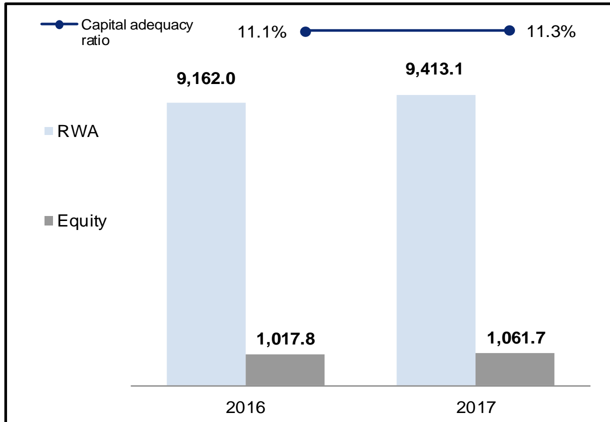
The Group's international risk based capital adequacy ratio is computed in accordance with the Basel Accord guidelines issued in 1988, with subsequent amendments including the amendment to incorporate market risks.

These ratios exceeded the minimum ratio of 8.0% recommended by the Basel Accord as disclosed below:

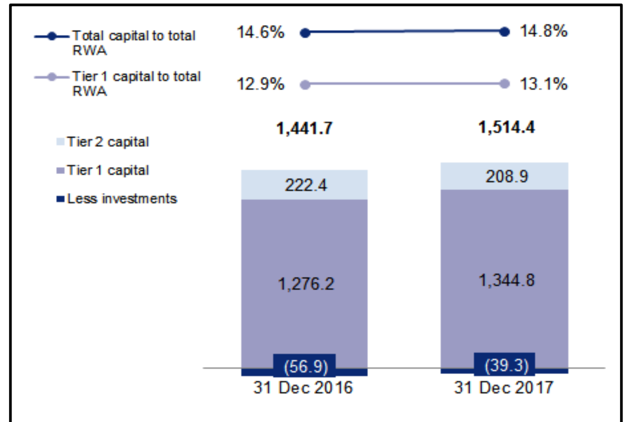
	2017	2016 (restated)
Tier 1 capital		
Share capital	659.5	659.5
Share premium	433.8	433.8
Treasury shares	(2.5)	(2.2)
Perpetual loan participation notes excluding bought back	128.8	136.2
Retained earnings	200.4	131.1
Unrealised gain on financial assets available-for-sale and cash flow hedge	6.5	3.7
Currency translation difference	20.7	20.6
Non-controlling interests	13.6	9.7
Deducted: goodwill	(116.0)	(116.2)
Total Tier 1 capital	**1,344.8**	**1,276.2**
Tier 2 capital		
Land and premises revaluation reserve	18.9	19.7
Assets of disposal groups held for sale revaluation reserve	–	0.8
Subordinated debt	190.0	201.9
Total Tier 2 capital	**208.9**	**222.4**
Total capital before deductions	**1,553.7**	**1,498.6**
Deducted: equity investments in financial institutions and subordinated debt provided	(39.3)	(56.9)
Total capital after deductions	**1,514.4**	**1,441.7**
Risk-weighted assets		
Credit risk	9,755.4	9,366.9
Market risks	507.3	508.5
Total risk-weighted assets	**10,262.7**	**9,875.4**
Tier 1 capital ratio to total risk-weighted assets	**13.1%**	**12.9%**
Total capital ratio to total risk-weighted assets	**14.8%**	**14.6%**

44. CAPITAL MANAGEMENT AND CAPITAL ADEQUACY (CONTINUED)

Capital adequacy ratio in accordance with CBR requirements



Group equity, calculated in accordance with the Basel Accord



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45. COMPOSITION OF THE GROUP

VTB bank is the direct or indirect holding company for the Group's subsidiaries. The principal subsidiaries included in these consolidated financial statements are presented in the table below:

Name	Activity	Country of registration	Percentage of ownership 2017	2016
Subsidiaries:				
"BM-Bank", JSC	Banking	Russia	100.00%	100.00%
"Post Bank", PJSC	Banking	Russia	50% minus 1 share	50% plus 1 share
"Bank VTB 24", PJSC	Banking	Russia	99.97%	99.97%
"VTB Bank (Europe)" SE	Banking	Germany	99.39%	n.a.
"VTB Bank (Austria)" AG	Banking	Austria	n.a.	100.00%
"VTB Bank (Deutschland)", AG	Banking	Germany	n.a.	100.00%
"VTB Bank (France)", SA	Banking	France	n.a.	96.30%
"VTB Bank (Armenia)", CJSC	Banking	Armenia	100.00%	100.00%
"VTB Bank (Belarus)", CJSC	Banking	Belarus	100.00%	100.00%
"Bank VTB (Kazakhstan)", JSC	Banking	Kazakhstan	100.00%	100.00%
"VTB Bank", PJSC (Ukraine)	Banking	Ukraine	100.00%	100.00%
"VTB Bank (Georgia)", JSC	Banking	Georgia	97.38%	97.14%
"VTB Capital", Plc	Banking	Great Britain	95.40%	95.40%
"VTB Bank (Azerbaijan)", OJSC	Banking	Azerbaijan	100.00%	51.00%
"VTB-Capital", JSC	Finance	Russia	100.00%	100.00%
"Holding VTB Capital", CJSC	Finance	Russia	100.00%	100.00%
Non-state pension fund "VTB Pension Fund", JSC	Finance	Russia	100.00%	100.00%
"Insurance Company VTB-Insurance", Ltd	Insurance	Russia	100.00%	100.00%
"VTB Factoring", Ltd	Factoring	Russia	100.00%	100.00%
"VTB-Leasing", JSC	Leasing	Russia	100.00%	100.00%
"Hals-Development", OJSC	Real Estate	Russia	98.11%	98.11%

During 2017 the Group increased its share in "VTB Bank (Azerbaijan)", OJSC to 100% from 51%. As a result non-controlling interests decreased by RUR 2.7 billion (Note 48).

In December 2017, "VTB Bank (Austria)" AG and "VTB Bank (France)", SA ceased its operations following the legal merger of "VTB Bank (Deutschland)", AG and "VTB Bank (Austria)" AG and "VTB Bank (France)", SA.

In November 2017, the Supervisory Council and the shareholders approved a legal merger of VTB and "Bank VTB 24", PJSC (Note 51).

In December 2017, "Bank VTB 24", PJSC transferred 2 shares of "Post Bank", PJSC to CEO of "Post Bank", PJSC. As at 31 December 2017, each of the major shareholders, "Bank VTB 24", PJSC and Russian Post, owned 50% minus 1 share in the share capital of "Post Bank", PJSC. However, "Bank VTB 24", PJSC retained control, as defined in IFRS, over "Post Bank", PJSC based on the terms of the agreement between the major shareholders.

Restrictions to access or use the Group's assets

Statutory, contractual or regulatory requirements, corporate laws, as well as protective rights of non-controlling interests might restrict the ability of the Group to access and transfer assets freely to or from entities within the Group and to settle liabilities of the Group. At 31 December 2017 and 31 December 2016, the Group had no material non-controlling interests whose protective rights significantly restricted the Group's ability to access or use the assets and settle the liabilities of the Group (Note 48). Other types of restrictions included the following:

- The Group has pledged assets to collateralize its obligations under repurchase agreements, securities financing transactions, collateralized loan obligations and for margining purposes for over-the-counter derivative liabilities (Notes 21, 22, 23, 24, 42, 43, 56);
- The Group has financial assets, including loans and advances to customers and investment financial assets in the aggregate amount of RUR 380.2 billion (31 December 2016: RUR 617.0 billion), that cannot be disposed of without prior approval of the government authority. The amount includes RUR 273.4 billion worth of OFZ AD purchased in September 2011 by former "Bank of Moscow", OJSC (Note 23) that cannot be sold more than RUR 2.0 billion a day without approval of the Ministry of Finance of the Russian Federation and the amount includes RUR 106.8 billion worth of OFZ that cannot be sold more than RUR 1.0 billion a day without approval of the Ministry of Finance of the Russian Federation (31 December 2016: RUR 302.4 billion of OFZ-AD and RUR 314.6 billion of OFZ).
- The assets of consolidated structured entities, such as securitizations, are held for the benefit of the parties that have bought the notes issued by these entities (Note 49).
- Assets held by insurance and pension funds subsidiaries are primarily held to satisfy the obligations to the subsidiaries' policy holders (Note 35).
- Banking and insurance regulations, including solvency and liquidity requirements, may restrict the Group's ability to transfer assets to or from its regulated subsidiaries in certain jurisdictions, as well as the ability of such subsidiaries to transfer funds to the Group in the form of cash dividends or to repay intergroup loans and advances. In the current economic environment in Ukraine (Note 41), National Bank of Ukraine introduced preapproval requirements on the certain operations of the Group's Ukrainian banking subsidiary which total assets, excluding intergroup balances, were less than 0.1% of the consolidated total assets of the Group and which liabilities, excluding intergroup balances, were less than 0.1% of the consolidated total liabilities of the Group at 31 December 2017 (31 December 2016: less than 0.3% of the consolidated total assets of the Group and less than 0.2% of the consolidated total liabilities).

46. BUSINESS COMBINATIONS AND DISPOSAL OF SUBSIDIARIES

In April 2017, as part of the JSC "Moscovsky Metrostroy" loan settlement (Note 47), the Group entered into option purchase agreements, which resulted in the Group's obtaining control through potential voting rights over certain subsidiary companies of JSC "Moscovsky Metrostroy". These subsidiary companies own several land plots in Moscow and conduct limited real estate activities.

The fair values of the acquired identified assets and liabilities were assessed with assistance of an independent professional appraiser as of the acquisition date and were as follows:

	RUR billion
Assets	
Investment property	12.5
Other assets	0.2
Total assets	**12.7**
Liabilities	
Deferred tax liability	2.5
Other liabilities	**0.1**
Total liabilities	**2.6**
Fair value of identifiable net assets	**10.1**
Total consideration	**10.1**
- pre-existing relationship	10.1
Less: fair value of identifiable net assets	(10.1)
Goodwill	–

In September 2017, the Group obtained 100% ownership in GLAVKINO, LLC. The Group paid consideration that includes cash and pre-existing relationship with the investee included the loan to one of the subsidiaries.

The fair values of the acquired identified assets and liabilities were assessed with assistance of an independent professional appraiser as of the acquisition date and were as follows:

	RUR billion
Assets	
Premises and equipment	1.4
Other assets	0.1
Total assets	**1.5**
Liabilities	
Other liabilities	0.5
Total liabilities	**0.5**
Fair value of identifiable net assets	**1.0**
Total consideration	**1.0**
- pre-existing relationship	1,0
Less: fair value of identifiable net assets	(1.0)
Goodwill	**–**

46. BUSINESS COMBINATIONS AND DISPOSAL OF SUBSIDIARIES (CONTINUED)

In December 2017, the Group received an offer to buy 100% ownership in "Volley Grand", LLC. The Group assessed the obtained potential voting rights as substantive and accounted for the fact as a business combination.

The provisional fair values of the acquired identified assets and liabilities were assessed with assistance of an independent professional appraiser as of the acquisition date and were as follows:

	RUR billion
Assets	
Cash and short-term funds	0.2
Loans and advances to customers	0.5
Premises and equipment	0.3
Property held for sale	9.7
Other assets	3.1
Total assets	**13.8**
Liabilities	
Deferred tax liability	0.4
Other liabilities	15.6
Total liabilities	**16.0**
Fair value of identifiable net assets	**(2.2)**
Total consideration	–
Less: fair value of identifiable net assets	(2.2)
Goodwill	**2.2**
Impairment of goodwill	(2.2)

During 2017, as part of the selling non-core assets strategy the Group disposed of a number of non-banking subsidiaries (excluding those disclosed in Note 29) with total net assets of RUR 3.2 billion for consideration of RUR 1.9 billion (including RUR 1.5 billion in cash). The loss as a result of these transactions amounted to RUR 0.5 billion.

47. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

	2017	2016 (restated)
Investments designated as at fair value through profit or loss		
− Investments in joint ventures	53.5	53.5
− Investments in associates	13.2	14.2
Investments accounted under equity method		
− Investments in associates	46.6	21.7
− Investments in joint ventures	3.8	3.9
Total investments in associates and joint ventures	**117.1**	**93.3**

47. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES (CONTINUED)

The Group's interests in its principal associates and joint ventures designated as at fair value through profit or loss were as follows:

	Principal place of business / Country of registration	Activity	2017 Carrying amount	2017 Ownership percentage	2016 (restated) Carrying amount	2016 (restated) Ownership percentage
Investments in joint ventures						
T2 (Netherlands) B.V.	Russia/Netherlands	Telecom	53.5	50.00%	53.5	50.00%
Total investments in joint ventures designated as at fair value through profit or loss			**53.5**		**53.5**	
Investments in associates						
"Burger King Russia (Cyprus)", Ltd	Russia/Cyprus	Fast food	5.6	19.98%	5.5	36.60%
"Thalita Trading", Ltd	Russia/Cyprus	Transport	3.1	25.01%	5.9	49.00%
Lagartino Partners Inc.	Virgin Islands	Services	1.5	22.50%	1.5	22.50%
Viva Telecom (Luxembourg) S.A	Bulgaria/Luxembourg	Telecom	2.8	19.99%	1.3	19.99%
Bashkirian concession company, LLC	Russia/Russia	Construction	0.2	49.90%	–	49.90%
Total investments in associates designated as at fair value through profit or loss			**13.2**		**14.2**	

In June 2017 the Group classified as assets held for sale 25% of shares in associated entity "Thalita Trading", Ltd and 25% of subordinated loan to "Thalita Trading", Ltd (Note 29). As at 31 December 2017 the Group classified 16.62% of shares in associated entity Burger King Russia (Cyprus, Ltd) as assets held for sale under IFRS 5 with the carrying amount of RUR 4.6 billion (Note 29).

Summarized financial information of material investments in associates and joint ventures designated as at fair value through profit or loss based on its consolidated IFRS financial statements is as follows:

T2 (Netherlands) B.V.	2017	2016
Current assets	9.9	10.2
• including cash and cash equivalents	1.2	1.0
Non-current assets	228.6	235.5
Current liabilities	59.0	44.0
• including interest-bearing loans and borrowings	33.8	21.7
Non-current liabilities	106.7	123.4
• including interest-bearing loans and borrowings	89.3	105.8
Net assets	72.8	78.3
Revenue	123.0	105.9
Cost of sales	(63.5)	(59.8)
Selling, general and administrative expenses	(29.5)	(28.1)
Depreciation and amortisation charge	(23.2)	(21.5)
Other operating income	1.0	2.0
Other operating expense	(0.6)	(3.5)
Interest income	0.1	0.1
Interest expense	(14.6)	(13.8)
Income tax benefit	1.7	3.1
Net loss from continuing operations	(5.6)	(15.6)

"Burger King Russia (Cyprus)", Ltd	2017	2016
Current assets	2.3	2.5
• including cash and cash equivalents	0.5	0.9
Non-current assets	11.4	8.1
Current liabilities	3.0	3.4
• including interest-bearing loans and borrowings	1.4	2.1
Non-current liabilities	5.3	3.0
• including interest-bearing loans and borrowings	5.3	3.0
Net assets	5.4	4.2
Revenue	29.1	21.5
Cost of sales	(25.0)	(18.2)
Selling, general and administrative expenses	(1.2)	(2.4)
Depreciation and amortisation charge	(1.6)	(0.2)
Other operating income	0.6	0.1
Other operating expense	(0.2)	–
Interest expense	(0.7)	(0.6)
Income tax expense	(0.1)	(0.1)
Net profit from continuing operations	0.9	0.1

47. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES (CONTINUED)

The Group's interests in its principal associates and joint ventures accounted under equity method were as follows:

	Principal place of business / Country of registration	Activity	2017 Carrying amount	2017 Ownership percentage	2016 (restated) Carrying amount	2016 (restated) Ownership percentage
Investments in associates						
"Moscovsky Metrostroy", JSC	Russia	Construction	25.6	49.00%	n.a.	n.a.
RCB Bank Ltd.	Cyprus	Banking	15.6	46.29%	16.1	46.29%
"Eurofinance Mosnarbank", OJSC	Russia	Banking	2.9	25.00%	3.0	25.00%
"Russ Out of Home", BV	Russia / Netherlands	Mass media	2.0	26.43%	2.2	26.43%
"United Electronic Market Place", OJSC	Russia	IT	0.5	48.18%	0.4	48.18%
Total investments in associates accounted under equity method			**46.6**		**21.7**	
Investments in joint ventures						
"Vietnam-Russia Joint Venture Bank"	Vietnam	Banking	3.7	50.00%	3.8	50.00%
"VTB Capital I2BF JVC (Cayman)", Ltd	Russia and Kazakhstan / Cayman Islands	Finance	0.1	50.00%	0.1	50.00%
Total investments in joint ventures accounted under equity method			**3.8**		**3.9**	

In April 2017, as a result of loan settlement, the Group acquired a 49.0% ownership interest in JSC "Moscovsky Metrostroy" with estimated fair value of RUR 26.8 billion. JSC "Moscovsky Metrostroy" is a construction company engaged in building activities, including construction of metro system facilities, underground structures, transport infrastructure, civil and other facilities. The Group exercises significant influence over the investee and accounts for it as an investment in associate under the equity method. Further, as part of the same loan settlement, the Group entered into option purchase agreements, which resulted in the Group's obtaining control through potential voting rights over certain subsidiary companies of JSC "Moscovsky Metrostroy". These subsidiary companies own several land plots in Moscow and conduct limited real estate activities. (Note 46)

Summarized financial information of JSC "Moscovsky Metrostroy" and its subsidiary companies as at 31 December 2017 is follows:

"Moscovsky Metrostroy", JSC	2017
Current assets	30.3
• including cash and cash equivalents	1.3
Non-current assets	15.6
Current liabilities	49.4
• including interest-bearing loans and borrowings	12.8
Non-current liabilities	1.5
• including interest-bearing loans and borrowings	–
Net assets	(5.0)
Revenue	24.3
Cost of sales	(23.6)
Selling, general and administrative expenses	(2.0)
Other operating income	2.9
Other operating expense	(3.3)
Interest expense	(1.3)
Income tax benefit	0.5
Net loss from continuing operations	(2.5)
Share of the Group in change of net assets	(1.2)
Carrying value of investment in associate	25.6

47. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES (CONTINUED)

Summarized financial information of other material investments in associates accounted under equity method as at 31 December 2017 and 31 December 2016 is follows:

	2017		2016	
	RCB Bank Ltd.	"Eurofinance Mosnarbank", OJSC	RCB Bank Ltd.	"Eurofinance Mosnarbank", OJSC
Total assets	634.0	50.0	558.6	46.1
Including:				
• cash and short-term funds	137.6	6.3	71.2	9.4
• due from other banks	0.6	20.7	0.6	9.8
• loans and advances to customers	475.6	4.4	460.5	3.7
Total liabilities	600.4	38.5	523.9	34.0
Including:				
• due to other banks	368.6	16.3	330.7	20.1
• customer deposits	207.9	19.5	176.4	11.1
Net assets	33.6	11.5	34.7	12.1
Net interest income and net fee income	14.4	1.8	17.6	1.7
Net profit from continuing operations	5.8	(1.6)	6.3	0.2
Other comprehensive income	(1.7)	1.4	(6.8)	1.1
Total comprehensive income	4.1	(1.6)	(0.5)	1.3
Dividends received	(5.2)	(0.4)	7.4	–
Share of the Group in net assets	15.6	2.9	16.1	3.0
Carrying value of investment in associate and joint venture	15.6	2.9	16.1	3.0

Summarized financial information of material investments in joint ventures accounted under equity method as at 31 December 2017 and 31 December 2016 is follows:

	2017	2016
	"Vietnam-Russia Joint Venture Bank"	"Vietnam-Russia Joint Venture Bank"
Total assets	46.3	38.3
Including:		
• cash and short-term funds	3.3	2.1
• due from other banks	9.7	7.8
• loans and advances to customers	21.9	17.9
Total liabilities	39.0	30.8
Including:		
• due to other banks	16.8	5.6
• customer deposits	22.0	24.5
Net assets	7.4	7.5
Net interest income and net fee income	0.7	0.8
Net profit from continuing operations	–	0.2
Total comprehensive income	–	0.2
Share of the Group in net assets	3.7	3.8
Carrying value of investment in associate and joint venture	3.7	3.8

The unrecognised share of losses of associates for 2017 and cumulatively at 31 December 2017 was RUR 0.5 billion and RUR 2.4 billion, respectively (2016 and cumulatively at 31 December 2016: RUR 1.4 billion and RUR 1.9 billion, respectively).

As at 31 December 2017, investment in associate in the amount of RUR 3.1 billion was pledged against the funds obtained by the subsidiary of that associate (31 December 2016: RUR 5.9 billion).

48. NON-CONTROLLING INTERESTS

The following table provides information about subsidiaries that has material to the Group non-controlling interest (the proportion of voting rights held by non-controlling interests is equal to the proportion of ownership interests held) as at 31 December 2017:

Name	Activity	Country of registration	Proportion of non-controlling interest	Accumulated non-controlling interest in the subsidiary	Profit/(loss) attributable to non-controlling interest	Dividends paid to non-controlling interest for the year
“Post Bank”, PJSC (Note 45)	Banking	Russia	50% plus 1 share	13.7	0.7	–
Banco VTB Africa S.A.	Banking	Angola	49.90%	1.9	1.2	(0.8)
CiTer Invest B.V.	Real Estate	Netherlands	49.50%	4.0	2.5	–
“Upravlyayuschaya kompaniya Dynamo”, CJSC	Real Estate	Russia	25.00%	(8.0)	(3.8)	–
“Hals-Development”, OJSC	Real Estate	Russia	1.89%	(0.7)	–	–

The Group has defined as material a non-controlling interest in subsidiaries in which it has less than 75% of the voting rights. Some subsidiaries, which net assets form the significant part of the Group's net assets, may also be included in the list even if the Group has more than 75% of voting rights.

The summarized financial information of these subsidiaries was as follows at 31 December 2017:

Name	Current assets	Non-current assets	Current liabilities	Non-current liabilities	Revenue	Net profit/ (loss)	Total compre-hensive income	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financial activities
“Post Bank”, PJSC	80.6	166.9	172.6	47.5	34.1	1.5	1.5	(3.4)	–	6.7
Banco VTB Africa S.A.	18.2	0.3	10.8	3.9	2.6	2.3	2.0	7.5	–	–
CiTer Invest B.V.	21.2	1.9	15.1	–	15.4	5.0	5.0	(3.7)	19.3	(6.3)
“Upravlyayuschaya kompaniya Dynamo”, CJSC	4.5	74.3	3.3	107.4	(6.7)	(15.3)	(15.3)	12.4	(13.6)	–
“Hals-Development”, OJSC	34.2	66.5	58.2	77.1	(4.0)	4.7	4.7	(0.8)	30.2	(25.2)

The following table provides information about subsidiaries that has material to the Group non-controlling interest (the proportion of voting rights held by non-controlling interests is equal to the proportion of ownership interests held) as at 31 December 2016:

Name	Activity	Country of registration	Proportion of non-controlling interest	Accumulated non-controlling interest in the subsidiary	Profit/(loss) attributable to non-controlling interest	Dividends paid to non-controlling interest for the year
“Post Bank”, PJSC	Banking	Russia	50% minus 1 share	9.4	0.7	–
Banco VTB Africa S.A.	Banking	Angola	49.90%	1.6	0.8	–
“VTB Bank (Azerbaijan)”, OJSC	Banking	Azerbaijan	49.00%	(2.1)	(3.1)	–
CiTer Invest B.V.	Real Estate	Netherlands	49.50%	1.5	3.2	–
“Upravlyayuschaya kompaniya Dynamo”, CJSC	Real Estate	Russia	25.00%	(4.2)	(2.4)	–
“Hals-Development”, OJSC	Real Estate	Russia	1.89%	(0.8)	0.1	–

The summarized financial information of these subsidiaries was as follows at 31 December 2016:

Name	Current assets	Non-current assets	Current liabilities	Non-current liabilities	Revenue	Net profit/ (loss)	Total compre-hensive income	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financial activities
“Post Bank”, PJSC	34.3	79.9	54.5	40.2	20.3	1.2	1.2	4.4	(4.5)	7.3
Banco VTB Africa S.A.	14.8	0.4	9.5	2.5	1.4	1.6	0.6	1.7	(0.1)	(0.5)
“VTB Bank (Azerbaijan)”, OJSC	3.0	6.2	5.7	7.8	0.6	(6.3)	(5.5)	(1.6)	–	0.1
CiTer Invest B.V.	8.1	25.2	5.0	25.2	–	6.5	6.5	14.2	(1.3)	(5.5)
“Upravlyayuschaya kompaniya Dynamo”, CJSC	14.8	56.8	9.5	78.8	(6.7)	(9.5)	(9.5)	11.7	(11.7)	–
“Hals-Development”, OJSC	40.5	90.7	53.3	117.6	(5.7)	7.4	7.4	17.5	(2.4)	(13.7)

49. INTERESTS IN STRUCTURED ENTITIES

The Group issues eurobonds and subordinated eurobonds through a number of consolidated structured entities incorporated in OECD countries:

Name	Country of registration
VTB Capital S.A	Luxembourg

As at 31 December 2017 the Group guarantees all external obligations of these entities represented by the eurobonds issued in the amount of RUR 161.1 billion and by the subordinated eurobonds issued in the amount of RUR 91.5 billion (31 December 2016: eurobonds issued in the amount of RUR 281.0 billion and subordinated Eurobonds issued in the amount of RUR 119.1 billion).

The Group also guarantees payments of the amounts under Perpetual Loan Participation Notes when due. (Note 37).

The Group issues mortgage-backed securities and purchases right of claims under mortgage through a consolidated structured entity performing its activity as mortgage agent.

The Group arranged a special purpose entity to attract funds through secured loan deal in the amount of USD 200 million with the expected maturity in June 2018. As at December 2017, the outstanding funds amounted to USD 45.5 million.

Name	Country of registration
Sretenka ABS Finance B.V.	Netherlands

As at 31 December 2017 the Group reported retail auto loans to individuals recognised as a result of these entities consolidation in the amount of RUR 3.8 billion (31 December 2016: RUR 10.2 billion).

During 2017 and 2016 the Group did not provide any other financial support to the consolidated structured entities. The Group has no current obligation or intention to provide financial or other support to consolidated structured entities, or to assist the structured entities in obtaining financial support.

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50. CONTINGENCIES AND COMMITMENTS

LEGAL PROCEEDINGS

From time to time and in the normal course of business, claims against the Group are received. As at the reporting date the Group had several unresolved legal claims. Management assessed probable outflow of resources and the respective provision has been made as at 31 December 2017 and 31 December 2016.

The movements in provisions for legal claims recorded in liabilities were as follows:

2015	**0.4**
Provision during the period	0.4
Write-offs	(0.4)
Effect of translation	0.1
2016	**0.5**
Reversal of provision during the period	(0.5)
Effect of translation	0.1
2017	**0.1**

As at 31 December 2017, the Group was involved in several legal cases related to its borrowers which are currently undergoing bankruptcy procedures. In these cases, the bankruptcy trustees' claims against the Group aggregate RUR 3.9 billion. The Group intends to defend itself vigorously. Management views the risk of loss from these legal cases as possible but not probable, therefore, no provision for these legal claims is made in these consolidated financial statements.

As at 31 December 2017, the Group was involved in a number of legal cases with claims in the total amount of RUR 16.0 billion (31 December 2016: RUR 14.6 billion) related to issued performance guarantees. The Group contests the validity or amount of the claims made by the beneficiaries and has created the provision in the amount of RUR 10.9 billion (31 December 2016: RUR 10.5 billion), which is the Group's best estimate of the loss under these guarantees. Provision for these guarantees is included in provisions for credit related commitments.

TAX CONTINGENCIES

Major part of the Group's business activity is carried out in the Russian Federation. Russian tax, currency and customs legislation as currently in effect is vaguely drafted and is subject to varying interpretations, selective and inconsistent application and changes, which can occur frequently, at short notice and may apply retrospectively. Management's interpretation of such legislation as applied to the transactions and activities of the Group may be challenged by the relevant state authorities.

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The Russian transfer pricing legislation as currently in effect allows the Russian tax authorities to apply transfer pricing adjustments and impose additional profits tax and VAT liabilities in respect of all "controlled" transactions if the transaction price differs from the market level of prices unless the Group is able to demonstrate the use of market prices with respect to the "controlled" transactions supported by the appropriate transfer pricing documentation and proper reporting to the Russian tax authorities. For the years ended 31 December 2017 and 31 December 2016 the Group determined its tax liabilities arising from "controlled" transactions using actual transaction prices.

Apart from the Russian Federation, the Group also operates in a number of foreign jurisdictions. The Group includes companies incorporated outside of Russia that are taxed pursuant to the provisions of the tax legislation of the jurisdictions of tax residence of the respective companies. Tax liabilities of the foreign companies of the Group are determined on the basis that non-Russian companies of the Group do not qualify as Russian tax residents, do not have a permanent establishment in Russia and hence are not subject to Russian profits tax except for Russian tax withheld at source (i.e. dividend, interest, certain capital gains, etc.).

Effective 1 January 2015 the concepts of "tax residency" for foreign legal entities, "beneficial ownership" and rules for taxation of undistributed profit of controlled foreign companies in Russia were introduced into the Russian tax legislation.

The practice for application of these concepts is currently being developed, and the respective provisions of the Russian Tax Code undergo frequent revisions and are subject to varying interpretations by the tax authorities. So far, since 2015, there has been a number of relevant changes and additions to the Russian Tax Code, including those that have been applied retrospectively.

The introduction and frequent revision of these concepts generally leads to an increase in the administrative (including tax) burden for the Russian entities that have subsidiary and affiliated structures incorporated outside of Russia.

The recent trends in law enforcement practice in taxation indicate that the tax authorities and courts are taking assertive positions in their interpretation of the tax legislation and, as a result, it is possible that transactions and activities that have not been challenged in the past may be challenged in the future. As such, taxpayers may be subject to significant additional taxes, fines and late payment interest.

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

As at 31 December 2017 and 31 December 2016, management believes that its interpretation of the relevant legislation is appropriate and that the Group's tax, currency and customs positions should be sustained vis-a-vis tax authorities and courts.

50. CONTINGENCIES AND COMMITMENTS (CONTINUED)

CREDIT RELATED COMMITMENTS

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees, including performance guarantees, represent irrevocable assurances that the Group will make payments in the event that a customer cannot meet its obligations to third parties. Documentary and commercial letters of credit (L/Cs), which are written undertakings by the Group on behalf of a customer authorizing a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions, are collateralized by cash deposits and therefore carry less risk than direct borrowings.

Commitments to extend credit represent unused portions of authorizations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Group is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards and/or the Bank confirming its willingness to extend a loan.

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.

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

Outstanding credit related commitments are as follows:

	2017	2016
Guarantees issued	985.4	671.1
Letters of credit	46.6	61.5
Undrawn credit lines	21.5	16.1
Commitments to extend credit	3.7	6.6
Less: provision for credit related commitments	(18.8)	(19.4)
Total credit related commitments	**1,038.4**	**735.9**

The Bank has received export letters of credit for further advising to its customers. The total amount of received letters of credit as at 31 December 2017 is RUR 165.0 billion (31 December 2016: RUR 210.4 billion).

Commitments under import letters of credit and guarantees are collateralized by customer deposits of RUR 386.5 billion (31 December 2016: RUR 62.5 billion) (Note 31).

As at 31 December 2017, the 10 largest groups of interrelated customers accounted for RUR 579.3 billion or 58.8 % of the guarantees issued (31 December 2016: RUR 288.3 billion or 43.0% of the guarantees issued).

The movements in provisions for credit related commitments were as follows:

2015	**14.3**
Provision during the period	64.9
Write-offs due to execution	(57.3)
Effect of translation	(2.5)
2016	**19.4**
Provision during the period	2.3
Write-offs due to execution	(2.9)
Effect of translation	–
2017	**18.8**

Provisions for credit-related commitments are recorded within other liabilities.

COMMITMENTS UNDER OPERATING LEASES

The Group’s commitments under operating leases mainly of premises comprised the following:

	2017	2016
Remaining contractual maturity		
Within 1 year	10.8	10.1
From 1 to 5 years	31.0	24.4
More than 5 years	19.9	20.4
Total operating lease commitments	**61.7**	**54.9**

50. CONTINGENCIES AND COMMITMENTS (CONTINUED)

COMMITMENTS UNDER CONSTRUCTION CONTRACTS

The Group has entered into agreements with third parties for construction of investment property objects or properties intended for sale which will require capital outlays subsequent to 31 December 2017.

The Group's future minimum capital expenditures and respective expected periods of expenditures related to investment property or property intended for sale in the ordinary course of business under construction in progress or development:

	2017			2016		
	Premises and Equipment in operating lease	Investment property	Property intended for sale in the ordinary course of business	Premises and Equipment in operating lease	Investment property	Property intended for sale in the ordinary course of business
Expected period of expenditure						
Within 1 year	31.7	7.5	34.2	35.4	9.6	42.4
From 1 to 5 years	–	2.3	12.9	38.7	16.1	40.3
More than 5 years	–	–	0.1	–	–	–
Total future minimum capital expenditures	**31.7**	**9.8**	**47.2**	**74.1**	**25.7**	**82.7**

PURCHASE COMMITMENTS

As at 31 December 2017 the Group had RUR 63.3 billion of outstanding commitments for the purchase of precious metals (31 December 2016: RUR 70.1 billion). As the price of these contracts is linked to the fair value of precious metals at the date of delivery, no gain or loss is recognised on these contracts.

51. SUBSEQUENT EVENTS

In February 2018, the Group entered into an agreement with a major shareholder of Magnit PJSC ("Magnit"), who is also a member of the Supervisory Board of VTB Bank, to acquire 29.1% of ordinary shares of Magnit for approximately 138.2 billion RUR. The transaction is subject to regulatory approval and is expected to close in the first half of 2018.

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On 1 January 2018 the Group completed the merger of "Bank VTB 24", PJSC into VTB Bank (PJSC) and started servicing clients of both banks under the unified VTB brand. The merger was one of the key initiatives under the Group's approved 2017-2019 strategy, and management expects to achieve business synergies and costs savings from the integration of the two banks.

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52. RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions as defined by IAS 24, *Related Party Disclosures*. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form. A government-related entity is an entity that is controlled, jointly controlled or significantly influenced by a government.

Transactions and balances with related parties comprise transactions and balances with Russian government-related entities and associates and joint ventures and are stated in the tables below (summarized financial information of material investments in associates and joint ventures is provided in Note 47):

Statement of financial position

	2017			2016		
	Government-related entities	Associates	Joint ventures	Government-related entities	Associates	Joint ventures
Assets						
Cash and short-term funds	219.3	2.5	–	126.2	1.3	–
Mandatory cash balances with central banks	90.1	–	–	85.7	–	–
Non-derivative financial assets at fair value through profit or loss	172.4	–	–	107.6	–	–
Derivative financial assets	67.5	0.6	–	72.3	0.2	–
Due from other banks	308.2	355.5	–	449.2	326.0	–
Allowance for due from other banks	(18.3)	–	–	(0.7)	–	–
Loans and advances to customers	1,869.9	166.8	84.7	2,225.7	164.9	81.1
Allowance for loan impairment	(13.9)	(6.2)	(0.8)	(18.2)	(5.8)	(0.8)
Investment financial assets	216.8	–	–	213.3	–	–
Other assets	19.2	0.2	–	22.1	0.1	–
Liabilities						
Due to other banks	257.1	350.1	0.1	523.6	330.3	0.5
Customer deposits	2,903.1	51.5	–	2,132.2	50.9	–
Derivatives financial liabilities	22.2	–	–	26.9	0.5	–
Other borrowed funds	165.3	0.1	–	1,141.7	0.1	–
Liabilities of disposal group held for sale	1.3	–	–	–	–	–
Subordinated debt	101.7	–	–	105.1	–	–
Other liabilities	31.2	0.5	–	43.9	3.4	–
Credit related commitments						
Guarantees issued	280.5	18.9	0.9	303.7	23.9	–
Import letters of credit	3.5	–	0.7	1.8	–	–
Undrawn credit lines	–	0.7	–	–	–	–
Commitments to extend credit	1.8	–	–	–	–	–

As at 31 December 2017 guarantees issued to third parties for the amount of RUR 337.4 billion are collateralized by customer deposits of RUR 351.5 billion from a related party.

Income statement

	2017			2016		
	Government-related entities	Associates	Joint ventures	Government-related entities	Associates	Joint ventures
Interest income						
Loans and advances to customers	207.3	15.0	8.6	211.7	27.9	–
Securities	25.7	–	–	25.5	–	–
Due from other banks	25.8	4.9	–	26.8	4.7	–
Interest expense						
Due to other banks and other borrowed funds	(57.3)	(21.2)	–	(94.9)	(14.5)	–
Customer deposits	(175.6)	(1.8)	–	(188.7)	(0.3)	–
Subordinated debt	(8.3)	–	–	(12.3)	–	–
(Provision charge)/reversal of provision for impairment of debt financial assets	(18.8)	(0.4)	–	3.4	(2.4)	(0.5)
(Provision charge)/reversal of provision for credit related commitments	(1.0)	0.3	–	(5.7)	(51.6)	–

52. RELATED PERTY TRANSACTIONS (CONTINUED)

The key management personnel includes certain senior members (executive body) of the Group Management Committee, Heads of Global Business Lines, all members of the Management Board of VTB Bank, as well as all members of the Supervisory Council of VTB Bank and their aggregate remuneration for the year ended 31 December 2017 amounted to RUR 3.8 billion (for year ended 31 December 2016: RUR 2.4 billion). Compensation of key management personnel consists primarily of short-term employee benefits, including pension contributions.

Under the Group's updated policy of key management personnel remuneration, starting from 2017 the Management Board of VTB Bank receives 60% of the annual bonus in cash, and 40% is deferred for the period of 3 years. The deferred amount is paid in three equal instalments in one, two and three years after the grant date, subject to the certain non-vesting conditions. Half of the deferred amount is paid in cash and another half is paid under a cash-settled share based payment plan (Note 54). The share-based payment expense for 2017 was RUR 0.3 billion. The liability arising from cash-settled share-based payment transaction totalled RUR 0.3 billion and was recognized in Other liabilities (Note 35).

53. OFFSETTING OF FINANCIAL INSTRUMENTS

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

Assets (gross before allowance for impairment)	Gross amount of recognised financial assets	Gross amount of recognised financial liabilities set off in the statement of financial position	Net amount of financial assets presented in the statement of financial position	Related amounts not set off in the statement of financial position		Net amount
				Financial instruments	Cash collateral received	
Reverse sale and repurchase agreements to maturity (Non-derivative financial assets at fair value through profit or loss)	18.5	–	18.5	(18.5)	–	**–**
Non-derivative financial assets at fair value through profit or loss, pledged under repurchase agreements	0.3	–	0.3	(0.2)	–	**0.1**
Investment financial assets, pledged under repurchase agreements	0.4	–	0.4	(0.4)	–	**–**
Derivative financial assets	175.6	–	175.6	(0.6)	–	**175.0**
Reverse sale and repurchase agreements with other banks	33.4	–	33.4	(33.2)	–	**0.2**
Reverse sale and repurchase agreements with legal entities and individuals	378.0	–	378.0	(358.4)	–	**19.4**
Loans to legal entities and individuals, except reverse sale and repurchase agreements	9,394.8	–	9,394.8	(210.3)	–	**9,184.5**
Total	**10,001.0**	–	**10,001.0**	**(621.6)**	–	**9,379.2**

Liabilities	Gross amount of recognised financial liabilities	Gross amount of recognised financial assets set off in the statement of financial position	Net amount of financial liabilities presented in the statement of financial position	Related amounts not set off in the statement of financial position		Net amount
				Financial instruments	Cash collateral pledged	
Sale and repurchase agreements with other banks (due to other banks)	0.9	–	0.9	(0.5)	–	**0.4**
Customer deposits, except sale and repurchase agreements	9,137.8	–	9,137.8	(210.3)	–	**8,927.5**
Sale and repurchase agreements with customers (customer deposits)	6.9	–	6.9	(0.1)	–	**6.8**
Derivative financial liabilities	134.0	–	134.0	(0.6)	–	**133.4**
Total	**9,279.6**	–	**9,279.6**	**(211.5)**	–	**9,068.1**

53. OFFSETTING OF FINANCIAL INSTRUMENTS (CONTINUED)

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

Assets (gross before allowance for impairment)	Gross amount of recognised financial assets	Gross amount of recognised financial liabilities set off in the statement of financial position	Net amount of financial assets presented in the statement of financial position	Related amounts not set off in the statement of financial position		Net amount
				Financial instruments	Cash collateral received	
Reverse sale and repurchase agreements to maturity (Non-derivative financial assets at fair value through profit or loss)	19.3	–	19.3	(19.3)	–	**–**
Non-derivative financial assets at fair value through profit or loss, pledged under repurchase agreements	26.4	–	26.4	(24.2)	–	**2.2**
Investment financial assets, pledged under repurchase agreements	16.5		16.5	(15.6)	–	**0.9**
Derivative financial assets	180.5	–	180.5	(63.4)	–	**117.1**
Reverse sale and repurchase agreements with other banks	211.8	–	211.8	(211.8)	–	**–**
Due from other banks, pledged under repurchase agreements	13.8	–	13.8	(13.3)	–	**0.5**
Reverse sale and repurchase agreements with legal entities and individuals	375.2	–	375.2	(375.1)	–	**0.1**
Loans and advances to customers, pledged under repurchase agreements	190.1	–	190.1	(179.4)	–	**10.7**
Total	**1,033.6**	–	**1,033.6**	**(902.1)**	**–**	**131.5**

Liabilities	Gross amount of recognised financial liabilities	Gross amount of recognised financial assets set off in the statement of financial position	Net amount of financial liabilities presented in the statement of financial position	Related amounts not set off in the statement of financial position		Net amount
				Financial instruments	Cash collateral pledged	
Funds from local central banks under sale and repurchase agreements (other borrowed funds)	435.9		435.9	(206.7)	–	**229.2**
Sale and repurchase agreements with other banks (due to other banks)	76.6	–	76.6	(25.6)	–	**51.0**
Sale and repurchase agreements with customers (customer deposits)	0.2	–	0.2	(0.2)	–	**–**
Obligation to deliver securities	44.6	–	44.6	(30.9)	–	**13.7**
Derivative financial liabilities	165.0	–	165.0	(63.4)	–	**101.6**
Total	**722.3**	–	**722.3**	**(326.8)**	–	**395.5**

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

54. SHARE-BASED PAYMENTS

In February 2012, several VTB Group members introduced for their selected employees a share-based remuneration plan. This plan has established a right of those employees to receive common shares (“Shares Plan”) or GDR (“GDRs Plan”) of VTB (depending on the employing entity’s country of incorporation) contingent on their service over a specified period of time.

Shares Plan. The vesting conditions envisage that an employee remains in service for a certain vesting period to receive the shares award. The awarded shares vest gradually in three equal instalments over the vesting periods of one, two and three years, subject to employee’s continuous employment with the Group during the relevant vesting period. An award, or portion of it, may be forfeited or paid if the employee terminates employment before the end of the relevant vesting period voluntarily or subject to certain other conditions as described in the Plan rules.

GDRs Plan. Under GDRs Plan, the selected employees are granted zero strike price options to purchase GDRs exercisable over ten years from each respective vesting date. The vesting conditions envisage that an employee remains in service for a certain vesting period to receive the GDRs award. The awarded GDRs vest gradually in three equal instalments over the vesting periods of one, two and three years, subject to employee’s continuous employment with the Group during the relevant vesting period. An award, or portion of it, may be forfeited or exercised if the employee terminates employment before the end of the relevant vesting period voluntarily or subject to certain other conditions as described in the Plan rules.

Cash-settled Plan. In December 2017, VTB introduced a new remuneration plan for key management (Note 52). Under the plan, participants are granted cash-settled awards linked to VTB shares, which are settled in three equal instalments in one, two and three years after the grant date, subject to the certain non-vesting conditions.

As at 31 December 2017 the total value of the award granted under the Shares Plan was RUR 1.2 billion (31 December 2016: RUR 1.2 billion) represented by 18.6 billion of common shares of VTB (31 December 2016: 19.4 billion).

As at 31 December 2017 the total value of the award granted under the GDRs Plan was RUR 0.9 billion (31 December 2016: RUR 1.4 billion) represented by 7.5 million of GDRs of VTB (31 December 2016: 10.0 million). Each GDR contains 2,000 VTB shares.

As at 31 December 2017 the total value of the award granted under the Cash-Settled Plan was RUR 0.3 billion (31 December 2016: nil) represented by 5.5 billion of common shares of VTB (31 December 2016: nil).

For the year ended 31 December 2017 the Group recognised in Staff costs the amount of RUR 0.9 billion (31 December 2016: RUR 1.0 billion) as expenses related to the above equity-settled share-based payment transactions. For the year ended 31 December 2017 the Group recognised in Staff costs the amount of RUR 0.3 billion (31 December 2016: nil) as expenses related to the above cash-settled share-based payment transactions.

For the year ended 31 December 2017 and 31 December 2016 quantity of units under Share/GDRs Plan was determined as fixed monetary value communicated to employees on the grant date divided by a simple daily volume-weighted average price of shares/GDRs on the relevant stock exchange for the 30 days prior to the PSA execution/grant.

As at 31 December 2017 under the GDRs Plan 20.2 million GDRs were vested (31 December 2016: 16.2 million). As at 31 December 2017 the quantity of vested unexercised options comprised 1.7 million (31 December 2016: 1.6 million).

55. BASIC AND DILUTED EARNINGS PER SHARE

Basic earnings per share are calculated by dividing the net profit or loss attributable to ordinary shareholders of the parent by the weighted average number of ordinary shares in issue during the period, excluding the average number of ordinary shares purchased by the Group and held as treasury shares.

The Group has no dilutive potential ordinary shares; therefore, the diluted earnings per share are equal to basic earnings per share.

	2017	2016
Weighted average number of ordinary shares in issue	12,924,965,244,238	12,920,646,355,077
Net profit attributable to shareholders of the parent	120.3	52.3
Amounts paid on perpetual loan participation notes, net of tax	(9.8)	(11.2)
Total net profit attributable to shareholders of the parent	110.5	41.1
Basic and diluted earnings per share (expressed in Russian roubles per share)	**0.00855**	**0.00318**
Profit after tax from subsidiaries acquired exclusively with a view to resale	0.1	7.7
Basic and diluted earnings per share based on profit after tax from subsidiaries acquired exclusively with a view to resale (expressed in Russian roubles per share)	**0.00001**	**0.00060**
Total net profit attributable to shareholders of the parent net of profit after tax from subsidiaries acquired exclusively with a view to resale	110.4	33.4
Basic and diluted earnings per share before profit after tax from subsidiaries acquired exclusively with a view to resale (expressed in Russian roubles per share)	**0.00854**	**0.00258**

56. TRANSFERS OF FINANCIAL ASSETS AND ASSETS HELD OR PLEDGED AS COLLATERAL

The Group transferred financial assets in transactions that did not qualify for derecognition. The following note 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.

(a) Transfers that did not qualify for derecognition of the financial asset in its entirety

The table below shows the amount of assets pledged under sale and repurchases agreements which the Group entered into in the normal course of business as at 31 December 2017 and 31 December 2016. (Notes 20, 22, 23, 24, 30, 31 and 32.)

	2017			2016		
	Carrying amount of the assets	Carrying amount of the associated liabilities	Net position	Carrying amount of the assets	Carrying amount of the associated liabilities	Net position
Non-derivative financial assets at fair value through profit or loss	0.3	0.5	**(0.2)**	26.4	24.8	**1.6**
Investment financial assets available-for-sale	0.4	0.4	**–**	2.0	1.9	**0.1**
Investment financial assets held to maturity	–	–	**–**	14.5	14.6	**(0.1)**
Loans and advances to customers	–	–	**–**	189.7	179.9	**9.8**
Due from other banks	–	–	**–**	13.8	13.3	**0.5**
Total	**0.7**	**0.9**	**(0.2)**	**246.4**	**234.5**	**11.9**

In addition the Group has loans and advances with customers that did not qualify for derecognition with carrying amount of RUR 344.1 billion (31 December 2016: RUR 315.8 billion) and associated financial liabilities with carrying amount of RUR 344.1 billion (31 December 2016: RUR 315.8 billion).

56. TRANSFER OF FINANCIAL ASSETS AND ASSETS HELD OR PLEDGED AS COLLATERAL (CONTINUED)

(a) Transfers that did not qualify for derecognition of the financial asset in its entirety (continued)

The table below shows the amount of securitization operations as at 31 December 2017 and 31 December 2016 which the Group enters into in the normal course of business.

		2017			2016		
	Note	Carrying amount of the assets	Carrying amount of the associated liabilities	Net position	Carrying amount of the assets	Carrying amount of the associated liabilities	Net position
Due from Central Bank [A]	22	1.0	1.0	–	1.0	1.0	–
Mortgage loans [A]	23	16.9	12.6	**4.3**	21.9	19.6	**2.3**
Car loans [B]	23	3.9	2.6	**1.3**	10.2	13.0	**(2.8)**
Total		**21.8**	**16.2**	**5.6**	**33.1**	**33.6**	**(0.5)**

(A) Starting from 2010 "Bank VTB 24", PJSC participates in VEB Programme to support affordable housing projects using the mortgage. Under this Programme "Bank VTB 24", PJSC issues mortgage-backed securities which are all bought by VEB. As at 31 December 2017 carrying amount of pledged assets under this Programme was RUR 17.9 billion, including RUR 16.9 billion of mortgage loans and RUR 1.0 billion on due from Central Bank of Russian Federation, amortized cost of issued mortgage-backed securities to RUR 13.6 billion.

(B) In January 2014, "Bank VTB 24", PJSC arranged a structured transaction related to its car loan portfolio through a sale to a special purpose entity, which further attracted funds through secured loan deal in the amount of USD 200 million with the expected maturity in June 2018. The USD loan bears the floating interest rate of monthly LIBOR plus 1.5% p.a. payable monthly.

(B) As at 31 December 2017 the carrying amount of the loan of RUR 2.6 billion was included in other borrowings. This loan was securitized with a pledge of loans to customers with the carrying amount of RUR 3.9 billion.

In October, 2017 the Group transferred a portfolio of mortgage loans in the amount of RUR 48.8 billion to LLC «Mortgage agent «Factory MBS» («Factory MBS»), subsidiary of JSC «The Agency for Housing Mortgage Lending» ("AHML"), in exchange for the bonds with the same nominal value. As a part of securitization transaction, the Group entered into an interest rate swap with AHML and committed to repurchase defaulted loans until the cumulative losses on the portfolio reach 15% of its nominal value. The Group continues to recognize the loans until these bonds are sold to third parties. In December 2017, the Group sold bonds with a nominal value of RUR 44.1 billion, derecognized the corresponding loans and recognized a gain on sale of RUR 2.3 billion in gains less losses arising from sale of debt securities from loans portfolios of consolidated income statement. As at 31 December 2017, the remaining loans with a carrying value of RUR 4.0 billion were included in loans to individuals.

(b) Transfers that qualified for derecognition of the financial asset in its entirety

The Group has certain transferred financial assets which have been derecognised in their entirety, but for which there is continuing involvement at the reporting date due to the representation on the board of directors and/or due to effectively holding collateral under transferred assets to secure remaining payments from third parties related to the transfer. The collateral fair value under transferred assets comprised 3.1 RUR billion as at 31 December 2017 (31 December 2016: RUR 3.1 billion). Proceeds from the transfer were fully received in several instalments with RUR 0.01 billion and RUR 1.5 billion received in 2014 and 2013 respectively. The gain recognised at the date of transfer comprised RUR 0.5 billion.

Assets pledged as collateral

The Group pledges assets that are on its statement of financial position in various day-to-day transactions that are conducted under the usual terms and conditions applying to such agreements. As at 31 December 2017 the Group pledged securities as collateral in repurchase agreements for RUR 0.7 billion (31 December 2016: RUR 246.4 billion). Refer to the section "(a) Transfers that did not qualify for derecognition of the financial asset in its entirety" above.

Assets held as collateral

The Group holds certain assets as collateral which it is permitted to sell or repledge in the absence of default by the owner of the collateral, under the usual terms and conditions applying to such agreements. The Group received securities as collateral in reverse repurchase agreements with banks and customers (Notes 22, 23) and reverse sale and repurchase agreements to maturity accounted at fair value with a fair value of RUR 466.1 billion and RUR 24.1 billion (31 December 2016: RUR 722.8 billion and RUR 25.1 billion respectively). Of these, the Group sold securities with a fair value of RUR 35.4 billion (31 December 2016: RUR 44.6 billion) in short sale transactions and securities with a fair value of RUR 7.2 billion (31 December 2016: RUR 257.8 billion) under repurchase agreements.

In addition, the Group held RUR 386.5 billion of Customer deposits (31 December 2016: RUR 62.5 billion) as collateral for irrevocable commitments under import letters of credit (Note 31). The Group is obliged to return the collateral at maturity of the import letters of credit.

57. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES

Subsidiaries

Subsidiaries are those investees, including structured entities, that the Group controls because the Group (i) has power to direct relevant activities of the investees that significantly affect their returns, (ii) has exposure, or rights, to variable returns from its involvement with the investees, and (iii) has the ability to use its power over the investees to affect the amount of investor's returns. The existence and effect of substantive rights, including substantive potential voting rights, are considered when assessing whether the Group has power over another entity. Subsidiaries are consolidated from the date, on which control is transferred to the Group (acquisition date) and are no longer consolidated from the date when control ceases. All intragroup balances and transactions, including income, expenses, dividends and unrealised gains on transactions between the Group members are eliminated in full; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Where necessary, accounting policies for subsidiaries have been changed to ensure consistency with the accounting policies adopted by the Group.

Acquisition of subsidiaries

The acquisition method of accounting is used to account for the acquisition of subsidiaries by the Group. Identifiable assets acquired and liabilities assumed, including contingent liabilities, which are a present obligation and can be measured reliably, are measured initially at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest.

The excess of the aggregate of: i) purchase consideration paid, ii) the amount of any non-controlling interest in the acquiree and iii) acquisition-date fair value of the acquirer's previously held equity interest in the acquiree (in case of the business combination achieved in stages), over the fair value of the acquiree's identifiable net assets is recorded as goodwill. If the result of the above calculation is negative, the difference is recognised directly in the income statement.

Non-controlling interest is the interest in subsidiaries not attributable, directly or indirectly to the Group. The Group measures non-controlling interest that represents present ownership interest and entitles the holder to a proportionate share of net assets in the event of liquidation on a transaction by transaction basis, either at: (a) fair value, or (b) the non-controlling interest's proportionate share of net assets of the acquiree. This choice is made by the acquirer for each business combination. Non-controlling interests that are not present ownership interests are measured at fair value. Non-controlling interest at the subsequent reporting date represents the initially recognised amount of non-controlling interest at the acquisition date and the non-controlling interest's portion of movements in comprehensive income and equity since the date of the combination. Non-controlling interest is presented as a separate component within the Group's equity except for the non-controlling interests in mutual funds under the Group's control, which are accounted for within Group's liabilities.

In a business combination achieved in stages, the acquirer shall remeasure its previously held equity interest in the acquiree at its acquisition-date fair value and recognise the resulting gain or loss, if any, in profit or loss. Acquisition-related costs should be accounted for separately from the business combination and therefore recognised as expenses rather than included in goodwill. An acquirer should recognise at the acquisition date a liability for any contingent purchase consideration.

Increases in ownership interests in subsidiaries

The differences between the carrying values of net assets attributable to interests in subsidiaries acquired and the consideration given for such increases are charged or credited directly to retained earnings as a capital transaction.

Investments in associates and joint arrangements

Associates are entities over which the Group has significant influence (directly or indirectly), but not control, generally accompanying a shareholding of between 20 and 50 percent of the voting rights. Investments in associates are accounted for using the equity method of accounting, and are initially recognised at cost. The carrying amount of associates includes goodwill identified on acquisition less accumulated impairment losses, if any. Dividends received from associates reduce the carrying value of the investment in associates. Other post-acquisition changes in Group's share of net assets of an associate are recognised as follows: (i) the Group's share of profits or losses of associates is recorded in the consolidated profit or loss for the year as share of result of associates, (ii) the Group's share of other comprehensive income is recognised in other comprehensive income and presented separately, (iii) all other changes in the Group's share of the carrying value of net assets of associates are recognised in profit or loss within the share of result of associates. However, when the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

A joint venture exists where the Group has a joint arrangement with one or more parties to have rights to the net assets of the arrangement. The Group recognises interests in a joint venture using the equity method and applies the same accounting policies as those for investments in associates.

57. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

Investments in associates and joint arrangements (continued)

Venture Capital Investments

Investments in companies that are managed by a dedicated team within VTB Group, primarily involved in venture capital activities, as part of the Group's investment portfolio of securities at fair value through profit and loss and over which the Group may have significant influence are carried at fair value as permitted by IAS 28 which allows investments in associates and joint ventures that are held by venture capital organizations to be excluded from the scope of IAS 28 if these investments are upon initial recognition designated as at fair value through profit or loss or are classified as held for trading and accounted in accordance with IAS 39. These venture capital investments of the Group are classified as investments in associates and joint ventures designated as at fair value through profit or loss and the changes in the fair value of such investments are accounted for similar to the changes in the fair value of financial assets designated as at fair value through profit or loss as described below, and is included in the gains less losses arising from financial instruments at fair value through profit or loss.

Structured entities

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

The Group does not consolidate structured entities that it does not control. As it can sometimes be difficult to determine whether the Group does control a structured entity, management makes judgements about its exposure to the risks and rewards, as well as about its ability to make operational decisions for the structured entity in question. In many instances, elements are present that, considered in isolation, indicate control or lack of control over a structured entity, but when considered together make it difficult to reach a clear conclusion. Refer to Note 49 for further information about the Group's exposure to structured entities.

Disposals of subsidiaries, associates or joint ventures

When the Group ceases to have control or significant influence, any retained interest in the entity is remeasured to its fair value, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity, are accounted for as if the Group had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group shall reclassify the gain or loss from equity to profit or loss (as a reclassification adjustment) when it loses control of the subsidiary. If a revaluation surplus previously recognised in other comprehensive income would be transferred directly to retained earnings on the disposal of the asset, the Group shall transfer the revaluation surplus directly to retained earnings when it loses control of the subsidiary.

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

Financial assets

Valuation of financial instruments

All financial instruments are recognised initially at fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs are directly attributable to the acquisition or issue of the financial asset. In the normal course of business, the fair value of a financial instrument on initial recognition is the transaction price (that is, the fair value of the consideration given or received).

Subsequent to initial recognition, the fair values of financial instruments measured at fair value are measured in accordance with the Group's valuation methodologies, which are described in Notes 40, 43.

'Day 1' profit

Where the transaction price in a non-active market is different to the fair value from other observable current market transactions in the same instrument or based on a valuation technique with all material inputs observable, the Group immediately recognises the difference between the transaction price and fair value (a 'Day 1' profit) in the consolidated income statement. Any other differences are not recognised as "day 1" gain or loss but rather are amortized on a straight line basis over the term of the relevant financial asset or recognised in the consolidated income statement when the inputs become observable, or when the instrument is derecognised.

Classification of financial assets

Financial assets in the scope of IAS 39 are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale financial assets, as appropriate.

57. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

Financial assets (continued)

Reclassification of financial assets

Non-derivative financial assets (other than those designated at fair value through profit or loss upon initial recognition) may be reclassified out of the fair value through profit or loss category in the following circumstances:

- financial assets that would have met the definition of loans and receivables at the date of reclassification (if the financial asset had not been required to be classified as held for trading) may be reclassified out of the fair value through profit or loss category if there is the intention and ability to hold the financial asset for the foreseeable future or until maturity; and
- financial assets (except financial assets that would have met the definition of loans and receivables at initial recognition) may be reclassified out of the fair value through profit or loss category and into another category in rare circumstances.

When a financial asset is reclassified as described in the above circumstances, the financial asset is reclassified at its fair value on the date of reclassification. Any gain or loss already recognised in the income statement is not reversed. The fair value of the financial asset on the date of reclassification becomes its new cost or amortized cost, as applicable.

Where financial assets have been reclassified out of the fair value through profit or loss category to the loans and receivables category, the effective interest rate determined at the date of reclassification is used to calculate any impairment losses.

Where financial assets have been reclassified out of the available-for-sale investment financial assets category to the loans and receivables category, the previous gain or loss that has been recognised in other comprehensive income shall be amortized through income statement within gains less losses from available-for-sale financial assets over the remaining life of the financial asset using the effective interest method.

Financial assets at fair value through profit or loss

(a) Financial assets held for trading

Financial assets classified as held for trading are included in the category ‘financial assets at fair value through profit or loss’. Financial assets are classified as held for trading if they are acquired or generated for the purpose of selling in the near term. Derivatives are also classified as held for trading unless they are designated as and are effective hedging instruments. Gains or losses on financial assets held for trading are recognised in the income statement.

Financial assets held for trading, 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 may choose to reclassify a non-derivative financial asset held for trading out of the fair value through profit or loss category if the asset is no longer held for the purpose of selling it in the near term.

Non-derivative financial assets held for trading are carried at fair value. Interest earned on non-derivative debt financial assets held for trading is calculated using the coupon (contractual) interest rate, which approximates the effective interest rate, and is presented in the income statement as interest income. All elements of the changes in the fair value are recorded in the income statement as gains less losses from financial assets at fair value through profit or loss in the period, in which they arise.

(b) Financial assets designated as at fair value through profit or loss

Other financial assets at fair value through profit or loss are those designated irrevocably, at initial recognition, into this category. Management designates financial assets into this category only if (a) such classification eliminates or significantly reduces an accounting mismatch that would otherwise arise from measuring assets or liabilities or recognizing the gains and losses on them 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 information on that basis is regularly provided to and reviewed by the Group’s key management personnel as defined in IAS 24. Recognition and measurement of this category of financial assets is consistent with the above policy for securities held for trading and is in accordance with IAS 39.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and not classified or designated as at fair value through profit or loss upon initial recognition. Such assets are carried at amortized cost using the effective interest method. This cost is computed as the amount initially recognised minus principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between the initially recognised amount and the maturity amount. This calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums and discounts. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired, as well as through the amortization process.

57. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

Financial assets (continued)

Loans and receivables of acquired subsidiaries are initially recorded in the statement of financial position at their estimated fair value at the date of acquisition.

The Group may change the intention of holding certain loans and receivables for foreseeable future and intend to sell these items. In the above case the Group reclassifies these specific items from loans and receivables to available-for-sale financial assets. These reclassified assets are measured at fair value through other comprehensive income.

Held-to-maturity investments

Quoted on an active market 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 to maturity. Investments intended to be held for an undefined period are not included in this category. Held-to-maturity investments are subsequently measured at amortized cost. For investments carried at amortized cost, gains and losses are recognised in the income statement when the investments are disposed or impaired, as well as through the amortization process.

Held-to-maturity investments of acquired subsidiaries are initially recorded in the statement of financial position at their estimated fair value at the date of acquisition.

Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified in any of the three preceding categories. After initial recognition available-for-sale financial assets are measured at fair value with gains or losses being recognised in other comprehensive income in a separate component of equity until the investment is derecognised or until the investment is determined to be impaired. However, interest calculated using the effective interest rate is recognised in the income statement.

When the Group derecognises available-for-sale financial assets, the Group reclassifies the cumulative gain or loss previously recognised in other comprehensive income in a separate component of equity to a separate line in the income statement.

If there is objective evidence that an available-for-sale financial asset is impaired the cumulative loss previously recognised in other comprehensive income being the difference between the acquisition cost and the current fair value (less any impairment loss on that asset previously recognised in income statement) – is reclassified from separate component of equity to the income statement.

Financial assets classified as available-for-sale that would have met 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.

Derecognition of financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset, or retained the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a ‘pass-through’ arrangement and has no obligation to pay amounts to eventual recipients unless it collects equivalent amounts from the original assets and the Group either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

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

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group’s continuing involvement is the amount of the transferred asset that the Group may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of the Group’s continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Securitization of financial assets

As part of its operational activities, the Group securitizes financial assets, generally through the transfer of these assets to special purpose entities that issue debt securities to investors or through the arrangement of funded participation agreements. The transferred securitized assets may qualify for derecognition in full or in part. Interests in the securitized financial assets may be retained by the Group and are primarily classified as loans to customers. Gains or losses on securitizations are based on the carrying amount of the financial assets derecognised and the retained interest, based on their relative fair values at the date of transfer.

Restructuring of financial assets

The Group from time to time may restructure some of its financial assets. This mostly relates to loans and receivables. The accounting treatment of such restructuring is conducted in the following basic scenarios.

57. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

Financial assets (continued)

Derecognition of loans and receivables as a result of restructuring

The Group accounts for a restructure of a loan or a receivable as derecognition of the existing loan or a receivable and the recognition of a new loan or a receivable in the following circumstances:

- renegotiation of the loan currency;
- renegotiation of type of interest (i.e. fix to floating and vice a versa or change in base rate);
- recognition of embedded derivative that is separated from the host contract (loan or receivable).

All net unamortized loan premiums, discounts and other deferred components of the effective interest rate related to the derecognised loan or receivable are included in interest income in the accompanying consolidated income statement on the date of derecognition.

The newly recognised loan or receivable is recorded at its estimated fair value. If the estimated fair value is different than the contractual amount, any difference is included in 'Gains net of losses on initial recognition of financial instruments and other gains on loans and advances to customers' in the accompanying consolidated income statement.

Subsequent interest recognition on the newly recognised loan or receivable is performed using the effective interest rate determined based on the terms of such loan or receivable.

Restructuring of loans and receivables without derecognition

In all other circumstances restructuring of loans and receivables does not lead to derecognition and accounted for as follows:

(1) Commercial restructuring

If the loan restructuring is not caused by financial difficulties of the borrower the new effective interest rate is calculated based on estimated future cash flows. The new effective interest rate is determined so that renegotiated discounted cash flows equal to the current carrying amount of the loan before deducting allowance for impairment.

(2) Restructuring owing to financial difficulties of the borrower

If the loan restructuring is caused by financial difficulties of the borrower additional allowance for debt financial assets impairment is recognised.

Additional allowance for impairment is determined based on renegotiated cash flows discounted using the original effective interest rate.

In case of restructuring owing to financial difficulties of the borrower immediately after recognition of additional allowance the partial write-off of loan gross amount for the amount of additional allowance should be recorded. Write-off is made in the absence of reasonable expectations of return in whole or partially.

Derecognition of financial assets and liabilities carried at amortized cost

If financial assets and liabilities carried at amortized cost are derecognised before maturity (for example, as a result of restructuring), unamortized part of commission and transaction costs is recognised in the same line of the current year income statement, that was used for financial asset/liability amortization prior derecognition.

Financial liabilities

Financial liabilities in the scope of IAS 32 and IAS 39 are classified as either financial liabilities at fair value through profit or loss, or other financial liabilities, as appropriate. The Group determines the classification of its financial liabilities at initial recognition. When financial liabilities are recognised initially, they are measured at fair value, minus, in the case of financial liabilities not at fair value through profit or loss, directly attributable transaction costs. Other financial liabilities are carried at amortized cost using the effective interest rate method.

Financial liabilities of acquired subsidiaries are initially recorded in the statement of financial position at their estimated fair value at the date of acquisition.

Financial liabilities are classified as financial liabilities at fair value through profit or loss if they are issued for the purpose of repurchasing them in the near term. They normally contain trade financial liabilities or "short" positions in securities. Derivatives with negative fair value are also classified as financial liabilities at fair value through profit or loss. Gains or losses on financial liabilities at fair value through profit or loss are recognised in the income statement.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. Where an existing financial liability is replaced by another from the same creditor on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the income statement.

When a financial liability is repurchased (bought-back) by a certain Group member, it is derecognised. The difference between the carrying value (amortized cost) of a financial liability as of the date of buy-back and the consideration paid is recognised in the income statement as the gain or loss arising from extinguishment of liability.

57. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

Offsetting

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

Cash and cash equivalents

Cash and cash equivalents are items, which can be converted into cash within a day. All short-term interbank placements, including overnight placements, are included in due from other banks. Amounts which relate to funds that are of a restricted nature, and correspondent accounts in precious metals are excluded from cash and cash equivalents. Cash and cash equivalents are carried at amortized cost, which approximates fair value.

Mandatory cash balances with central banks

Mandatory reserve deposits with the CBR and other central banks are carried at amortized cost and represent non-interest bearing deposits, which are not available to finance the Group's day-to-day operations and hence are not considered as part of cash and cash equivalents for the purposes of the statement of cash flows.

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 receivable, which is due on fixed or determinable dates. Amounts due from other banks are carried at amortized cost less allowance for impairment.

Repurchase and reverse repurchase agreements and lending of financial instruments

Sale and repurchase agreements ("repo agreements") are treated as secured financing transactions. Securities or other financial assets sold under sale and repurchase agreements are not derecognised. The financial assets are not reclassified in the statement of financial position unless the transferee has the right by contract or custom to sell or repledge the financial assets, in which case they are reclassified as financial assets pledged under sale and repurchase agreements (repurchase receivables). The corresponding liability is presented within customer deposits, amounts due to other banks or other borrowed funds.

Financial assets purchased under agreements to resell ("reverse repo agreements") are recorded as due from other banks or loans and advances to customers, as appropriate.

The difference between the sale and repurchase price is treated as interest income/expense and accrued over the life of repo agreements using the effective interest method.

Financial assets lent to counterparties are retained in the financial statements in their original statement of financial position category unless the counterparty has the right by contract or custom to sell or repledge the financial assets, in which case they are reclassified and presented separately as loaned financial assets.

Financial assets borrowed are not recorded in the financial statements, unless these are sold to the third parties, in which case an obligation to return the financial assets ("short position") is recorded in Other liabilities at fair value through profit or loss in the statement of financial position. The revaluation of this obligation is recorded in the income statement within gains less losses arising from financial instruments at fair value through profit or loss.

Derivative financial instruments

Derivatives are recognised initially, and are subsequently remeasured, at fair value. Fair values of exchange traded derivatives are obtained from quoted market prices. Fair values of over-the-counter derivatives are obtained using valuation techniques, including discounted cash flow models and option pricing models.

Derivatives may be embedded in other financial instruments. Embedded derivatives are treated as separate derivatives when their economic characteristics and risks are not clearly and closely related to those of the host contract; the terms of the embedded derivative would meet the definition of a stand-alone derivative if they were contained in a separate contract; and the combined contract is not held for trading or designated at fair value. These embedded derivatives are measured at fair value with changes therein recognised in the income statement.

Derivatives are classified as assets when their fair value is positive or as liabilities when their fair value is negative. Derivative assets and liabilities arising from different transactions are only offset if the transactions are with the same counterparty, a legal right of offset exists, and the parties intend to settle the cash flows on a net basis.

The method of recognizing fair value gains and losses depends on whether derivatives are held for trading or are designated as hedging instruments, and if the latter, the nature of the risks being hedged. All gains and losses from changes in the fair value of derivatives held for trading are recognised in the income statement.

Hedge accounting

The Group uses derivative instruments to manage exposures to fluctuations both of cash flows from interest received and paid, and of fair values for specifically determined items. As a result, the Group applies hedge accounting for transactions, which meet the specified criteria.

57. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

Derivative financial instruments (continued)

At inception of the hedge relationship, the Group formally documents the relationship between the hedged item and the hedging instrument, including the nature of the risk, the objective and strategy for undertaking the hedge and the method that will be used to assess the effectiveness of the hedging relationship.

Also at the inception of the hedge relationship, a formal assessment is undertaken to ensure the hedging instrument is expected to be highly effective in offsetting the designated risk in the hedged item. Hedges are formally assessed each quarter. A hedge is regarded as highly effective if the changes in fair value or cash flows attributable to the hedged risk during the period, for which the hedge is designated, are expected to offset in a range of 80% to 125%.

For situations where that hedged item is a forecast transaction, the Group assesses whether the transaction is highly probable and presents an exposure to variations in cash flows that could ultimately affect the income statement.

Fair value hedges

For designated and qualifying fair value hedges, the change in the fair value of a hedging derivative is recognised in the income statement within “Gains less losses arising from financial instruments at fair value through profit or loss” caption. Meanwhile, the change in the fair value of the hedged item attributable to the risk being hedged is recorded as part of the carrying value of the hedged item and is also recognised in the income statement in ‘Gains less losses arising from financial instruments at fair value through profit or loss’ caption.

If the hedging instrument expires or is sold, terminated or exercised, or where the hedge no longer meets the criteria for hedge accounting, the hedge relationship is terminated. For hedged items recorded at amortized cost, using the effective interest rate method, the difference between the carrying value of the hedged item on termination and the face value is amortized over the remaining term of the original hedge. If the hedged item is derecognised, the unamortized fair value adjustment is recognised immediately in the income statement.

Cash flow hedges

For designated and qualifying cash flow hedges, the effective portion of the gain or loss on the hedging instrument is initially recognised through other comprehensive income directly in equity in the cash flow hedge reserve within ‘Unrealised gain on financial assets available-for-sale and cash flow hedge’ caption. The ineffective portion of the gain or loss on the hedging instrument is recognised immediately in the income statement in ‘Gains less losses arising from financial instruments at fair value through profit or loss’.

When the hedged cash flow affects the income statement, the gain or loss on the hedging instrument is “recycled” in the corresponding income or expense line of the income statement. When a hedging instrument expires, or is sold, terminated, exercised, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains separately in equity until the forecast transaction occurs. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement in “Gains less losses arising from financial instruments at fair value through profit or loss”.

Regular way transactions

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

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

Promissory notes purchased

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

Finance and operating leases

Agreements which transfer to counterparties substantially all the risks and rewards incidental to the ownership of assets, but not necessarily legal title, are classified as finance leases. When the Group is a lessor under finance leases the amounts due under the leases, after deduction of unearned charges, are included ‘Loans and advances to customers’. The finance income receivable is recognised in ‘Interest income’ over the periods of the leases so as to give a constant rate of return on the net investment in the leases.

57. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

Finance and operating leases (continued)

When the Group is a lessee under finance leases, the leased assets are capitalized and included in 'Land, property and equipment' and the corresponding liability to the lessor is included in 'Other liabilities'. A finance lease and its corresponding liability are recognised initially at the fair value of the asset or, if lower, the present value of the minimum lease payments. Finance charges payable are recognised in 'Interest expense' over the period of the lease based on the interest rate implicit in the lease so as to give a constant rate of interest on the remaining balance of the liability.

All other leases are classified as operating leases. When acting as lessor, the Group includes the assets subject to operating leases in 'Land, property and equipment' and accounts for them accordingly. Impairment losses are recognised to the extent that residual values are not fully recoverable and the carrying value of the assets is thereby impaired. When the Group is the lessee, leased assets are not recognised on the balance sheet. Rentals payable and receivable under operating leases are accounted for on a straight-line basis over the periods of the leases and are included in 'General and administrative expenses' and 'Other operating income', respectively.

Allowances for impairment of financial assets

Impairment of financial assets carried at amortized cost

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

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

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

Allowances for impairment of financial assets

Loans with signs of credit deterioration acquired from third parties are recorded initially in the statement of financial position at their estimated fair value at the date of acquisition. Management considers significant purchase discounts when the loan's contractual amount exceeds its purchase price or estimated fair value as one of the signs of credit deterioration. In subsequent periods, the impairment is assessed and the loan is classified as non-performing based on changes in expected undiscounted cash flows as compared to those determined by management at initial recognition of the loan.

Impairment losses are recognised through an allowance account to reduce 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 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.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account through profit or loss, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

Uncollectible assets are written-off against the related allowance for impairment after all the necessary procedures to recover the asset have been completed and the amount of the loss has been determined.

Impairment of available-for-sale financial assets

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortization) and its current fair value, less any impairment loss previously recognised in the income statement, is transferred from equity to the income statement. Reversals in respect of equity instruments classified as available-for-sale are not recognised in the income statement, but are rather retained in other comprehensive income in a separate component of equity. Impairment losses on debt instruments are reversed through the income statement if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss were recognised in profit or loss. A significant or prolonged decline in the fair value of an equity instrument classified as available-for-sale below its cost is also objective evidence of impairment of this instrument.

57. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

Insurance

Insurance operations

Insurance contracts are those contracts when the Group (the insurer) has accepted significant insurance risk from another party (the policyholders) by agreeing to compensate the policyholders if a specified uncertain future event (the insured event) adversely affects the policyholders. Insurance risk exists when the Group has uncertainty in respect of the following matters at inception of the contract: the occurrence of insurance event, the date of occurrence of insurance event and claim value in respect of it. As a general guideline, the Group determines whether it has significant insurance risk, by comparing benefits paid with benefits payable if the insured event did not occur. Insurance contracts can also transfer financial risk.

Gross insurance premiums written

Upon inception of a contract, premiums are recorded as written and are earned on a pro-rata basis over the term of the related policy coverage. Decreasing insurance premiums in subsequent periods (for example, when signing additional agreements to the original signed contracts) are recognised as a reduction in insurance premiums in the reporting period. In the consolidated income statement of the Group gross insurance premiums written are included in ‘Net insurance premiums earned’.

Provision for unearned premiums

Provision for unearned premiums represents the proportion of premiums written that relate to unexpired term of policies in force as at the reporting date, calculated on a time apportionment basis. Provision for unearned premiums is calculated by ‘pro rata temporis’ method for each policy and defined as insurance premium multiplied by ratio of unexpired portion of policy to the entire term of the policy. Movement in provision for unearned premiums is recognised within ‘Net insurance premiums earned’ in the consolidated income statement of the Group.

Claims paid

Claims are charged to the consolidated income statement as incurred based on evaluated liability for compensation payable to policyholders or third parties suffered from occurrence of the insured event. Claims also include claims handling expenses related to cost of experts, appraisers, surveyors and emergency commissioners. Claims paid are recognised within ‘Net insurance claims incurred, movement in liabilities to policyholders and acquisition costs’ in the consolidated income statement of the Group.

Loss provisions

Loss provisions represent an estimate of liabilities to pay claims in future and include outstanding claims provision (‘OCP’) and provision for claims incurred but not reported (‘IBNR’). Estimates of claims handling expenses are included in both OCP and IBNR. OCP is provided in respect of claims reported, but not settled as at the reporting date. The estimation is made on the basis of information received by the Group during investigation of insurance cases as at and after the reporting date. IBNR is determined by the Group by line of business using actuarial methods, and includes assumptions based on prior years’ claims and claims handling experience. Movement in loss provisions is recognised within ‘Net insurance claims incurred, movement in liabilities to policyholders and acquisition costs’ in the consolidated income statement of the Group.

Liability adequacy test

At each reporting date, liability adequacy test is performed to ensure the adequacy of the contract liabilities net of related deferred acquisition costs. In performing these tests, the current best estimates of the future contractual cash flows and claims handling expenses are used. Any deficiency is immediately charged to the consolidated income statement, initially by writing off deferred acquisition costs and by subsequently establishing a provision for losses arising from the liability adequacy test.

Pension liabilities

Pension liabilities are accounted under IFRS 4 *Insurance Contracts*. IFRS 4 *Insurance Contracts* permits an insurer to apply existing national GAAP for insurance contracts and financial instruments with discretionary participation feature (‘DPF’). Thus, pension liabilities under insurance contracts and financial instruments with DPF are determined by the Group in accordance with Russian legislation and pension and insurance rules also.

Pension liabilities are recognised at the earlier of the following dates:

(a) the beginning of insurance coverage;

(b) the date when the Group shall receive the first payment according to non-state pension contract or obligatory pension insurance contract with third parties.

The Group uses retrospective method to evaluate non-state pension liabilities if benefits under these contracts has not been granted yet, and prospective method if benefits has been already granted. The estimation is made on the basis of mortality rates and investment return. Assumptions also include adjustments for unfavourable events in order to provide the best estimate of possible future claims. Investment return assumptions are determined and fixed when non-state pension contract is signed, and may differ depending on the year of contract commencement.

57. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

Pension liabilities (continued)

Obligatory pension insurance liabilities are determined as cumulative contributions reduced by benefits and adjusted by investment return.

At each reporting date, liability adequacy test is performed to ensure the adequacy of the contract liabilities. The carrying amount of pension liabilities may be increased if the test shows that the carrying amount of pension liabilities is inadequate in the light of the estimated future cash flows.

The adequacy test considers current estimates of all contractual cash flows (including future cash flows such as contributions, benefits paid, lump sum payments and payments to successors), and of related cash flows such as contracts handling costs, cash flows resulting from embedded options and guarantees, as well as investment return on related assets. The Group uses current best estimates of future cash flows, taking into account expected improvements in life interval of participants in the future. Certain estimation techniques are applied by the Group, including discounting of cash flows and stochastic simulation.

For financial instruments with DPF the Group applies the same accounting policy as for insurance contracts liabilities.

Pension liabilities are derecognised when the term of the contract expires, the contract is repaid or cancelled.

Movement in pension liabilities is recognised within ‘Net insurance claims incurred, movement in liabilities to policyholders and acquisition costs’ in the consolidated income statement of the Group.

Pension contributions and benefits paid

Contributions are recognised in full amount as income when paid by a sponsor. In the consolidated income statement of the Group pension contributions are included in ‘Net insurance premiums earned’. Benefits paid are charged to the consolidated income statement as incurred. Pension benefits paid are recognised within ‘Net insurance claims incurred, movement in liabilities to policyholders and acquisition costs’ in the consolidated income statement of the Group.

Non-current assets and disposal group held for sale

Non-current assets (or disposal groups, which may include both non-current and current assets and liabilities), are classified in the statement of financial position as ‘non-current assets held for sale’ (or as ‘assets of disposal group held for sale’ and ‘liabilities of disposal group held for sale’) if their carrying amount will be recovered principally through a sale transaction, including deconsolidation of a subsidiary holding the assets, within twelve months after the end of the reporting period. Assets (or disposal groups) are eligible to be classified or reclassified when all of the following conditions are met:

(a) the assets are available for immediate sale in their present condition;

(b) the Group’s management approved and initiated an active programme to locate a buyer;

(c) the assets are actively marketed for a sale at a reasonable price;

(d) the sale is expected to occur within one year from the date of classification and

(e) it is unlikely that significant change to the plan to sell will be made or that the plan will be withdrawn.

Non-current assets or disposal groups classified as held for sale in the current period’s statement of financial position are not reclassified or re-presented in the comparative statement of financial position to reflect the classification at the end of the current period.

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

Held for sale disposal groups as a whole are measured at the lower of their carrying amount and fair value less costs to sell. Held for sale premises and equipment and intangible assets are not depreciated or amortized. Reclassified financial instruments, deferred taxes and investment properties held at fair value are not subject to the write down to the lower of their carrying amount and fair value less costs to sell. Reclassified financial instruments, deferred taxes and investment properties held at fair value shall be remeasured in accordance with applicable IFRSs before the fair value less cost to sell of the disposal group is remeasured.

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

Gains or losses of the subsidiary classified as disposal group held for sale are included in the relevant caption of the consolidated income statement and other comprehensive income.

Investment property

Investment property is land or building or a part of building held to earn rental income or for capital appreciation and which is not used by the Group or held for the 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.

57. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

Investment property (continued)

Investment property is initially recognised 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 recognised 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 income statement within income arising from non-banking activities. Gains and losses resulting from changes in the fair value of investment property are recorded in the income statement and presented within income or expense arising from non-banking activities.

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 premises and equipment, and its carrying amount at the date of reclassification becomes its deemed cost to be subsequently depreciated.

Land, premises and equipment

Premises and equipment are stated at revalued amounts and cost, respectively, less accumulated depreciation and allowance for impairment where required. Land is stated at revalued amounts. Land has indefinite term of usage and, therefore, is not depreciable. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down to its recoverable amount and the difference is recognised in the income statement. The estimated recoverable amount is the higher of an asset's fair value less costs to sell and its value in use.

Land, premises and equipment of acquired subsidiaries are initially recorded in the statement of financial position at their estimated fair value at the date of acquisition. No accumulated depreciation on the premises and equipment acquired in the business combinations is presented in the financial statements on the date of acquisition.

Land and premises of the Group are subject to revaluation on a regular basis, approximately every three to five years. The frequency of revaluation depends upon the change in the fair values. When the fair value of a revalued asset differs materially from its carrying amount further revaluation is performed. The revaluation is applied simultaneously to the whole class of property to avoid selective revaluation.

Any revaluation surplus is credited to the other comprehensive income and increases land and premises revaluation reserve which is a separate equity section of the statement of financial position, except to the extent that it reverses an impairment of the same asset previously recognised in the income statement, in which case the increase is recognised in the income statement. A revaluation deficit is recognised in the income statement except for the deficit directly offsetting a previous surplus on the same asset is directly offset against the surplus in the asset revaluation reserve for land and premises.

The land and premises revaluation reserve included in equity is transferred directly to retained earnings when the surplus is realised, i.e. on the retirement or disposal of the asset or as the asset is used by the Group; in the latter case, the amount of the surplus realised is the difference between depreciation based on the revalued carrying amount of the asset and depreciation based on the asset's original cost.

Construction in progress is carried at cost less allowance for impairment, if any. Upon completion, assets are transferred to premises and equipment at their carrying value. Construction in progress is not depreciated until the asset is available for use.

If impaired, land, premises and equipment are written down to the higher of their value in use and fair value less costs to sell.

The decrease in carrying amount is charged to income statement to the extent it exceeds the previous revaluation surplus in equity. An impairment loss recognised for an asset in prior years is reversed if there has been a change in the estimates used to determine the asset's value in use or fair value less costs to sell.

Gains and losses on disposal of land, premises and equipment are determined by reference to their carrying amount and are taken into account in determining profit or loss. Repairs and maintenance are charged to the income statement when the expense is incurred.

Depreciation

Depreciation is recognised on a straight-line basis over the estimated useful lives of the assets using the following basic annual rates:

	Useful life	Depreciation rates
Premises	Maximum 150 years	Minimum 0.7% per annum
Equipment	4-20 years	5%-25% per annum

Estimated useful lives and residual values are reassessed annually.

57. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

Goodwill

Goodwill recognised in a business combination represents the future economic benefits arising from other assets acquired in a business combination that are not individually identified and separately recognised and is calculated as the excess of (a) over (b) below:

(a) the aggregate of:
- the consideration transferred, which generally requires acquisition-date fair value;
- the amount of any non-controlling interest in the acquiree; and
- in a business combination achieved in stages, the acquisition-date fair value of the acquirer's previously held equity interest in the acquiree.

(b) the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed.

If the above resulting amount is negative, the acquirer has made a gain from a bargain purchase, that gain is recognised in profit or loss.

The revised IFRS 3 allows the acquirer to measure any non-controlling interests, which are present ownership interests in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's identifiable net assets for each business combination. This results in different amount of goodwill or gain from bargain purchase to be recognised in financial statements depending on the choice of the acquirer.

Goodwill on an acquisition of a subsidiary is disclosed in the caption 'Goodwill and other intangible assets' of the statement of financial position. Goodwill on an acquisition of an associate or joint venture is included in the carrying amount of investments in associates and joint ventures. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses, if any.

Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying amount may be impaired. 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, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units. Each unit or group of units, to which the goodwill is so allocated:

- represents the lowest level within the Group, at which the goodwill is monitored for internal management purposes; and
- is not larger than an operating segment in accordance with IFRS 8, *Operating Segments*, before aggregation.

Impairment of goodwill is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units), to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. Where goodwill forms a part of a cash-generating unit (group of cash-generating units) and a 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.

Intangible assets other than goodwill

Intangible assets other than goodwill include licenses, computer software, and other identifiable intangible assets, including those acquired in business combinations.

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

Intangible assets with indefinite useful lives are not amortized, but are tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying amount may be impaired either individually or at the cash-generating unit level. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether indefinite life assessment continues to be supportable.

Core deposit, loan to customer and relation with the major lessee intangibles

Core deposit, loan to customer and relations with the major lessee intangibles relate to the acquisition of the Group's subsidiaries and are attributable to the customer demand deposits, loans to customers, leasing contracts, stable client base identified as intangible assets. The identification is based on examination of the subsidiaries' customer base.

57. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

Intangible assets other than goodwill (continued)

The core deposit intangible is recognised if it was concluded that the acquired subsidiaries has a well-established and long-dated relationship with its major customers and that demand deposits actual maturity was significantly longer than contract maturity. The loan to customer intangible is determined by applying income approach and calculated as discounted cash-flow from new loans to existing borrowers. The relations with the major lessee intangible is determined by applying income approach and calculated as discounted cash-flow from new contracts to existing lessee.

The useful life of the core deposit, loan to customer and relation with the major lessee intangibles was estimated from five to eight years and is amortized over its useful life using the straight-line method.

Due to other banks

Amounts due to other banks are recorded when money or other financial assets are advanced to the Group by counterparty banks. The liability is carried at amortized cost using the effective interest method.

Customer deposits

Customer deposits are liabilities to individuals, state or corporate customers and are carried at amortized cost using the effective interest method. Customer deposits include both demand and term deposits. Interest expense is recognised in the income statement over the period of deposits using effective interest method.

Debt securities issued

Debt securities issued include promissory notes, certificates of deposit, eurobonds and debentures issued by the Group. Debt securities are stated at amortized cost using the effective interest method. If the Group purchases its own debt securities in issue, they are removed from the statement of financial position and the difference between the carrying amount of the liability the consideration paid is included in gains less losses arising from extinguishment of liability in the income statement.

Other borrowed funds

Other borrowed funds include some specific borrowings, which differ from the above items of liabilities and include funds from local central banks, syndicated loans, revolving, other credit lines and other specific items. Other borrowed funds are carried at amortized cost using the effective interest method. Interest expense is recognised in the income statement over the period of other borrowed funds using effective interest method.

Operations with precious metals

The Group enters into different types of transactions with precious metals including sale and purchase agreements, metal-currency swap transactions, lending and borrowing in precious metals. Correspondent accounts in precious metals (assets) are recorded within Cash and short-term funds; however, they are excluded from Cash and cash equivalents as the precious metals are considered to be a commodity rather than a financial instrument. Precious metals inventory in vault is included in Other assets.

When the Group borrows precious metals or accepts deposits in precious metals with a subsequent metal-currency swap or economically similar transaction, the Group accounts for such transactions as borrowings within the appropriate liability caption in the statement of financial position and recognises interest expense at the effective interest rate over the term of the borrowing. Related derivatives, including bifurcated precious metals derivatives, are accounted for in the statement of financial position as assets or liabilities at fair value through profit or loss with any changes in fair value recorded in the income statement.

Income tax

Income tax comprises current tax and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised in other comprehensive income or directly in equity, in which case it is recognised in the same statement in which the related item appears.

Current tax is the tax expected to be payable on the taxable profit for the year, calculated using tax rates enacted or substantively enacted by the balance sheet date, and any adjustment to tax payable in respect of previous years. Current tax assets and liabilities are offset when the Group intends to settle on a net basis and the legal right to offset exists. Current tax is the amount expected to be paid to or recovered from the taxation authorities in respect of taxable profits or losses for the current and prior periods. Taxable profits or losses are based on estimates if financial statements are authorized prior to filing relevant tax returns. Taxes, other than on income, are recorded within administrative expenses.

Deferred income tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the balance sheet and the amounts attributed to such assets and liabilities for tax purposes. Deferred income tax liabilities are generally recognised for all taxable temporary differences and deferred income tax assets are recognised to the extent that it is probable that future taxable profits will be available against which deductible temporary differences can be utilized.

57. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

Income tax (continued)

Deferred income tax is calculated using the tax rates expected to apply in the periods in which the assets will be realised or the liabilities settled, based on tax rates and laws enacted, or substantively enacted, by the balance sheet date. Deferred income tax assets and liabilities are offset when they arise in the same tax reporting group and relate to income taxes levied by the same taxation authority, and when the Group has a legal right to offset.

Deferred income tax relating to actuarial gains and losses on post-employment benefits is recognised in other comprehensive income. Deferred income tax relating to share-based payment transactions is recognised directly in equity to the extent that the amount of the estimated future tax deduction exceeds the amount of the related cumulative remuneration expense. Deferred income tax relating to fair value re-measurements of available-for-sale investments and cash flow hedging instruments which are charged or credited directly to other comprehensive income, is also charged or credited to other comprehensive income and is subsequently recognised in the income statement when the deferred fair value gain or loss is recognised in the income statement.

Provisions for liabilities and charges

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

Credit related commitments

In the normal course of business, the Group enters into irrevocable credit related commitments, including letters of credit and guarantees. 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 guarantee contracts are recognised initially at fair value and remeasured at the higher of the amount determined in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* and the amount initially recognised less, when appropriate, cumulative amortization recognised in accordance with IAS 18, *Revenue*.

Commitments to provide loans at a below-market interest rate are initially recognised at fair value, and subsequently measured at the higher of (i) the unamortized balance of the related fees received and deferred and (ii) the amount determined in accordance with IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*. Specific provisions are recorded against credit related commitments when losses are considered more likely than not.

Performance guarantees

Performance guarantees are contracts that provide compensation if another party fails to perform a contractual obligation. Performance guarantees are initially recognised 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 contract. At the end of each reporting period, the performance guarantee contracts are measured at the higher of the unamortized balance of the amount at initial recognition and the best estimate of expenditure required to settle the contract at the end of each reporting period, discounted to present value. Where the Group has the contractual right to revert to its customer for recovering amounts paid to settle the performance guarantee contracts, such amounts will be recognised as loans and receivables upon transfer of the loss compensation to the guarantee's beneficiary.

Perpetual Loan Participation Notes

Due to the undefined maturity and an option for non-cumulative cancellation of coupon payments, the Group accounts for the Perpetual Loan Participation Notes as an equity instrument and as a Tier I eligible instrument for the purpose of Capital Adequacy Ratio calculation. The CBR approved the inclusion of the subordinated loan in the statutory capital ratio calculation of the Bank.

The Group accounts for the Perpetual Loan Participation Notes (PLPN) denominated in the foreign currency in the amount of RUR equivalent amount using the foreign exchange rate at the reporting date with foreign exchange translation effects recorded in Retained earnings. Issuance costs were also recorded in Retained earnings.

While coupon payments are optional at the discretion of VTB, certain terms in the PLPN may cause such payments to become mandatory. At the moment the coupon under PLPN becomes mandatory, it is recorded as a dividend declaration described below.

Treasury perpetual loan participation notes are included in Treasury shares and PLPN in the consolidated statement of changes in shareholder's equity.

Share premium

Share premium represents the excess of contributions over the nominal value of the shares issued.

Dividends

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

57. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

Interest income and expense

Interest income and expense for all financial instruments are recognised on accrual basis in 'Interest income' and 'Interest expense' in the income statement using the effective interest method and the coupon (contractual) interest rate for non-derivative debt financial assets held for trading, which approximates the effective interest rate. The effective interest method is a way of calculating the amortized cost of a financial asset or a financial liability (or groups of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period.

The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial instrument or, where appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument but excluding future credit losses. The calculation includes all amounts paid or received by the Group that are an integral part of the effective interest rate of a financial instrument, including transaction costs and all other premiums or discounts.

Interest on impaired financial assets is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Fee and commission income

Fee income is earned from a diverse range of services provided by the Group to its customers. Fee income is accounted for as follows:

- income earned on the execution of a significant act is recognised as revenue when the act is completed (for example, fees arising from negotiating, or participating in the negotiation of, a transaction for a third party such as an arrangement for the acquisition of shares or other securities);
- income earned from the provision of services is recognised as revenue as the services are provided (for example, asset management, portfolio and other management advisory and service fees); and
- income which forms an integral part of the effective interest rate of a financial instrument is recognised as an adjustment to the effective interest rate (for example, certain loan commitment fees) and recorded in 'Interest income'.

Gains on initial recognition of financial instruments

When resources are attracted at off-market interest rates the difference between the nominal amount received and present value of cash flows discounted at the market interest rate is recognized as gains or losses on initial recognition of due from other banks or customer deposits in the income statement. The Group shall recognize a gain on initial recognition of resources attracted at interest rates below market only when the contract makes no provision for early termination upon a depositor's demand.

Dividend income

Dividend income is recognised when the right to receive payment is established. This is the ex-dividend date for listed equity securities, and usually the date when shareholders have approved the dividend for unlisted equity securities. Dividends from equity securities classified as financial instruments at fair value through profit or loss are recognised within 'Gains less losses arising from financial instruments at fair value through profit or loss' line of the income statement. Dividends from equity securities classified as available-for-sale financial assets are recognised within 'Gains less losses from investment financial assets available-for-sale' line of the income statement. Dividends received from associates measured at fair value through profit or loss are recognised within 'Gains less losses arising from financial instruments at fair value through profit or loss' line of the income statement.

Staff costs and related contributions

The Group's contributions to the State and Group's social insurance and obligatory medical insurance funds in respect of its employees are expensed as incurred and included in staff costs within staff costs and administrative expenses. The Group's contributions to the State and Group pension schemes are included in defined contribution pension expense within staff costs and administrative expenses. Unused vacations accrued amounts are also included in staff costs within staff costs and administrative expenses. The Group recognises all actuarial gains and losses related to the defined benefit plan directly in other comprehensive income.

Share-based payment

Equity-settled share-based payment transactions are transactions, in which the entity receives goods or services as consideration for equity instruments of the entity.

For equity-settled share-based payment transactions, the goods or services received, and the corresponding increase in equity, are measured directly, at the fair value of the goods or services received, unless that fair value cannot be estimated reliably. If the entity cannot estimate reliably the fair value of the goods or services received, the entity shall measure their value, and the corresponding increase in equity, indirectly, by reference to the fair value of the equity instruments granted.

57. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

Share-based payment (continued)

For share-based payment transactions among Group's entities, in its separate or individual financial statements, the entity receiving the goods or services shall measure the goods or services received as either an equity-settled or a cash-settled share-based payment transaction by assessing:

(a) the nature of the awards granted, and

(b) its own rights and obligations.

The entity receiving the goods or services shall measure the goods or services received as an equity-settled share-based payment transaction when:

(a) the awards granted are its own equity instruments, or

(b) the entity has no obligation to settle the share-based payment transaction.

In all other circumstances, the entity receiving the goods or services shall measure the goods or services received as a cash-settled share-based payment transaction.

The entity settling a share-based payment transaction when another entity in the Group receives the goods or services shall recognise the transaction as an equity-settled share-based payment transaction only if it is settled in the entity's own equity instruments. Otherwise, the transaction shall be recognised as a cash-settled share-based payment transaction.

Inflation accounting

If an economy in which a Group's subsidiary operates is considered to be hyperinflationary as defined by IAS 29, *Financial Reporting in Hyperinflationary Economies*, than this subsidiary applies IAS 29. The standard requires that the financial statements prepared in the currency of a hyperinflationary economy shall be stated in terms of the measuring unit current at the reporting date.

Foreign currency translation

Each Group member determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Transactions in foreign currencies are initially recorded in the functional currency equivalent, translated at the rate of exchange at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the reporting date. Gains and losses resulting from the translation of foreign currency transactions are recognised in the income statement as foreign exchange translation gains less losses. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

These financial statements are presented in Russian roubles (RUR), the national currency of the Russian Federation, where the Bank is domiciled. As at the reporting date, the assets and liabilities of the entities whose functional currency is different from the presentation currency of the Group and is not a currency of hyperinflationary economy, are translated into RUR at the closing rate of exchange at the reporting date and their income statements are translated into RUR at the average exchange rates for the reporting period.

The exchange differences arising on the translation are recognised in other comprehensive income in a separate component of equity ('Currency translation difference').

Exchange differences arising on monetary items due from the foreign subsidiaries that form part of the Bank's net investment in a foreign operation are recognised initially in other comprehensive income and reclassified from equity to profit or loss on disposal of the net investment.

If the entity's functional currency is a currency of hyperinflationary economy, all amounts (assets, liabilities, equity items, income and expenses) of these entities are translated into RUR at the closing rate of exchange at the reporting date; and, before applying this translation method, the entity restates its financial statements in accordance with IAS 29 (see above 'Inflation accounting'), except for comparative amounts that are translated into RUR. Differences which arise each period between the closing equity items of the previous year and the opening equity items of the current year presented in RUR are recognised as an 'Effect of translation, net of tax' in other comprehensive income, as to the related equity items. The remaining exchange differences arising on the consolidation are recognised in other comprehensive income as a separate component of equity ('Currency translation difference').

On disposal of a subsidiary, an associate or a joint venture, whose functional currency is different from the presentation currency of the Group, the deferred cumulative amount recognised in equity relating to that particular entity is reclassified to the income statement.

As at 31 December 2017, the principal closing rate of exchange used for translating balances in USD to Russian roubles was USD 1 to RUR 57.6002 (at 31 December 2016: USD 1 to RUR 60.6569), and the principal closing rate of exchange used for translating balances in euro was EUR 1 to RUR 68.8668 (at 31 December 2016: EUR 1 to RUR 63.8111).

Fiduciary assets

Assets held by the Group in its own name, but for the account of third parties, are not reported in the consolidated statement of financial position. Commissions received from such operations are shown within fee and commission income in the consolidated income statement.

57. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

Segment reporting

An operating segment is a distinguishable component of the Group that is engaged in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity), whose operating results are regularly reviewed by the Group's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available. Segments with a majority of revenue earned from sales to external customers and whose revenue, net profit (loss) or combined assets are ten percent or more of all the segments are reported separately (reportable segments). The segments, that are below the above materiality thresholds, but can be aggregated on the basis of their activities, production processes, products or services, should be tested for the meeting the criteria of reportable segments on these aggregated amounts.

In accordance with IFRS 8, *Operating Segments*, the Group defined as the operating segments its global business lines. Segment disclosure is presented on the basis of IFRS compliant data of the global business lines and entities adjusted, where necessary, for intersegment reallocation.

Presentation of statement of financial position in order of liquidity

The Group does not have a clearly identifiable operating cycle and therefore does not present current and non-current assets and liabilities separately in the statement of financial position. Instead, assets and liabilities are presented in order of their liquidity in accordance with common banking practice.

58. ADOPTION OF NEW OR REVISED STANDARDS AND INTERPRETATIONS

The accounting policies adopted are consistent with those of the previous financial years, except for the adoption of new standards and interpretations as of 1 January 2017 noted below:

Amendments to IAS 12 Income Taxes issued on 19 January 2016 with the effective date of annual periods beginning on or after 1 January 2017, with early adoption permitted.

The amendments clarify how to account for deferred tax assets related to debt instruments measured at fair value and the requirements on recognition of deferred tax assets for unrealised losses. These amendments do not have material impact on the Group.

Amendments to IAS 7 Statement of Cash Flow – Disclosure Initiative with the effective date of annual periods beginning on or after 1 January 2017.
The amendments require entities to provide disclosures about 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). On initial application of the amendment, entities are not required to provide comparative information for preceding periods. The Group provides the information about non-cash changes in their liabilities arising from financing activities as additional disclosure to the consolidated statement of cash flows.

Annual Improvements Cycle – 2014-2016. Amendments to IFRS 12 Disclosure of Interests in Other Entities: Clarification of the scope of disclosure requirements in IFRS 12
The amendments clarify that the disclosure requirements in IFRS 12, other than those in paragraphs B10-B16, 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 (or included in a disposal group that is classified) as held for sale. The Group has adopted the amendments retrospectively.

Early adoption

Starting from 1 April 2017 the Group has early adopted changes to IAS 28 *Investments in Associates and Joint Ventures* which say that when an investment in an associate or a joint venture is held by, or is held indirectly through, an entity that is a venture capital organisation, or a mutual fund, unit trust and similar entities including investment-linked insurance funds, the entity may elect to measure investments in those associates and joint ventures at fair value through profit or loss in accordance with IFRS 9 *Financial instruments*. An entity shall make this election separately for each associate or joint venture, at initial recognition of the associate or joint venture.

In course of early adoption of changes to IAS 28 *Investments in Associates and Joint Ventures*, the Group has made an election to classify at fair value through profit or loss investment in "Burger King Russia (Cyprus)", Ltd, previously accounted for under equity method (Note 47). Fair value of the investment was determined based on non-market observable information (Level 3 of the fair value hierarchy – Note 43). The investment is attributing to segment "CIB" (Note 3).

58. ADOPTION OF NEW OR REVISED STANDAREDS AND INTERPRETATIONS (CONTINUED)

Early adoption (continued)

Such classification was applied retrospectively with the following adjustments as at 31 December 2016 and 2015:

	2016				2015			
	As previously reported	Reclassi-fication	Fair value adjustment	As restated	As previously reported	Reclassi-fication	Fair value adjustment	As restated
Investments in associates designated as at fair value through profit or loss:								
“Burger King Russia (Cyprus)”, Ltd	–	2.8	2.7	5.5	–	2.6	2.7	5.3
Investments in associates accounted under equity method:								
“Burger King Russia (Cyprus)”, Ltd	2.8	(2.8)	–	–	2.6	(2.6)	–	–

The early adoption and its impact on the consolidated income statement for the year ended 31 December 2016 is as follows:

	As previously reported	Early adoption	As restated
Gains net of losses arising from financial instruments at fair value through profit or loss	8.7	0.1	8.8
Share in profit of associates and joint ventures	3.1	(0.1)	3.0

The early adoption and its impact on comparative period information as at 31 December 2016 and 31 December 2015 in the consolidated statement of financial position are as follows:

	2016			2015		
	As previously reported	Early adoption	As restated	As previously reported	Early adoption	As restated
Investments in associates and joint ventures	90.6	2.7	93.3	104.3	2.7	107.0
Retained earnings	128.4	2.7	131.1	127.6	2.7	130.3

The early adoption and its impact on comparative period information for the year ended 31 December 2016 in Gains net of losses arising from financial instruments at fair value through profit or loss (Note 6) are as follows:

	As previously reported	Early adoption	As restated
(Losses net of gains) / gains net of losses from associates and joint ventures designated as at fair value through profit or loss	(2.3)	0.1	(2.2)

58. ADOPTION OF NEW OR REVISED STANDAREDS AND INTERPRETATIONS (CONTINUED)

Early adoption (continued)

The early adoption and its impact on comparative period information as at 31 December 2016 and 2015 in Investments in associates and joint ventures note (Note 47) are as follows:

	2016			2015		
	As previously reported	Early adoption	As restated	As previously reported	Early adoption	As restated
Investments designated as at fair value through profit or loss						
• Investments in joint ventures	53.5	–	53.5	53.6	–	53.6
• Investments in associates	8.7	5.5	14.2	9.9	5.3	15.2
Investments accounted under equity method						
• Investments in associates	24.5	(2.8)	21.7	36.1	(2.6)	33.5
• Investments in joint ventures	3.9	–	3.9	4.7	–	4.7
Total investments in associates and joint ventures	**90.6**	**2.7**	**93.3**	**104.3**	**2.7**	**107.0**

The early adoption has no impact on the Group's international risk based capital adequacy ratio as at 31 December 2016 computed in accordance with the Basel Accord guidelines (Note 44).

59. NEW ACCOUNTING PRONOUNCEMENTS

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

IFRS 9 Financial Instruments: Classification and Measurement (amended in July 2014 and effective for annual periods beginning on or after 1 January 2018). Key features of the new standard are:

Financial assets are required to be classified into three measurement categories: those to be measured subsequently at amortized cost, those to be measured subsequently at fair value through other comprehensive income (FVOCI) and those to be measured subsequently at fair value through profit or loss (FVPL).

Classification for debt instruments is driven by the entity's business model for managing the financial assets and whether the contractual cash flows represent solely payments of principal and interest (SPPI). If a debt instrument is held to collect, it may be carried at amortized cost if it also meets the SPPI requirement. Debt instruments that meet the SPPI requirement that are held in a portfolio where an entity both holds to collect assets' cash flows and sells assets may be classified as FVOCI. Financial assets that do not contain cash flows that are SPPI must be measured at FVPL (for example, derivatives). Embedded derivatives are no longer separated from financial assets but will be included in assessing the SPPI condition.

Investments in equity instruments are always measured at fair value. However, management can make an irrevocable election to present changes in fair value in other comprehensive income, provided the instrument is not held for trading. If the equity instrument is held for trading, changes in fair value are presented in profit or loss.

Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income.

IFRS 9 introduces a new model for the recognition of impairment losses – the expected credit losses (ECL) model. There is a 'three stage' approach which is based on the change in credit quality of financial assets since initial recognition. In practice, the new rules mean that entities will have to record an immediate loss equal to the 12-month ECL on initial recognition of financial assets that are not credit impaired (or lifetime ECL for trade receivables). Where there has been a significant increase in credit risk, impairment is measured using lifetime ECL rather than 12-month ECL. The model includes operational simplifications for lease and trade receivables.

Hedge accounting requirements were amended to align accounting more closely with risk management. The standard provides entities with an accounting policy choice between applying the hedge accounting requirements of IFRS 9 and continuing to apply IAS 39 to all hedges because the standard currently does not address accounting for macro hedging.

59. NEW ACCOUNTING PRONOUNCEMENTS (CONTINUED)

IFRS 9 implementation programme. Group management initiated an IFRS 9 implementation project, and significant design and preparation efforts are taking place. Group management established a Steering Committee comprising senior management from Risk and Finance. The delivery of the required changes will be undertaken by individual streams, with Risk Department leading the work on impairment matters and Finance Department leading the development of financial reporting systems and processes. Global business lines have been engaged but are not themselves responsible for the implementation activity.

To date, the Programme has been directed towards preliminary impact analysis, documenting Group accounting policy, developing the operating and system target operating models and developing risk modelling methodologies for the calculation of impairment. The Programme's focus is on the impairment models, processes which need to be developed and classification and measurement assessment. The Programme includes dedicated working groups to review, challenge and sign off on the assumptions used and the results at Group level as well as at each significant subsidiary.

The Group is currently finalising an assessment of potential classification and measurement changes to financial assets based on the composition of the balance sheet as at 31 December 2017. In general, Group management expects that:

- loans and advances to banks and customers as well as non-trading reverse repurchase agreements that are classified as loans and receivables under IAS 39 will be measured at amortised cost under IFRS 9; however, some of the loans will move to FVPL because of their contractual cash flow characteristics or FVOC because of the business model within which they are held;
- financial assets designated at FVPL will remain at FVPL, because it is either required under IFRS 9 or designation will continue;
- debt securities classified as available for sale will primarily be measured at amortised cost or FVOCI, however, some of these securities will move to FVPL either because of their contractual cash flow characteristics or the business model within which they are held; and
- most equity securities will remain measured at fair value. The equity securities for which fair value movements will be shown in other comprehensive income are business facilitation and other similar investments where the Group holds the investments other than to generate a capital return.

IFRS 9 initial application effect

Based on the available data and current implementation status, Group management estimates the adoption of IFRS 9 will decrease the equity attributable to the shareholders of the parent by an amount below RUR 95 billion, before tax, predominantly related to the impairment requirements of IFRS 9. Group management continues to refine and monitor certain aspects, including data inputs, of the implementation process which may change the actual impact upon adoption. Group management expects to finalise the quantification of the impact of the adoption of IFRS 9 and include the required adoption disclosures in the interim consolidated financial statements for the three months ending 31 March 2018.

IFRS 15 Revenue from Contracts with Customers (issued on 28 May 2014 and effective for the periods beginning on or after 1 January 2018). The new standard introduces the core principle that revenue must be recognised when the goods or services are transferred to the customer, at the transaction price. Any bundled goods or services that are distinct must be separately recognised, and any discounts or rebates on the contract price must generally be allocated to the separate elements. When the consideration varies for any reason, minimum amounts must be recognised if they are not at significant risk of reversal. Costs incurred to secure contracts with customers have to be capitalized and amortized over the period when the benefits of the contract are consumed.

The Group applies IFRS 15 using modified retrospective approach, which means that comparatives are recalculated only for contracts that were not completed as at 1 January 2018. Based on the available data and current implementation status, Group management estimates the adoption of IFRS 15 will increase the retained earnings by approximately RUR 1.1 billion. The effect is primarily attributable to operations of Group members in the construction and development industry.

59. NEW ACCOUNTING PRONOUNCEMENTS (CONTINUED)

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

IFRS 17 Insurance Contracts issued in May 2017 is mandatorily effective for annual reporting periods beginning on or after 1 January 2021.

IFRS 17 will replace IFRS 4 *Insurance Contracts.*

The IFRS 17 model combines a current balance sheet measurement of insurance contract liabilities with the recognition of profit over the period that services are provided. Certain changes in the estimates of future cash flows and the risk adjustment are also recognised over the period that services are provided. Entities will have an option to present the effect of changes in discount rates either in profit and loss or in OCI. The standard includes specific guidance on measurement and presentation for insurance contracts with participation features. The Group is currently assessing the impact of IFRS 17 on its financial statements.

Amendments to IFRS 4 Insurance contracts issued on 12 September 2016 provide two optional solutions to reduce the impact of the deferring effective dates between IFRS 9 and forthcoming insurance contracts standard – temporary exemption from IFRS 9 or overlay approach. The new insurance contracts Standard is currently being drafted and will have an effective date no earlier than 2020. The Group is currently assessing the potential impact of these options on its financial statements.

Amendments to IFRS 2 Share-based Payment issued on 20 June 2016 with the effective date of annual periods beginning on or after 1 January 2018, with early adoption permitted). The amendments clarifying how to account for certain types of share-based payment transactions and provide requirements on the accounting for:

- the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments;
- share-based payment transactions with a net settlement feature for withholding tax obligations; and
- a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled.

Unless otherwise described above, the new standards and interpretations are not expected to affect significantly the Group's consolidated financial statement.

60. CHANGES IN PRESENTATION

Starting 2017, the Group made certain changes in presentation of profit and loss and adjusted the presentation of the comparative amounts in prior periods to be consistent with the new presentation as follows:

- Revenues and expenses related to operating lease activity are presented as separate items in the accompanying consolidated income statement;
- Gains from sale of loans and advances to customers and from disposal of debt securities previously reclassified from investment financial assets available-for-sale to loans and advances to customers are presented as other gains net of losses on financial instruments at amortised cost;
- Income received from DIA for the reimbursement of bankrupt banks' deposits is presented as fee for agents' services.

The effects of the changes in presentation on the consolidated income statement for the year ended 31 December 2016 were as follows:

	As previously reported	Reclassification	As reclassified
Gains net of losses from investment financial assets available-for-sale	9.1	(1.4)	7.7
Other gains net of losses on financial instruments at amortised cost	2.1	1.4	3.5
Other operating income	26.6	(18.8)	7.8
Income from operating lease of equipment	–	18.8	18.8
Expenses related to equipment leased out	–	(25.5)	(25.5)
Other operating expense	(38.1)	25.5	(12.6)

60. CHANGES IN PRESENTATION (CONTINUED)

The effects of the changes in presentation on the consolidated statement of cash flows for the year ended 31 December 2016 were as follows:

	As previously reported	Reclassification	As reclassified
Cash flows from operating activities			
Other operating income received	25.9	(17.0)	8.9
Other operating expenses paid	(14.6)	4.2	(10.4)
Income from operating lease of equipment received	–	17.0	17.0
Expenses related to equipment leased out paid	–	(4.2)	(4.2)

The effects of reclassifications of the comparative information in Net fee and commission income note (Note 5), Other gains net of losses on financial instruments at amortised cost note (Note 8), Other operating income note (Note 10) and Other operating expense note (Note 16) for year ended 31 December 2016 were as follows:

	As previously reported	Reclassification	As reclassified
Net fee and commission income (Note 5)			
Fee received for insurance products distribution and agents' services	9.4	2.9	12.3
Other	8.9	(2.9)	6.0
Other gains net of losses on financial instruments at amortised cost (Note 8)			
Gains arising from sale of loans and advances to customers including assets previously reclassified	–	1.4	1.4
Other operating income (Note 10)			
Operating lease of equipment	18.8	(18.8)	–
Other operating expense (Note 16)			
Depreciation and other expenses related to equipment leased out	14.0	(14.0)	–
Impairment of equipment leased out	11.5	(11.5)	–