CREDIT BANK OF MOSCOW
(public joint-stock company)

Consolidated Financial Statements
for the year ended 31 December 2018

Contents

Independent Auditors' Report

To the Shareholders and Supervisory Board of CREDIT BANK OF MOSCOW (public joint-stock company)

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of CREDIT BANK OF MOSCOW (public joint-stock company) (the "Bank") and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2018, the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2018, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

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

<table>
<tr><th colspan="2">Expected credit losses ('ECL') for loans to customers</th></tr>
<tr><td colspan="2">Please refer to Notes 4 and 14 in the consolidated financial statements.</td></tr>
<tr><td>The key audit matter</td><td>How the matter was addressed in our audit</td></tr>
<tr><td>Loans to customers represent 33% of assets and are stated net of allowance for expected credit losses ('ECL') that is estimated on a regular basis and is sensitive to assumptions used.

From 1 January 2018 the Group has implemented a new ECL valuation model, which requires management to apply professional judgement and to make assumptions related to timely identification of significant increase in credit risk and default events related to loans to customers, assessment of probability of default (PD) and loss given default (LGD), assessment of forward-looking information adjustment, expected cash flows forecast for Stage 3 loans.

Due to the significant volume of loans to customers, adoption of the new ECL model and the related estimation uncertainty, this area is a key audit matter.</td><td>We analyzed the key aspects of the Group's methodology and policies related to ECL estimate for compliance with the requirements of IFRS 9, including involvement of our own specialists in financial risks management.

To analyze adequacy of professional judgement and assumptions made by the management in relation to allowance for ECL estimate, we performed the following procedures:

• For loans to corporate clients we assessed and tested the design and operating effectiveness of the controls over allocation of loans into Stages.

• For a sample of loans to corporate clients, we tested whether Stages are correctly assigned by the Group by analyzing financial and non-financial information, as well as assumptions and professional judgements, applied by the Group.

• For a sample of loans to corporate clients, we tested the correctness of data inputs for PD calculation.

• For a sample of Stage 3 loans to corporate clients, where ECL are assessed individually we critically assessed assumptions used by the Group to forecast future cash flows, including estimated proceeds from realizable collateral and their expected disposal terms based on our understanding and publicly available market information.

• For loans to individuals we tested the design and operating effectiveness of controls over completeness and accuracy of data inputs into ECL calculation models, timely reflection of delinquency events and loan repayments in the underlying systems and allocation of loans into Stages. We agreed input data to supporting documents on a sample basis.

• We assessed predictive capability of the Group's methodology by analyzing models validation results.

We also assessed whether the consolidated financial statements disclosures appropriately reflect the Group's exposure to credit risk.</td></tr>
</table>

Adoption of IFRS 9 'Financial instruments'	
Please refer to Notes 3 and 5 in the consolidated financial statements.	
The key audit matter	**How the matter was addressed in our audit**
The use of financial instruments is a core business of the Group and financial assets constitute a majority of Group's assets. From 1 January 2018 the Group has adopted a new accounting standard for financials instruments, IFRS 9, which provides significant changes to classification and measurement of financial assets. Due to adoption of new requirements, which provide significant changes to the accounting principles of financial instruments, and due to a significant impact of the new standard on the opening balances as at 1 January 2018 and financial position and performance of the Group, this area is a key audit matter.	We analysed the criteria used to determine the business models for managing financial assets by making inquiries to responsible employees, reviewing the Group's internal documentation and analyzing internal business processes on selected significant financial instruments portfolios. We checked that the Group has performed proper assessment of whether contractual cash flows are solely payments of principal and interest by analyzing underlying documents for a sample of financial assets. We also checked whether the Group has correctly identified and accounted for modifications of terms of loans to customers, by means of general analysis of core procedures related to modification of loans' terms applied by the Group and analysis of underlying documents on a sample of loans to customers. We also assessed whether the consolidated financial statements provide an appropriate disclosure of key classification and measurement principles for financial instruments as well as the effects of the Group adoption of IFRS 9.

Other Information

Management is responsible for the other information. The other information comprises the information included in the Annual report for the year ended 31 December 2018 but does not include the consolidated financial statements and our auditors' report thereon. The Annual report is expected to be made available to us after the date of this auditors' report.

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

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

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

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

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditors' 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 auditors' 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 scepticism 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 auditors' 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 auditors' 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 those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance 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 those charged with governance, 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 auditors' 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 of findings from procedures performed in accordance with the requirements of Federal Law No. 395-1, dated 2 December 1990, *On Banks and Banking Activity*

Management is responsible for the Group's compliance with mandatory ratios and for maintaining internal controls and organizing risk management systems in accordance with the requirements established by the Bank of Russia.

In accordance with Article 42 of Federal Law No. 395-1, dated 2 December 1990 *On Banks and Banking Activity* (the "Federal Law"), we have performed procedures to examine:

— the Group's compliance with mandatory ratios as at 1 January 2019 established by the Bank of Russia; and

— whether the elements of the Group's internal control and organization of its risk management systems comply with the requirements established by the Bank of Russia.

These procedures were selected based on our judgment, and were limited to the analysis, inspection of documents, comparison of the Bank's internal policies, procedures and methodologies with the applicable requirements established by the Bank of Russia, and recalculations, comparisons and reconciliations of numerical data and other information.

Our findings from the procedures performed are reported below.

— Based on our procedures with respect to the Group's compliance with the mandatory ratios established by the Bank of Russia, we found that the Group's mandatory ratios, as at 1 January 2019, were within the limits established by the Bank of Russia.

  We have not performed any procedures on the accounting records maintained by the Group, other than those which we considered necessary to enable us to express an opinion as to whether the Group's consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31

December 2018, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with the International Financial Reporting Standards.

— Based on our procedures with respect to whether the elements of the Group's internal control and organization of its risk management systems comply with the requirements established by the Bank of Russia, we found that:

- as at 31 December 2018, the Bank's internal audit function was subordinated to, and reported to, the Supervisory Board, and the risk management function was not subordinated to, and did not report to, divisions taking relevant risks in accordance with the regulations and recommendations issued by the Bank of Russia;
- the Bank's internal documentation, effective on 31 December 2018, establishing the procedures and methodologies for identifying and managing the Group's significant credit, operational, market, interest rate, legal, liquidity and reputational risks, and for stress-testing, was approved by the authorised management bodies of the Bank in accordance with the regulations and recommendations issued by the Bank of Russia;
- as at 31 December 2018, the Bank maintained a system for reporting on the Group's significant credit, operational, market, interest rate, legal, liquidity and reputational risks, and on the Group's capital;
- the frequency and consistency of reports prepared by the Bank's risk management and internal audit functions during 2018, which cover the Group's credit, operational, market, interest rate, legal, liquidity and reputational risk management, was in compliance with the Bank's internal documentation. The reports included observations made by the Bank's risk management and internal audit functions as to their assessment of the effectiveness of the Group's procedures and methodologies, and recommendations for improvement;
- as at 31 December 2018, the Supervisory Board and Executive Management of the Bank had responsibility for monitoring the Group's compliance with the risk limits and capital adequacy ratios established in the Bank's internal documentation. In order to monitor the effectiveness of the Group's risk management procedures and their consistent application during 2018, the Supervisory Board and Executive Management of the Bank periodically discussed the reports prepared by the risk management and internal audit functions, and considered the proposed corrective actions.

Procedures with respect to elements of the Group's internal control and organization of its risk management systems were performed solely for the purpose of examining whether these elements, as prescribed in the Federal Law and as described above, comply with the requirements established by the Bank of Russia.

The engagement partner on the audit resulting in this independent auditors' report is:

Lukashova N.V.

JSC "KPMG"

Moscow, Russian Federation

6 March 2019

АКЦИОНЕРНОЕ ОБЩЕСТВО ОГРН 1027700125628
КПМГ
KPMG
МОСКВА

(in millions of Russian Roubles unless otherwise stated)

	Notes	2018	2017
Interest income calculated using the effective interest method	6	133 287	122 358
Other interest income	6	4 646	4 601
Interest expense	6	(89 518)	(81 679)
Net interest income	6	**48 415**	**45 280**
Charge for credit losses on debt financial assets	11,12, 14,15	(2 221)	(18 597)
Net interest income after credit losses on debt financial assets		**46 194**	**26 683**
Fee and commission income	7	15 829	15 510
Fee and commission expense	7	(3 483)	(3 002)
Net loss on loans to customers at FVTPL		(5 611)	-
Net (loss) gain on other financial instruments at FVTPL		(189)	773
Net loss from sale and redemption of financial assets at FVOCI		(251)	-
Net realised gain on available-for-sale assets		-	341
Net foreign exchange gains		2 723	2 701
Impairment (losses) recoveries on other non-financial assets, credit (losses) recoveries on other financial assets and credit related commitments and other provisions	9	(2 895)	(264)
State deposit insurance scheme contributions		(1 906)	(1 286)
Operating lease income		81	1 634
Net income from disposal of subsidiaries	34	637	1 076
Other net operating income (expense)		3 366	(593)
Non-interest income		**8 301**	**16 890**
Operating income		**54 495**	**43 573**
Salaries and employment benefits	8	(12 290)	(9 516)
Administrative expenses	8	(6 085)	(5 377)
Depreciation of property and equipment		(1 051)	(1 863)
Operating expense		**(19 426)**	**(16 756)**
Profit before income taxes		**35 069**	**26 817**
Income tax	10	(7 845)	(6 114)
Profit for the year		**27 224**	**20 703**

The consolidated statement of profit or loss and other comprehensive income is to be read in conjunction with the Notes, forming an integral part of the consolidated financial statements.

(in millions of Russian Roubles unless otherwise stated)

	Notes	2018	2017
Profit for the year		**27 224**	**20 703**
Other comprehensive loss			
Items that will not be reclassified subsequently to profit or loss:			
- revaluation of buildings		(115)	(132)
- income tax for revaluation of buildings		23	26
Items that are or may be reclassified subsequently to profit or loss:			
Movement in fair value reserve (debt instruments):			
- net change in fair value		(3 818)	474
- net amount transferred to profit or loss		(160)	(545)
Exchange differences on translation:			
- exchange differences on translation		-	6
- exchange differences transferred to profit or loss on disposal of subsidiary		-	(51)
Income tax related to items that are or may be reclassified subsequently to profit or loss		796	20
Other comprehensive loss for the year, net of income tax		**(3 274)**	**(202)**
Total comprehensive income for the year		**23 950**	**20 501**
Basic and diluted earnings per share (in RUB per share)	33	**0.89**	**0.79**

Acting Chairman of the Management Board — Mikhail V. Polunin

Chief Accountant — Svetlana V. Sass

The consolidated statement of profit or loss and other comprehensive income is to be read in conjunction with the Notes, forming an integral part of the consolidated financial statements.

(in millions of Russian Roubles unless otherwise stated)

	Notes	31 December 2018	31 December 2017
ASSETS			
Cash and cash equivalents	11	1 162 779	934 033
Obligatory reserves with the Central bank of the Russian Federation		13 065	8 884
Due from credit and other financial institutions	12	13 183	16 369
Trading financial assets	13	15 665	117 282
- *held by the Group*	*13*	*12 909*	*95 519*
- *pledged under sale and repurchase agreements*	*13*	*2 756*	*21 763*
Loans to customers	14	709 045	768 676
- *loans to corporate clients*	*14*	*617 911*	*685 937*
- *loans to individuals*	*14*	*91 134*	*82 739*
Investment financial assets	15	214 481	25 066
- *held by the Group*		*84 703*	*23 273*
- *pledged under sale and repurchase agreements*		*129 778*	*1 793*
Investments in associates		2 275	-
Property and equipment	16	7 182	7 866
Deferred tax asset		113	281
Other assets	17	8 139	9 734
Total assets		**2 145 927**	**1 888 191**
LIABILITIES AND EQUITY			
Due to credit institutions	18	552 930	639 861
Due to customers	19	1 272 175	941 724
- *due to corporate customers*	*19*	*897 099*	*650 507*
- *due to individuals*	*19*	*375 076*	*291 217*
Debt securities issued	20	105 305	116 280
Deferred tax liability		4 248	3 779
Other liabilities	21	20 096	8 958
Total liabilities		**1 954 754**	**1 710 602**
Equity			
Share capital	22	27 942	27 942
Additional paid-in capital		46 247	46 247
Perpetual debt issued	22	46 691	40 320
Revaluation surplus for buildings		490	582
Fair value reserve for securities		(1 834)	394
Retained earnings		71 637	62 104
Total equity		**191 173**	**177 589**
Total liabilities and equity		**2 145 927**	**1 888 191**

Commitments and Contingencies 23, 25

Acting Chairman of the Management Board Mikhail V. Polunin

Chief Accountant Svetlana V. Sass

The consolidated statement of financial position is to be read in conjunction with the Notes, forming an integral part of the consolidated financial statements.

(in millions of Russian Roubles unless otherwise stated)

	Notes	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES			
Interest receipts		140 326	129 680
Interest payments		(84 526)	(77 607)
Fees and commission receipts		15 568	15 606
Fees and commission payments		(3 272)	(2 989)
Net (payments) receipts from operations with securities		(217)	1 103
Net receipts from foreign exchange		22 428	13 495
State deposit insurance scheme contributions payments		(1 742)	(1 223)
Net other operating income receipts (payments)		3 099	(782)
Operating leases income receipts		81	1 633
Salaries and employment benefits paid		(11 446)	(9 312)
Administrative expenses paid		(5 063)	(5 081)
Income tax paid		(2 021)	(4 592)
Operating cash flows before changes in operating assets and liabilities		**73 215**	**59 931**
(Increase) decrease in operating assets			
Obligatory reserves with the Central bank of the Russian Federation		(4 181)	(1 597)
Due from credit and other financial institutions		3 928	366 282
Trading financial assets		(9 608)	5 644
Loans to customers		71 306	(161 646)
Other assets		2 561	(1 168)
Increase (decrease) in operating liabilities			
Due to the Central bank of the Russian Federation		-	(237 786)
Due to credit institutions except syndicated and subordinated loans		(119 684)	247 939
Due to customers except subordinated loans		278 038	191 557
Promissory notes issued		-	(1 113)
Other liabilities		2 217	1 137
Net cash from operations		**297 792**	**469 180**
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of investment financial assets		(294 562)	(89 718)
Proceeds from disposal and redemption of investment financial assets		191 279	108 347
Net cash inflow (outflow) on disposal of subsidiary		847	(265)
Purchase of property and equipment and intangible assets		(1 345)	(1 980)
Sale of property and equipment and intangible assets		557	3
Purchase of associates		(2 275)	-
Net cash (used in) from investing activities		**(105 499)**	**16 387**

The consolidated statement of cash flows is to be read in conjunction with the Notes, forming an integral part of the consolidated financial statements.

(in millions of Russian Roubles unless otherwise stated)

	Notes	2018	2017
CASH FLOWS FROM FINANCING ACTIVITIES			
Issuance of share capital		-	14 400
Proceeds from placement and issuance of perpetual debt		4 996	40 818
Repayment of perpetual debt issued		(6 144)	-
Interest on perpetual debt paid		(3 872)	(1 852)
Proceeds from syndicated borrowings		376	28 006
Repayment of syndicated borrowings		(11 452)	-
Proceeds from subordinated deposits		-	22 000
Repayment of subordinated deposits		-	(582)
Proceeds from placement and issuance of subordinated bonds		356	33 933
Partial redemption of subordinated bonds		(13 718)	(23 481)
Proceeds from placement and issuance of other bonds		42 421	13 229
Repayments of other bonds		(53 726)	(38 486)
Net cash (used in) from financing activities		**(40 763)**	**87 985**
Effect of exchange rates changes on cash and cash equivalents		78 514	(12 846)
Effect of changes in ECL on cash and cash equivalents		(626)	-
Change in cash and cash equivalents		**229 418**	**560 706**
Cash and cash equivalents, beginning of the year		933 361	373 327
Cash and cash equivalents, end of the year	11	**1 162 779**	**934 033**

Acting Chairman of the Management Board — Mikhail V. Polunin

Chief Accountant — Svetlana V. Sass

The consolidated statement of cash flows is to be read in conjunction with the Notes, forming an integral part of the consolidated financial statements.

(in millions of Russian Roubles unless otherwise stated)

	Share capital	**Additional paid-in capital**	**Perpetual debt issued**	**Revaluation surplus for buildings**	**Fair value reserve for securities**	**Currency translation reserve**	**Retained earnings**	**Total equity**
Balance as at 1 January 2017	**24 742**	**35 047**	**-**	**688**	**451**	**39**	**42 434**	**103 401**
Total comprehensive income for the year	-	-	-	(106)	(57)	(39)	20 703	**20 501**
Issue of share capital	3 200	11 200	-	-	-	-	-	**14 400**
Interest paid on perpetual debt issued	-	-	-	-	-	-	(1 852)	**(1 852)**
Perpetual debt issued (Note 22)	-	-	40 977	-	-	-	-	**40 977**
Foreign exchange translation of perpetual debt issued	-	-	(657)	-	-	-	657	**-**
Transaction costs on perpetual debt issued	-	-	-	-	-	-	(159)	**(159)**
Tax effect on perpetual debt issued	-	-	-	-	-	-	270	**270**
Disposal of subsidiary	-	-	-	-	-	-	51	**51**
31 December 2017	**27 942**	**46 247**	**40 320**	**582**	**394**	**-**	**62 104**	**177 589**
Balance as at 31 December 2017	**27 942**	**46 247**	**40 320**	**582**	**394**	**-**	**62 104**	**177 589**
Impact of adopting IFRS 9 as at 1 January 2018 (Note 5)	-	-	-	-	954	-	**(8 673)**	**(7 719)**
Restated balance as at 1 January 2018	**27 942**	**46 247**	**40 320**	**582**	**1 348**	**-**	**53 431**	**169 870**
Total comprehensive income for the year	-	-	-	(92)	(3 182)	-	27 224	23 950
Perpetual debt redemption	-	-	(5 897)	-	-	-	-	(5 897)
Interest paid on perpetual debt issued	-	-	-	-	-	-	(3 872)	(3 872)
Perpetual debt issued (Note 22)	-	-	5 049	-	-	-	-	5 049
Foreign exchange translation of perpetual debt issued	-	-	7 219	-	-	-	(7 465)	(246)
Transaction costs on perpetual debt issued	-	-	-	-	-	-	(54)	(54)
Tax effect on perpetual debt issued	-	-	-	-	-	-	2 373	2 373
31 December 2018	**27 942**	**46 247**	**46 691**	**490**	**(1 834)**	**-**	**71 637**	**191 173**

Acting Chairman of the Management Board — Mikhail V. Polunin

Chief Accountant — Svetlana V. Sass

The consolidated statement of changes in equity is to be read in conjunction with the Notes, forming an integral part of consolidated financial statements.

(in millions of Russian Roubles unless otherwise stated)

1 Background

Principal activities

These consolidated financial statements include the financial statements of CREDIT BANK OF MOSCOW (public joint-stock company) (the Bank) and its subsidiaries (together referred to as the Group).

The Bank was formed on 5 August 1992 as an open joint-stock company, then re-registered as a limited liability company under the legislation of the Russian Federation. On 18 August 1999 the Bank was reorganised as an open joint-stock company. On 16 May 2016 the Bank was re-registered as a public joint-stock company under the legislation of the Russian Federation. The Bank's registered legal address is 2 (bldg. 1), Lukov pereulok, Moscow, Russia. The Bank operates under a general banking license from the Central bank of the Russian Federation (the CBR), renewed on 21 January 2013. In December 2004 the Bank was admitted to the state program for individual deposit insurance.

The Bank is among the 10 largest banks in Russia by assets and conducts its business in Moscow and the Moscow region with a branch network comprising 132 branches, 1 204 ATMs and 7 023 payment terminals.

The principal subsidiaries of the Group are as follows:

Name	Country of incorporation	Principal activities	Degree of control, %	
			31 December 2018	31 December 2017
"CBOM Finance p.l.c."	Ireland	Raising finance	100%	100%
"INKAKHRAN" Group	Russia	Cash handling	100%	100%
LLC "MKB-Invest"	Russia	Transactions with securities	100%	100%
LLC "Bank SKS"	Russia	Investment banking	100%	100%
CJSC "Mortgage Agent MKB"	Russia	Raising finance	100%	100%
LLC "Mortgage Agent MKB 2"	Russia	Raising finance	100%	100%
"MKB-Leasing" Group	Russia	Finance leasing	-	100%

The Bank does not have any direct or indirect shareholdings in the subsidiaries "CBOM Finance p.l.c.", LLC "MKB Invest", CJSC "Mortgage Agent MKB" and LLC "Mortgage Agent MKB 2". "CBOM Finance p.l.c." was established to raise capital by the issue of debt securities and to use the proceeds of each such issuance to advance loans to the Bank. "MKB Invest" is controlled by the Group through an option agreement. CJSC "Mortgage Agent MKB" was established for the purposes of the mortgage loans securitisation program launched by the Bank in 2014. LLC "Mortgage Agent MKB 2" was established for the purposes of the mortgage loans securitisation program launched by the Bank in 2016. In June 2018, the Group sold 100% share in its subsidiary "MKB-Leasing" Group – Note 34.

Shareholders

The Bank's shareholders as at 31 December 2018 are:

- LLC Concern Rossium – 56.07%
- RegionFinanceResurs JSC – 9.43%
- LLC IC Algoritm – 6.34%
- Other shareholders – 28.16%.

The majority participant of LLC Concern Rossium, is Roman I. Avdeev, who is an ultimate controlling party of the Group.

Related party transactions are detailed in Note 27.

Russian business environment

The Group's operations are primarily located in the Russian Federation. Consequently, the Group is exposed to the economic and financial risks in the markets of the Russian Federation, which display emerging-market characteristics. Legal, tax and regulatory frameworks continue to be developed, but are subject to varying interpretations and frequent changes that, together with other legal and fiscal impediments, contribute to the challenges faced by entities operating in the Russian Federation.

The conflict in Ukraine and related events has increased the perceived risks of doing business in the Russian Federation. The imposition of economic sanctions on Russian individuals and legal entities by the European Union, the United States of America, Japan, Canada, Australia and others, as well as retaliatory sanctions imposed by the Russian government, has resulted in increased economic uncertainty including more volatile equity markets, a depreciation of the Russian Rouble, a reduction in both local and foreign direct investment inflows and a significant tightening in the availability of credit. In particular, some Russian entities, including banks, may be experiencing difficulties in accessing international equity and debt markets and may become increasingly dependent on Russian state banks to finance their operations. The longer term effects of recently implemented sanctions, as well as the threat of additional future sanctions, are difficult to determine. Management of the Group believes that it takes all the necessary efforts to support the economic stability of the Group in the current environment.

The consolidated financial statements reflect management's assessment of the impact of the Russian business environment on the operations and the financial position of the Group. The future business environment may differ from management's assessment.

2 Basis of preparation

Statement of compliance

The accompanying consolidated financial statements are prepared in accordance with International Financial Reporting Standards (IFRS).

This is the first set of the Group's annual financial statements in which IFRS 9 *Financial Instruments* and IFRS 15 *Revenue from Contracts with Customers* have been applied.

Basis of measurement

The consolidated financial statements are prepared on the historical cost basis except that financial instruments at fair value through profit or loss and through other comprehensive income are stated at fair value and buildings are stated at revalued amounts.

Functional and presentation currency

The functional currency of the Bank and the majority of its subsidiaries is the Russian Rouble (RUB) as, being the national currency of the Russian Federation, it reflects the economic substance of the majority of underlying events and circumstances relevant to them.

The RUB is also the presentation currency for the purposes of these consolidated financial statements.

Financial information presented in RUB is rounded to the nearest million.

Foreign currencies, particularly USD and EUR, play significant role in determination of economic parameters for many business operations conducted in the Russian Federation. The table below sets out exchange rates for USD and EUR against RUB, defined by the CBR:

(in millions of Russian Roubles unless otherwise stated)

	31 December 2018	**31 December 2017**
USD	69.4706	57.6002
EUR	79.4605	68.8668

Use of estimates and judgments

In preparing these consolidated financial statements, management has made judgement, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

The significant judgements made by management in applying the Group's accounting policies are the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements as at and for the year ended 31 December 2017, except for the areas described below.

Judgements

Information about judgements made in applying accounting policies that have the most significant effects on the amounts recognised in the consolidated financial statements is included in the following Note:

- classification of financial assets: assessment of the business model within which the assets are held and assessment of whether the contractual terms of the financial asset are solely payments of principal and interest on the principal amount outstanding – Note 3.
- establishing the criteria for determining whether credit risk on the financial asset has increased significantly since initial recognition, determining methodology for incorporating forward-looking information into measurement of ECL and selection and approval of models used to measure ECL – Note 4.

Assumptions and estimations uncertainty

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment in the year ended 31 December 2018 is included in the following Note:

Applicable to 2018 only:

- impairment of financial instruments: determining inputs into the ECL measurement model, including incorporation of forward-looking information in the measurement of ECL – Note 4.

Applicable to 2018 and 2017:

- – impairment of financial instruments – Note 15.
- – estimates of fair values of financial assets and liabilities – Note 32.
- – building revaluation estimates – Note 16.

Changes in accounting policies and presentation

The Group has adopted IFRS 9 and IFRS 15 from 1 January 2018. Also, the Group early adopted '*Prepayment Features with Negative Compensation'* (Amendments to IFRS 9), issued in October 2017.

A number of other new standards are also effective from 1 January 2018 but they do not have a material effect on the Group's consolidated financial statements.

Due to the transition methods chosen by the Group in applying IFRS 9, comparative information throughout these consolidated financial statements has not generally been restated to reflect its requirements.

The adoption of IFRS 15 did not impact the timing or amount of fee and commission income from contracts with customers and the related assets and liabilities recognised by the Group.

The effect of initially applying these standards is mainly attributed to the following:

- an increase in impairment losses recognised on financial assets (see Note 5);
- additional disclosures related to IFRS 9 (see Notes 4 and 5).

IFRS 9 Financial instruments

IFRS 9 sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39 '*Financial Instruments: Recognition and Measurement'*. The requirements of IFRS 9 represent a significant change from IAS 39. The new standard brings fundamental changes to the accounting for financial assets and to certain aspects of the accounting for financial liabilities.

As a result of the adoption of IFRS 9, the Group has adopted consequential amendments to IAS 1 '*Presentation of Financial Statements*', which require separate presentation in the statement of profit or loss and other comprehensive income of interest revenue calculated using the effective interest method. Previously, the Group disclosed this amount in notes to the consolidated financial statements.

Additionally, the Group has adopted consequential amendments to IFRS 7 '*Financial Instruments: Disclosures*' that are applied to disclosures about 2018 but have not been applied to the comparative information.

The key changes to the Group's accounting policies resulting from its adoption of IFRS 9 are summarised below.

Classification of financial assets and financial liabilities

IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). IFRS 9 classification is generally based on the business model in which a financial asset is managed and its contractual cash flows. The standard eliminates the existing IAS 39 categories of held-to-maturity, loans and receivables and available-for-sale. Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never bifurcated. Instead, the whole hybrid instrument is assessed for classification. For an explanation of how the Group classifies financial assets under IFRS 9, see Note 3.

IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities. However, although under IAS 39 all fair value changes of liabilities designated under the fair value option were recognised in profit or loss, under IFRS 9 fair value changes are generally presented as follows:

- the amount of change in the fair value that is attributable to changes in the credit risk of the liability is presented in other comprehensive income; and
- the remaining amount of change in the fair value is presented in profit or loss.

For an explanation of how the Group classifies financial liabilities under IFRS 9, see Note 3.

Impairment of financial assets

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' model. The new impairment model also applies to certain loan commitments and financial guarantee contracts but not to equity investments.

Under IFRS 9, credit losses are recognised earlier than under IAS 39. For an explanation of how the Group applies the impairment requirements of IFRS 9, see Note 3.

Transition

Changes in accounting policies resulting from the adoption of IFRS 9 have been applied retrospectively, except as described below:

- Comparative periods have not been restated. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognised in retained earnings and reserves as at 1 January 2018. Accordingly, the information presented as at and for the year ended 31 December 2017 does not reflect the requirements of IFRS 9 and therefore is not comparable to the information presented as at and for the year ended 31 December 2018 under IFRS 9.

  The Group used the exemption not to restate comparative periods but considering that the amendments made by IFRS 9 to IAS 1 introduced the requirement to present 'interest income calculated using the effective interest rate' as a separate line item in the consolidated statement of profit or loss and other comprehensive income, the Group has reclassified comparative interest income on non-derivative debt financial assets measured at FVTPL to 'other interest income' and changed the description of the line item from 'interest income' reported in 2017 to 'interest income calculated using the effective interest method'.

- The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application.
  - The determination of the business model within which a financial asset is held.
  - The designation and revocation of previous designations of certain financial assets and financial liabilities as measured at FVTPL.
  - The designation of certain investments in equity instruments not held for trading as at FVOCI.

- If a debt security had low credit risk at the date of initial application of IFRS 9, then the Group has assumed that credit risk on the asset had not increased significantly since its initial recognition.

For more information and details on the changes and implications resulting from the adoption of IFRS 9, see Note 5.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaced IAS 18 '*Revenue*', IAS 11 '*Construction Contracts and related interpretations*'.

The Group initially applied IFRS 15 on 1 January 2018 retrospectively in accordance with IAS 8 without any practical expedients. The timing or amount of the Group's fee and commission income from contracts with customers was not impacted by the adoption of IFRS 15.

A contract with a customer that results in a recognised financial instrument in the consolidated financial statements of the Group may be partially in the scope of IFRS 9 and partially in the scope of IFRS 15. If this is the case, then the Bank first applies IFRS 9 to separate and measure the part of the contract that is in the scope of IFRS 9 and then applies IFRS 15 to the residual.

The Group earns other fee and commission income at a point in time or over the time with consideration to how performance obligation is satisfied by providing services to the customers.

3 Significant accounting policies

The following significant accounting policies are applied in the preparation of the consolidated financial statements. The accounting policies are consistently applied by the Group entities to all periods presented in these consolidated financial statements, except as explained in Note 2, which addresses changes in accounting policies.

Basis of consolidation

Business combinations

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group.

The Group measures goodwill at the acquisition date as:

- The fair value of the consideration transferred; plus
- The recognised amount of any non-controlling interests in the acquiree; plus
- If the business combination is achieved in stages, the fair value of the pre-existing equity interest in the acquire; less
- The net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

Transaction costs, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

Any contingent consideration is measured at fair value at the date of acquisition. If an obligation to pay contingent consideration that meets the definition of a financial instrument is classified as equity, then it is not remeasured and settlement is accounted for within equity. Otherwise, other contingent consideration is remeasured at fair value at each reporting date and subsequent changes in the fair value of the contingent consideration are recognised in profit or loss.

Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group.

Associates

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.

Structured entities

A structured entity is an entity designed so that its activities are not governed by way of voting rights. In assessing whether the Group has power over such investees in which it has an interest, the Group considers factors such as the purpose and design of the investee; its practical ability to direct the relevant activities of the investee; the nature of its relationship with the investee; and the size of its exposure to the variability of returns of the investee.

Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated. Unrealised gains arising from transactions with equity-accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

Goodwill

Goodwill arising on the acquisition of subsidiaries is measured at cost less accumulated impairment losses.

Interest

Policy applicable from 1 January 2018

Effective interest rate

Interest income and expense are recognised in profit or loss using the effective interest method. The 'effective interest rate' is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to:

- the gross carrying amount of the financial asset; or
- the amortised cost of the financial liability.

When calculating the effective interest rate for financial instruments other than purchased or originated credit-impaired assets, the Group estimates future cash flows considering all contractual terms of the financial instrument, but not expected credit losses. For purchased or originated credit-impaired financial assets, a credit-adjusted effective interest rate is calculated using estimated future cash flows including expected credit losses.

The calculation of the effective interest rate includes transaction costs and fees and points paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or financial liability.

Amortised cost and gross carrying amount

The 'amortised cost' of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured on initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any expected credit loss allowance (or impairment allowance before 1 January 2018).

The 'gross carrying amount of a financial asset' measured at amortised cost is the amortised cost of a financial asset before adjusting for any expected credit loss allowance.

Calculation of interest income and expense

The effective interest rate of a financial asset or financial liability is calculated on initial recognition of a financial asset or a financial liability. In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired) or to the amortised cost of the liability. The effective interest rate is revised as a result of periodic re-estimation of cash flows of floating rate instruments to reflect movements in market rates of interest. The effective interest rate is also revised for fair value hedge adjustments at the date amortisation of the hedge adjustment begins.

However, for financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortised cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

For financial assets that were credit-impaired on initial recognition, interest income is calculated by applying the credit-adjusted effective interest rate to the amortised cost of the asset. The calculation of interest income does not revert to a gross basis, even if the credit risk of the asset improves.

Presentation

Interest income calculated using the effective interest method presented in the consolidated statement of profit or loss and other comprehensive income includes:

- interest on financial assets measured at amortised cost;
- interest on debt instruments measured at FVOCI;

Other interest income presented in the statement of profit or loss and other comprehensive income includes interest income on non-derivative debt financial instruments measured at FVTPL.
Interest expense presented in the consolidated statement of profit or loss and other comprehensive income includes:

- financial liabilities measured at amortised cost.

Policy applicable before 1 January 2018

Effective interest rate

Interest income and expense were recognised in profit or loss using the effective interest method. The effective interest rate was the rate that exactly discounted the estimated future cash payments and receipts through the expected life of the financial asset or financial liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Group estimated future cash flows considering all contractual terms of the financial instrument, but not future credit losses.

The calculation of the effective interest rate included transaction costs and fees and points paid or received that were an integral part of the effective interest rate. Transaction costs included incremental costs that were directly attributable to the acquisition or issue of a financial asset or financial liability.

Presentation

Interest income calculated using the effective interest method presented in the statement of profit or loss and other comprehensive income includes:

- interest on financial assets measured at amortised cost;
- interest on debt instruments measured at FVOCI;

Other interest income presented in the statement of profit or loss and other comprehensive income includes interest income on non-derivative debt financial instruments measured at FVTPL.

Interest expense presented in the statement of profit or loss and other comprehensive income includes:

- financial liabilities measured at amortised cost;

Fees and commission

Fee and commission income and expense that are integral to the effective interest rate on a financial asset or financial liability are included in the effective interest rate.

The Bank acts as an agent for insurance providers offering their insurance products to consumer loan borrowers. Commission income from insurance represents commissions for such agency services received by the Bank from such partners. It is not considered to be integral to the overall profitability of consumer loans because it is determined and recognised based on the Bank's contractual arrangements with the insurance provider rather than with the borrower. The Bank does not participate in the insurance risk, which is entirely borne by the partner; commission income from insurance is recognised in profit or loss when the Bank provides the agency service to the insurance company. The borrowers have a choice whether to purchase the insurance policy. A consumer loan customer's decision whether or not to purchase an insurance policy does not effect the stated interest rate offered to that customer.

Other fee and commission income – including account servicing fees, investment management fees, sales commission, placement fees and syndication fees – is recognised as the related services are performed. If a loan commitment is not expected to result in the draw-down of a loan, then the related loan commitment fee is recognised on a straight-line basis over the commitment period.

A contract with a customer that results in a recognised financial instrument in the Group's consolidated financial statements may be partially in the scope of IFRS 9 and partially in the scope of IFRS 15. If this is the case, then the Group first applies IFRS 9 to separate and measure the part of the contract that is in the scope of IFRS 9 and then applies IFRS 15 to the residual.

Other fee and commission expenses relate mainly to transaction and service fees, which are expensed as the services are received.

Foreign currency

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the year, and the amortised cost in foreign currency translated at the exchange rate at the end of the reporting year.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary items in a foreign currency that are measured based on historical cost are translated using the exchange rate at the date of the transaction.

Foreign currency differences arising in translation are recognised in profit or loss, however, foreign currency differences arising from the translation of the following items are recognised in other comprehensive income:

- an investment in equity securities designated as at FVOCI (2017: available-for-sale equity investments (except on impairment, in which case foreign currency differences that have been recognised in other comprehensive income are reclassified to profit or loss).

Inflation accounting

The Russian Federation ceased to be hyperinflationary with effect from 1 January 2003 and accordingly no adjustments for hyperinflation are made for periods subsequent to this date. The hyperinflation-adjusted carrying amounts of assets, liabilities and equity items as at 31 December 2002 became their carrying amounts as at 1 January 2003 for the purpose of subsequent accounting.

Cash and cash equivalents

The Group includes cash and the correspondent account with the Central bank of the Russian Federation, nostro accounts with other banks and deposits in credit and other financial institutions with initial maturity of less than one month in cash and cash equivalents. The obligatory reserves with the Central bank of the Russian Federation is not considered to be a cash equivalent due to restrictions on its withdrawability. Cash and cash equivalents are carried at amotised cost in the consolidated statement of financial position.

Financial instruments

Recognition and initial measurement

Trade receivables and debt securities issued are initially recognised when they are originated. All other financial assets and financial liabilities are initially recognised when the Group becomes a party to the contractual provisions of the instrument.

A financial asset (unless it is a trade receivable without a significant financing component) or financial liability is initially measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

Classification and subsequent measurement

Financial assets – Policy applicable from 1 January 2018

On initial recognition, a financial asset is classified as measured at: amortised cost; FVOCI – debt investment; FVOCI – equity investment; or FVTPL.

Financial assets are not reclassified subsequent to their initial recognition unless the Group changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A debt investment is measured at FVOCI if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

For debt financial assets measured at FVOCI, gains and losses are recognised in other comprehensive income, except for the following, which are recognised in profit or loss in the same manner as for financial assets measured at amortised cost:

- interest income using the effective interest method;
- ECL and reversals; and
- foreign exchange gains and losses.

When a debt financial asset measured at FVOCI is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss.

On initial recognition of an equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in the investment's fair value in OCI. This election is made on an investment-by-investment basis.

All financial assets not classified as measured at amortised cost or FVOCI as described above are measured at FVTPL. This includes all derivative financial assets and non-compliant with SPPI-criteria debt financial assets. On initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Financial assets – Business model assessment: Policy applicable from 1 January 2018

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

– the stated policies and objectives for the portfolio and the operation of those policies in practice. These include whether management's strategy focuses on earning contractual interest income, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of any related liabilities or expected cash outflows or realising cash flows through the sale of the assets;

– how the performance of the portfolio is evaluated and reported to the Group's management;

– the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;

– how managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and

– the frequency, volume and timing of sales of financial assets in prior periods, the reasons for such sales and expectations about future sales activity.

Transfers of financial assets to third parties in transactions that do not qualify for derecognition are not considered sales for this purpose, consistent with the Group's continuing recognition of the assets.

Financial assets that are held for trading or are managed and whose performance is evaluated on a fair value basis are measured at FVTPL.

Financial assets – Assessment whether contractual cash flows are solely payments of principal and interest: Policy applicable from 1 January 2018

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

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

– contingent events that would change the amount or timing of cash flows;
– leverage features;
– terms that may adjust the contractual coupon rate, including variable-rate features;
– prepayment and extension features; and
– terms that limit the Group's claim to cash flows from specified assets (e.g. non-recourse features).

A prepayment feature is consistent with the solely payments of principal and interest criterion if the prepayment amount substantially represents unpaid amounts of principal and interest on the principal amount outstanding, which may include reasonable additional compensation for early termination of the contract. Additionally, for a financial asset acquired at a discount or premium to its contractual par amount, a feature that permits or requires prepayment at an amount that substantially represents the contractual par amount plus accrued (but unpaid) contractual interest (which may also include reasonable additional compensation for early termination) is treated as consistent with this criterion if the fair value of the prepayment feature is insignificant at initial recognition.

Financial assets – Subsequent measurement and gains and losses: Policy applicable from 1 January 2018

Financial assets at FVTPL	These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognised in profit or loss.
Financial assets at amortised cost	These assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.
Debt investments at FVOCI	These assets are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognised in profit or loss. Other net gains and losses are recognised in OCI. On derecognition, gains and losses accumulated in OCI are reclassified to profit or loss.
Equity investments at FVOCI	These assets are subsequently measured at fair value. Dividends are recognised as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognised in OCI and are never reclassified to profit or loss.

Non-recourse loans

In some cases, loans made by the Group that are secured by collateral of the borrower limit the Group's claim to cash flows of the underlying collateral (non-recourse loans). The Group applies judgment in assessing whether the non-recourse loans meet the SPPI criterion. The Group typically considers the following information when making this judgement:

- whether the contractual arrangement specifically defines the amounts and dates of the cash payments of the loan;
- the fair value of the collateral relative to the amount of the secured financial asset;
- the ability and willingness of the borrower to make contractual payments, notwithstanding a decline in the value of collateral;
- whether the borrower is an individual or a substantive operating entity or is a special-purpose entity;
- the Group's risk of loss on the asset relative to a full-recourse loan;

- the extent to which the collateral represents all or a substantial portion of the borrower's assets; and
- whether the Group will benefit from any upside from the underlying assets.

Financial assets – Policy applicable before 1 January 2018

The Group classified its financial assets into one of the following categories:

– loans and receivables;
– held to maturity;
– available for sale; and
– at FVTPL, and within this category as:
    - held for trading;
    - derivative hedging instruments; or
  - designated as at FVTPL.

Financial assets – Subsequent measurement and gains and losses: Policy applicable before 1 January 2018

Financial assets at FVTPL	Measured at fair value and changes therein, including any interest or dividend income, were recognised in profit or loss.
Held-to-maturity financial assets	Measured at amortised cost using the effective interest method.
Loans and receivables	Measured at amortised cost using the effective interest method.
Available-for-sale financial assets	Measured at fair value and changes therein, other than impairment losses, interest income and foreign currency differences on debt instruments, were recognised in OCI and accumulated in the fair value reserve. When these assets were derecognised, the gain or loss accumulated in equity was reclassified to profit or loss.

Financial liabilities – Classification, subsequent measurement and gains and losses

Financial liabilities are classified as measured at amortised cost or FVTPL. A financial liability is classified as at FVTPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognised in profit or loss. Other financial liabilities are subsequently measured at amortised cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognised in profit or loss. Any gain or loss on derecognition is also recognised in profit or loss.

The Group has fixed rate bank loans for which the banks have the option to revise the interest rate following the change of key rate set by the CBR. The Group have an option to either accept the revised rate or redeem the loan at par without penalty. The Group considers these loans as in essence floating rate loans.

Modification of financial assets and financial liabilities

Policy applicable from 1 January 2018

Financial assets

If the terms of a financial asset are modified, the Group evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different (referred to as 'substantial modification'), then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised and a new financial asset is recognised at fair value. Any fees received as part of the modification are accounted for as follows:

- fees that are considered in determining the fair value of the new asset and fees that represent reimbursement of eligible transaction costs are included in the initial measurement of the asset; and;
- other fees are included in profit or loss as part of the gain or loss on derecognition.

The Group performs a quantitative and qualitative evaluation of whether the modification is substantial, i.e. whether the cash flows of the original financial asset and the modified or replaced financial asset are substantially different. The Group assesses whether the modification is substantial based on quantitative and qualitative factors in the following order: qualitative factors, quantitative factors, combined effect of qualitative and quantitative factors. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset deemed to have expired. In making this evaluation the Group analogizes to the guidance on the derecognition of financial liabilities.

The Group concludes that the modification is substantial as a result of the following qualitative factors:

- change the currency of the financial asset;
- change in collateral or other credit enhancement;
- change of terms of financial asset that lead to non-compliance with SPPI criterion (e.g. inclusion of conversion feature).

If the cash flows of the modified asset carried at amortised cost are not substantially different, then the modification does not result in derecognition of the financial asset. In this case, the Group recalculates the gross carrying amount of the financial asset and recognises the amount arising from adjusting the gross carrying amount as a modification gain or loss in profit or loss. The gross carrying amount of the financial asset is recalculated as the present value of the renegotiated or modified contractual cash flows that are discounted at the financial asset's original effective interest rate. Any costs or fees incurred adjust the carrying amount of the modified financial asset and are amortised over the remaining term of the modified financial asset. If such a modification is carried out because of financial difficulties of the borrower, then the gain or loss is presented together with impairment losses. In other cases, it is presented as interest income.

As part of credit risk management activities, the Group renegotiates loans to customers in financial difficulties (referred to as 'forbearance activities'). If the Group plans to modify a financial asset in a way that would result in forgiveness of part of the existing contractual cash flows, then a portion of the asset is written off before the modification takes place. This is likely to result in the remaining contractual cash flows that are still recognised as the original financial asset at the point of modification to be similar to the new modified contractual cash flows. If based on quantitative assessment the Group concludes that modification of financial assets modified as part of the Group's forbearance policy is not substantial, the Group performs qualitative evaluation of whether the modification is substantial.

Financial liabilities

The Group derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognised at fair value. The difference between the carrying amount of the financial liability extinguished and the new financial liability with modified terms is recognised in profit or loss.

If a modification (or exchange) does not result in the derecognition of the financial liability the Group applies accounting policy consistent with the requirements for adjusting the gross carrying amount of a financial asset when a modification does not result in the derecognition of the financial asset, i.e. the Group recognises any adjustment to the amortised cost of the financial liability arising from such a modification (or exchange) in profit or loss at the date of the modification (or exchange).

Changes in cash flows on existing financial liabilities are not considered as modification, if they result from existing contractual terms, e.g. changes in fixed interest rates initiated by banks due to changes in the CBR key rate, if the loan contract entitles banks to do so and and the Group have an option to either accept the revised rate or redeem the loan at par without penalty. The Group treats the modification of an interest rate to a current market rate using the guidance on floating-rate financial instruments. This means that the effective interest rate is adjusted prospectively.

Group performs a quantitative and qualitative evaluation of whether the modification is substantial considering qualitative factors, quantitative factors and combined effect of qualitative and quantitative factors. The Group concludes that the modification is substantial as a result of the following qualitative factors:

- change the currency of the financial liability;
- change in collateral or other credit enhancement;
- inclusion of conversion option;
- change in the subordination of the financial liability.

For the quantitative assessment the terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10 per cent different from the discounted present value of the remaining cash flows of the original financial liability. If an exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognised as part of the gain or loss on the extinguishment. If the exchange or modification is not accounted for as an extinguishment, any costs or fees incurred adjust the carrying amount of the liability and are amortised over the remaining term of the modified liability.

Policy applicable before 1 January 2018

Financial assets

If the terms of a financial asset were modified, then the Group evaluated whether the cash flows of the modified asset were substantially different. If the cash flows were substantially different, then the contractual rights to cash flows from the original financial asset were deemed to have expired. In this case, the original financial asset was derecognised and a new financial asset was recognised at fair value.

If the terms of a financial asset were modified because of financial difficulties of the borrower and the asset was not derecognised, then impairment of the asset was measured using the pre-modification interest rate.

Financial liabilities

The Group derecognised a financial liability when its terms were modified and the cash flows of the modified liability were substantially different. In this case, a new financial liability based on the modified terms was recognised at fair value. The difference between the carrying amount of the financial liability extinguished and consideration paid was recognised in profit or loss. Consideration paid included non-financial assets transferred, if any, and the assumption of liabilities, including the new modified financial liability.

If the modification of a financial liability was not accounted for as derecognition, then any costs and fees incurred were recognised as an adjustment to the carrying amount of the liability and amortised over the remaining term of the modified financial liability by re-computing the effective interest rate on the instrument.

Reclassification

Policy applicable from 1 January 2018

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Group changes its business model for managing financial assets. The Group should reclassify financial assets if the Group changes its business model for managing those financial assets. Such changes are expected to be very infrequent. Such changes are determined by the Group's senior management as a result of external or internal changes and must be significant to the Group's operations and demonstrable to external parties. Accordingly, a change in the Group's business model will occur only when the Group either begins or ceases to perform an activity that is significant to its operations; for example, when the Group has acquired, disposed of or terminated a business line.

Financial liabilities are not reclassified subsequent to their initial recognition.

Derecognition

Financial assets

The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

The Group enters into transactions whereby it transfers assets recognised in its consolidated statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets. In these cases, the transferred assets are not derecognised.

Financial liabilities

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire. The Group also derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognised at fair value.

On derecognition of a financial liability, the difference between the carrying amount extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognised in profit or loss.

Fair value measurement principles

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 in the principal, or in its absence, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance risk.

When available, the Group measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

When there is no quoted price in an active market, the Group uses valuation techniques that maximize the use of relevant observable inputs and minimize the use of unobservable inputs. The chosen valuation technique incorporates all the factors that market participants would take into account in these circumstances.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price, i.e., the fair value of the consideration given or received. If the Group determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique that uses only data from observable markets, the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, that difference is recognized in profit or loss on an appropriate basis over the life of the instrument, but no later than when the valuation is supported wholly by observable market data or the transaction is closed out.

Offsetting

Financial assets and financial liabilities are offset and the net amount presented in the consolidated statement of financial position when, and only when, the Group currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

Repurchase and reverse repurchase agreements

Securities sold under sale and repurchase (repo) agreements are accounted for as secured financing transactions, with the securities retained in the consolidated statement of financial position and the counterparty liability included in amounts payable under repo transactions within deposits by the Central bank of the Russian Federation and deposits by credit institutions. The difference between the sale and repurchase prices represents interest expense and is recognised in the profit or loss over the term of the repo agreement using the effective interest method.

Securities purchased under agreements to resell (reverse repo) are recorded as amounts receivable under reverse repo transactions within cash and cash equivalents and deposits in credit and other financial institutions. The difference between the purchase and resale prices represents interest income and is recognised in profit or loss over the term of the repo agreement using the effective interest method.

If assets purchased under an agreement to resell are sold to third parties, the obligation to return securities is recorded as a trading liability and measured at fair value.

Securitisation

For securitised financial assets, the Group considers both the degree of transfer of risks and rewards on assets transferred to another entity and the degree of control exercised by the Group over the other entity.

When the Group, in substance, controls the entity to which financial assets are transferred, the entity is included in these consolidated financial statements and the transferred assets are recognised in the consolidated statement of financial position.

When the Group transfers financial assets to another entity, but retains substantially all the risks and rewards related to the transferred assets, the transferred assets are recognised in the consolidated statement of financial position.

When the Group transfers substantially all the risks and rewards related to the transferred assets to an entity that it does not control, the assets are derecognised from the consolidated statement of financial position.

If the Group neither transfers nor retains substantially all the risks and rewards related to the transferred assets, the assets are derecognised if the Group has not retained control over the assets.

Loans to customers

Policy applicable from 1 January 2018

‘Loans to customers’ caption in the consolidated statement of financial position include:

- loans to customers measured at amortised cost; they are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective interest method;
- loans to customers mandatorily measured at FVTPL due to non-compliance with the SPPI-criterion; these are measured at fair value with changes recognised immediately in profit or loss; and
- finance lease receivables.

Policy applicable before 1 January 2018

Loans to customers were non-derivative financial assets with fixed or determinable payments that were not quoted in an active market and that the Group did not intend to sell immediately or in the near term.

Loans to customers included:

- those classified as loans and receivables; and
- finance lease receivables.

Loans to customers were initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method.

Loans to customers also included finance lease receivables in which the Group was the lessor.

Investment securities

Policy applicable from 1 January 2018

The 'investment financial assets' caption in the consolidated statement of financial position includes:

- debt investment securities measured at amortised cost; these are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective interest method;
- debt and equity investment securities mandatorily measured at FVTPL or designated as at FVTPL; these are measured at fair value with changes recognised immediately in profit or loss;
- debt securities measured at FVOCI; and
- equity investment securities designated as at FVOCI.

Policy applicable before 1 January 2018

Investment securities were initially measured at fair value plus, in the case of investment securities not at FVTPL, incremental direct transaction costs, and subsequently accounted for depending on their classification as either held-to-maturity, FVTPL or available-for-sale.

Fair value through profit or loss

- *Trading assets* were those assets that the Group acquired or incured principally for the purpose of selling or repurchasing in the near term, or held as part of a portfolio that is managed together for short-term profit or position taking. Trading assets were initially recognised and subsequently measured at fair value in the consolidated statement of financial position, with transaction costs recognised in profit or loss. All changes in fair value were recognised in profit or loss.
- *Designated assets.* The Group designated some investment securities as at fair value, with fair value changes recognised immediately in profit or loss.

Available-for-sale

Available-for-sale investments were non-derivative investments that were designated as available-for-sale or were not classified as another category of financial assets. Available-for-sale investments comprise equity securities and debt securities. Unquoted equity securities whose fair value could not be measured reliably were carried at cost. All other available-for-sale investments were measured at fair value after initial recognition.

Interest income was recognised in profit or loss using the effective interest method. Dividend income was recognised in profit or loss when the Group became entitled to the dividend. Foreign exchange gains or losses on available-for-sale debt security investments were recognised in profit or loss. Impairment losses were recognised in profit or loss.

Other fair value changes, other than impairment losses, were recognised in other comprehensive income and presented in the fair value reserve within equity. When the investment was sold, the gain or loss accumulated in equity was reclassified to profit or loss.

A non-derivative financial asset might be reclassified from the available-for-sale category to the loans and receivables category if it would otherwise have met the definition of loans and receivables and if the Group had the intention and ability to hold that financial asset for the foreseeable future or until maturity.

Deposits, debt securities issued and subordinated liabilities

Deposits, debt securities issued and subordinated liabilities are initially measured at fair value minus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method, except where the Group designates liabilities at FVTPL.

Leases

Determining whether an arrangement contains a lease

At inception of an arrangement, the Group determines whether such an arrangement is or contains a lease. This will be the case if the fulfilment of the arrangement is dependent on the use of a specific asset and the arrangement conveys a right to use the asset.

At inception or upon reassessment of an arrangement, the Group separates payments and other consideration required by such an arrangement into those for the lease and those for other elements on the basis of their relative fair values. If the Group concludes for a finance lease that it is impracticable to separate the payments reliably, then an asset and a liability are recognised at an amount equal to the fair value of the underlying asset. Subsequently the liability is reduced as payments are made and an imputed finance charge on the liability is recognised using the Group's incremental borrowing rate.

Leased assets

Assets held by the Group under leases that transfer to the Group substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Other leases are operating leases and the leased assets are not recognised on the Group's consolidated statement of financial position.

Lease payments

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Property and equipment

Owned assets

Items of property and equipment are stated at cost less accumulated depreciation and impairment losses, except for buildings, which are stated at revalued amounts as described below.

Where an item of property and equipment comprises major components having different useful lives, they are accounted for as separate items of property and equipment.

Revaluation

Buildings are subject to revaluation on a regular basis. The frequency of revaluation depends on the movements in the fair values of the buildings being revalued. A revaluation increase on a building is recognised as other comprehensive income except to the extent that it reverses a previous revaluation decrease recognised in profit or loss, in which case it is recognised in profit or loss. A revaluation decrease on a building is recognised in profit or loss except to the extent that it reverses a previous revaluation increase recognised as other comprehensive income directly in equity, in which case it is recognised as other comprehensive income.

Depreciation

Depreciation is charged to profit or loss on a straight-line basis over the estimated useful lives of the individual assets. Depreciation commences on the date of acquisition or, in respect of internally constructed assets, from the time an asset is completed and ready for use. Land is not depreciated. The estimated useful lives are as follows:

	Years
Buildings	10-50
Furniture and other property	1-20
Computers and office equipment	1-5
Vehicles	3-7
Aircrafts	20-30

When a building is revalued, any accumulated depreciation at the date of the revaluation is eliminated against the gross carrying amount of the asset and the net amount restated to the revalued amount of the asset.

The Group has adopted a component based depreciation accounting model for certain groups of its assets (such as aircrafts). Under this approach, depreciation of certain parts of the relevant assets with a cost that is significant in relation to the total cost of such assets is calculated separately. Useful life of these parts may differ from the overall useful life of the relevant assets. The Group estimates depreciation of certain components based on their actual utilisation (not useful life) whenever this depreciation method allows for a more accurate estimate of the pattern of consumption of the future economic benefits embodied in such components. The Group reviews its assumptions on useful life and/or utilisation on a regular basis.

Costs related to repairs and renewals are charged when incurred and included in general and administrative expenses, unless they qualify for capitalisation.

Intangible assets

Intangible assets, which are acquired by the Group, are stated at cost less accumulated amortisation and impairment losses.

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software.

Amortisation is charged to profit or loss on a straight-line basis over the estimated useful lives of intangible assets, typically between 1 and 5 years.

Investment property

Investment property is property held either to earn rental income or for capital appreciation or for both, but not for sale in normal course of business, or for the use in production or supply of goods or services or for administrative purposes. Investment property is measured at fair value with any change recognised in profit or loss.

When the use of a property changes such that it is reclassified as property and equipment, its fair value at the date of reclassification becomes its cost for subsequent accounting.

Assets held for sale

Non-current assets, or disposal groups comprising assets and liabilities, that are expected to be recovered primarily through sale rather than through continuing use, are classified as held for sale. Immediately before classification as held for sale, the assets, or components of a disposal group, are remeasured in accordance with the Group's accounting policies. Thereafter generally, the assets, or disposal groups, are measured at the lower of their carrying amount and fair value less cost to sell.

Impairment

Policy applicable from 1 January 2018

Financial instruments and contract assets

The Group recognises loss allowances for ECLs on:

– financial assets measured at amortised cost;

– debt investments measured at FVOCI;

– financial guarantee contracts issued; and

– loan commitments issued.

The Group measures loss allowances at an amount equal to lifetime ECLs, except for the following, which are measured at 12-month ECLs:

– debt securities that are determined to have low credit risk at the reporting date; and

– other financial instruments (other than lease receivables) on which credit risk has not increased significantly since their initial recognition (see Note 4).

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and informed credit assessment and including forward-looking information.

The Group assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due.

The Group considers a financial asset to be in default when:

– the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or

– the financial asset is more than 90 days past due.

The Group considers a debt security to have low credit risk when its credit risk rating is equivalent to the globally understood definition of 'investment grade'.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument.

12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months).

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

However, for retail overdrafts and credit card facilities that include both a loan and an undrawn commitment component, the Group measures ECL over a period longer than the maximum contractual period if the Group's contractual ability to demand repayment and cancel the undrawn commitment does not limit the Group's exposure to credit losses to the contractual notice period. These facilities do not have a fixed term or repayment structure and are managed on a collective basis. The Group can cancel them with immediate effect but this contractual right is not enforced in the normal day-to-day management, but only when the Group becomes aware of an increase in credit risk at the facility level. This longer period is estimated taking into account the credit risk management actions that the Group expects to take and that serve to mitigate ECL. These include a reduction in limits, cancellation of the facility and/or turning the outstanding balance into a loan with fixed repayment terms.

Measurement of ECL

ECL are a probability-weighted estimate of credit losses. They are measured as follows:

- *financial assets that are not credit-impaired at the reporting date:* as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive);
- *financial assets that are credit-impaired at the reporting date:* as the difference between the gross carrying amount and the present value of estimated future cash flows;
- *undrawn loan commitments:* as the present value of the difference between the contractual cash flows that are due to the Group if the commitment is drawn down and the cash flows that the Group expects to receive; and
- *financial guarantee contracts:* the present value of expected payments to reimburse the holder less any amounts that the Group expects to recover.

Restructured financial assets

If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognised and ECL are measured as follows.

- If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset (see Note 4).
- If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

Credit-impaired financial assets

At each reporting date, the Group assesses whether financial assets carried at amortised cost and debt financial assets carried at FVOCI are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event;
- the restructuring of a loan or advance by the Group on terms that the Group would not consider otherwise;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
- the disappearance of an active market for a security because of financial difficulties.

A loan that has been renegotiated due to a deterioration in the borrower's condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment. In addition, a retail loan that is overdue for 90 days or more is considered impaired.

In making an assessment of whether an investment in sovereign debt is credit-impaired, the Group considers the following factors.

- The market's assessment of creditworthiness as reflected in the bond yields.
- The rating agencies' assessments of creditworthiness.
- The country's ability to access the capital markets for new debt issuance.
- The probability of debt being restructured, resulting in holders suffering losses through voluntary or mandatory debt forgiveness.
- The international support mechanisms in place to provide the necessary support as 'lender of last resort' to that country, as well as the intention, reflected in public statements, of governments and agencies to use those mechanisms. This includes an assessment of the depth of those mechanisms and, irrespective of the political intent, whether there is the capacity to fulfil the required criteria.

Presentation of allowance for ECL in the consolidated statement of financial position

Loss allowances for ECL are presented in the consolidated statement of financial position as follows:

- *financial assets measured at amortised cost*: as a deduction from the gross carrying amount of the assets;
- *loan commitments and financial guarantee contracts*: generally, as a provision;
- *where a financial instrument includes both a drawn and an undrawn component, and the Group cannot identify the ECL on the loan commitment component separately from those on the drawn component*: the Group presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision; and
- *debt instruments measured at FVOCI*: no loss allowance is recognised in the consolidated statement of financial position because the carrying amount of these assets is their fair value. However, the loss allowance is disclosed and is recognised in the fair value reserve.

Write-offs

Loans and debt securities are written off (either partially or in full) when there is no reasonable expectation of recovery. This is generally the case when the Group determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due.

Policy applicable before 1 January 2018

Financial assets not classified as at FVTPL were assessed at each reporting date to determine whether there was objective evidence of impairment.

Objective evidence that financial assets were impaired included:

- default or delinquency by a debtor;
- restructuring of an amount due to the Group on terms that the Group would not consider otherwise;
- indications that a debtor or issuer would enter bankruptcy;
- adverse changes in the payment status of borrowers or issuers;
- the disappearance of an active market for a security because of financial difficulties; or
- observable data indicating that there was a measurable decrease in the expected cash flows from a group of financial assets.

For an investment in an equity instrument, objective evidence of impairment included a significant or prolonged decline in its fair value below its cost.

Financial assets measured at amortised cost	The Group considered evidence of impairment for these assets at both an individual asset and a collective level. All individually significant assets were individually assessed for impairment. Those found not to be impaired were then collectively assessed for any impairment that had been incurred but not yet individually identified. Assets that were not individually significant were collectively assessed for impairment. Collective assessment was carried out by grouping together assets with similar risk characteristics.
	In assessing collective impairment, the Group used historical information on the timing of recoveries and the amount of loss incurred, and made an adjustment if current economic and credit conditions were such that the actual losses were likely to be greater or lesser than suggested by historical trends.
	An impairment loss was calculated as the difference between an asset's carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses were recognised in profit or loss and reflected in an allowance account. When the Group considered that there were no realistic prospects of recovery of the asset, the relevant amounts were written off. If the amount of impairment loss subsequently decreased and the decrease was related objectively to an event occurring after the impairment was recognised, then the previously recognised impairment loss was reversed through profit or loss.
Available-for-sale financial assets	Impairment losses on available-for-sale financial assets were recognised by reclassifying the losses accumulated in the fair value reserve to profit or loss. The amount reclassified was the difference between the acquisition cost (net of any principal repayment and amortisation) and the current fair value, less any impairment loss previously recognised in profit or loss. If the fair value of an impaired available-for-sale debt security subsequently increased and the increase was related objectively to an event occurring after the impairment loss was recognised, then the impairment loss was reversed through profit or loss. Impairment losses recognised in profit or loss for an investment in an equity instrument classified as available-for-sale were not reversed through profit or loss. Any subsequent recovery in the fair value of an impaired available-for-sale equity security was recognised in other comprehensive income.

Equity-accounted investees

An impairment loss in respect of an equity-accounted investee is measured by comparing the recoverable amount of the investment with its carrying amount. An impairment loss is recognised in profit or loss, and is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

Non financial assets

Other non financial assets, other than deferred taxes, are assessed at each reporting date for any indications of impairment. The recoverable amount of non financial assets is the greater of their fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs. An impairment loss is recognised when the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount.

All impairment losses in respect of non financial assets are recognised in profit or loss and reversed only if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is only reversed to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised. An impairment loss in respect of goodwill is not reversed.

Provisions

A provision is recognised in the consolidated statement of financial position when the Group has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

A provision for restructuring is recognised when the Group has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been announced publicly. Future operating costs are not provided for.

Financial guarantees and loan commitments

Financial guarantees are contracts that require the Group to make specified payments to reimburse the holder for a loss that it incurs because a specified debtor fails to make payment when it is due in accordance with the terms of a debt instrument. Loan commitments are firm commitments to provide credit under pre-specified terms and conditions.

Financial guarantees issued or commitments to provide a loan at a below-market interest rate are initially measured at fair value. Subsequently, they are measured as follows:

- *from 1 January 2018:* at the higher of the loss allowance determined in accordance with IFRS 9 and the amount initially recognised less, when appropriate, the cumulative amount of income recognised in accordance with the principles of IFRS 15; and
- *before 1 January 2018:* at the higher the amount representing the initial fair value amortised over the life of the guarantee or the commitment and the present value of any expected payment to settle the liability when a payment under the contract has become probable.

The Group has issued no loan commitments that are measured at FVTPL.

For other loan commitments:

- *from 1 January 2018:* the Group recognises a loss allowance;

- *before 1 January 2018:* the Group recognised a provision in accordance with IAS 37 if the contract was considered to be onerous.

Liabilities arising from financial guarantees and loan commitments are included within provisions.

Share capital

Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects.

Repurchase of share capital

When share capital recognised as equity is repurchased, the amount of the consideration paid, including directly attributable costs, is recognised as a decrease in equity.

Dividends

The ability of the Bank to declare and pay dividends is subject to the rules and regulations of the Russian legislation. Dividends in relation to ordinary shares are reflected as an appropriation of retained earnings in the period when they are declared.

Perpetual instruments

Perpetual non-redeemable debt instruments issued by the Group which carry no mandatory interest payments are classified as equity.

Taxation

Income tax comprises current and deferred tax. Income tax is recognised in profit or loss except to the extent that it relates to items of other comprehensive income or transactions with shareholders recognised directly in equity, in which case it is recognised within other comprehensive income or directly within equity.

Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Temporary differences are not provided for goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit and temporary differences related to investments in subsidiaries where the Group is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary differences, unused tax losses and credits can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Segment reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the Group); whose operating results are regularly reviewed by the 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.

Comparative information

As a result of adoption of IFRS 9 the Group changed presentation of certain captions in the primary forms of consolidated financial statements. Comparative information is reclassified to conform to changes in presentation in the current period.

The effect of main changes in presentation of the consolidated statement of financial position is disclosed in Note 5.

The effect of main changes in presentation of the consolidated statement of financial position is as follows:

- ‘Financial instruments at fair value through profit or loss’ were presented within ‘Trading financial assets’ line item;
- ‘Available-for-sale financial assets‘ were presented within ‘Investment financial assets‘ line item.

The effect of main changes in presentation of the consolidated statement of profit or loss and other comprehensive income is as follows:

- The presentation of interest income was amended to present interest on non-derivative financial assets measured at FVTPL separately under ‘Other interest income’ line item.

The effect of main changes in presentation of the consolidated statement of cash flows is as follows:

- ‘Financial instruments at fair value through profit or loss’ were presented within ‘Trading financial assets’ line item;
- ‘Purchase of available-for-sale securities’ was presented within ‘Purchase of investment financial assets’ line item;
- ‘Proceeds from disposal and redemption of available-for-sale securities’ were presented within ‘Proceeds from disposal and redemption of investment financial assets’ line item.

New standards and interpretations not yet adopted

A number of new standards and amendments to standards are effective for annual periods beginning after 1 January 2019 and earlier application is permitted; however, the Group has not early adopted the new or amended standards in preparing these consolidated financial statements.

Of those standards that are not yet effective, IFRS 16 is not expected to have a material impact on the Group’s financial statements in the period of initial application.

IFRS 16 Leases

The Group is required to adopt IFRS 16 *Leases* from 1 January 2019. The Group has assessed the estimated impact that initial application of IFRS 16 will have on its consolidated financial statements, as described below. The actual impacts of adopting the standard on 1 January 2019 may change because:

– the Group has not finalised the testing and assessment of controls over its new IT systems; and

– the new accounting policies are subject to change until the Group presents its first consolidated financial statements that include the date of initial application.

IFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are recognition exemptions for short-term leases and leases of low-value items. Lessor accounting remains similar to the current standard – i.e. lessors continue to classify leases as finance or operating leases.

IFRS 16 replaces existing leases guidance, including IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC-15 *Operating Leases – Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*.

Leases in which the Group is a lessee

The Group will recognise new assets and liabilities for its operating lease. The nature of expenses related to those leases will now change because the Group will recognise a depreciation charge for right-of-use assets and interest expense on lease liabilities.

Previously, the Group recognised operating lease expense on a straight-line basis over the term of the lease, and recognised assets and liabilities only to the extent that there was a timing difference between actual lease payments and the expense recognised.

As at 31 December 2018, the Group's future minimum lease payments under non-cancellable operating leases amounted to RUB 3 508 million, on an undiscounted basis, which the Group estimates it will recognise as additional lease liabilities.

No significant impact is expected for the Group's finance leases.

Leases in which the Group is a lessor

No significant impact is expected for leases in which the Group is a lessor.

Transition

The Group plans to apply IFRS 16 initially on 1 January 2019, using the modified retrospective approach. Therefore, the cumulative effect of adopting IFRS 16 will be recognised as an adjustment to the opening balance of retained earnings at 1 January 2019, with no restatement of comparative information.

The Group plans to apply the practical expedient to grandfather the definition of a lease on transition. This means that it will apply IFRS 16 to all contracts entered into before 1 January 2019 and identified as leases in accordance with IAS 17 and IFRIC 4.

Other standards and interpetations

The following amended standards and interpretations are not expected to have a significant impact on the Group's consolidated financial statements.

- IFRIC 23 *Uncertainty over Tax Treatments*
- *Long-term Interests in Associates and Joint Ventures (Amendments to IAS 28)*
- *Plan Amendment, Curtailment or Settlement (Amendments to IAS 19)*
- *Annual Improvements to IFRS Standards 2015–2017 Cycle* – various standards
- *Amendments to References to Conceptual Framework in IFRS Standards*.

4 Financial risk review

This Note presents information about the Group's exposure to financial risks.

Credit risk - Amounts arising from ECL

Inputs, assumptions and techniques used for estimating impairment

See accounting policy in Note 3.

Significant increase in credit risk

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and expert credit assessment and including forward-looking information.

The objective of the assessment is to identify whether a significant increase in credit risk has occurred for an exposure by comparing:

- the remaining lifetime probability of default (PD) as at the reporting date; with
- the remaining lifetime PD for this point in time that was estimated at the time of initial recognition of the exposure (adjusted where relevant for changes in prepayment expectations).

Credit risk grades

The Group allocates each exposure to a credit risk grade based on a variety of data that is determined to be predictive of the risk of default and applying experienced credit judgement. Credit risk grades are defined using qualitative and quantitative factors that are indicative of risk of default. These factors vary depending on the nature of the exposure and the type of borrower.

Credit risk grades are defined and calibrated such that the risk of default occurring increases exponentially as the credit risk deteriorates so, for example, the difference in risk of default between credit risk grades 1 and 2 is smaller than the difference between credit risk grades 2 and 3.

Each exposure is allocated to a credit risk grade at initial recognition based on available information about the borrower. Exposures are subject to ongoing monitoring, which may result in an exposure being moved to a different credit risk grade. The monitoring typically involves use of the following data.

Corporate exposure	All exposures (corporate and retail exposures)
• Information obtained during periodic review of customer files – e.g. audited financial statements, management accounts, budgets and projections	• Payment record – this includes overdue status as well as a range of variables about payment ratios
• Data from credit reference agencies, press articles, changes in external credit ratings	• Requests for and granting of forbearance
• Quoted bond and credit default swap (CDS) prices for the borrower where available	• Existing and forecast changes in business, financial and economic conditions
• Actual and expected significant changes in the political, regulatory and technological environment of the borrower or in its business activities	

Generating the term structure of PD

Credit risk grades are a primary input into the determination of the term structure of PD for exposures. The Group collects performance and default information about its credit risk exposures analysed by jurisdiction or region and by type of product and borrower as well as by credit risk grading.

The Group employs statistical models to analyse the data collected and generate estimates of the remaining lifetime PD of exposures and how these are expected to change as a result of the passage of time.

This analysis includes the identification and calibration of relationships between changes in default rates and changes in key macro-economic factors as well as in-depth analysis of the impact of certain other factors (e.g. forbearance experience) on the risk of default. For most exposures, key macro-economic indicator is likely to be GDP growth.

The Group uses expert judgment in assessment of forward-looking information. This assessment is based also on external information (see discussion below on incorporation of forward-looking information). The Group then uses these forecasts to adjust its estimates of PDs.

Determining whether credit risk has increased significantly

The criteria for determining whether credit risk has increased significantly vary by portfolio and include quantitative changes in PDs and qualitative factors, including a backstop based on delinquency.

Using its expert credit judgement and, where possible, relevant historical experience, the Group may determine that an exposure has undergone a significant increase in credit risk based on particular qualitative indicators that it considers are indicative of such and whose effect may not otherwise be fully reflected in its quantitative analysis on a timely basis.

As a backstop, the Group considers that a significant increase in credit risk occurs no later than when an asset is more than 30 days past due. Days past due are determined by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received. Due dates are determined taking into account grace period that might be available to the borrower.

The Group monitors the effectiveness of the criteria used to identify significant increases in credit risk by regular reviews to confirm that:

- the criteria are capable of identifying significant increases in credit risk before an exposure is in default;
- the criteria do not align with the point in time when an asset becomes 30 days past due;
- the average time between the identification of a significant increase in credit risk and default appears reasonable;
- exposures are not generally transferred directly from 12-month ECL measurement to credit-impaired; and
- there is no unwarranted volatility in loss allowance from transfers between 12-month ECL (stage 1) and lifetime ECL measurements (stage 2).

Modified financial assets

The contractual terms of a loan may be modified for a number of reasons, including changing market conditions, customer retention and other factors not related to a current or potential credit deterioration of the customer. An existing loan whose terms have been modified may be derecognised and the renegotiated loan recognised as a new loan at fair value in accordance with the accounting policy set out in Note 3.

When the terms of a financial asset are modified and the modification does not result in derecognition, the determination of whether the asset's credit risk has increased significantly reflects comparison of:

- its remaining lifetime PD at the reporting date based on the modified terms; with
- the remaining lifetime PD estimated based on data at initial recognition and the original contractual terms.

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

The revised terms usually include extending the maturity, changing the timing of interest payments and amending the terms of loan covenants. Both retail and corporate loans are subject to the forbearance policy.

For financial assets modified as part of the Group's forbearance policy, the estimate of PD reflects whether the modification has improved or restored the Group's ability to collect interest and principal and the Group's previous experience of similar forbearance action. As part of this process, the Group evaluates the borrower's payment performance against the modified contractual terms and considers various behavioral indicators.

Generally, forbearance is a qualitative indicator of a significant increase in credit risk and an expectation of forbearance may constitute evidence that an exposure is credit-impaired (see Note 3)/in default. A customer needs to demonstrate consistently good payment behavior over a period of time before the exposure is no longer considered to be credit-impaired/ in default or the PD is considered to have decreased such that the loss allowance reverts to being measured at an amount equal to 12-month ECL.

Definition of default

The Group considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or
- the borrower is past due more than 90 days on any material credit obligation to the Group. Overdrafts are considered as being past due once the customer has breached an advised limit or been advised of a limit smaller than the current amount outstanding.

In assessing whether a borrower is in default, the Group considers indicators that are:

- qualitative – e.g. breaches of covenant;
- quantitative – e.g. overdue status and non-payment on another obligation of the same issuer to the Group; and
- based on data developed internally and obtained from external sources.

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

Incorporating of forward-looking information

The Group incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL. The Group uses expert judgment in assessment of forward-looking information. This assessment is based also on external information.

The Group has identified and documented key drivers of credit risk and credit losses, using an analysis of historical data, has estimated relationships between macro-economic variable and credit risk and credit losses. This key driver is GDP forecasts.

Measurement of ECL

The key inputs into the measurement of ECL are the term structure of the following variables:

- probability of default (PD);
- loss given default (LGD);
- exposure at default (EAD).

These parameters are generally derived from internally developed statistical models and other historical data. They are adjusted to reflect forward-looking information as described above.

PD estimates are estimates at a certain date, which are calculated based on statistical rating models, and assessed using rating tools tailored to the various categories of counterparties and exposures. These statistical models are based on internally compiled data comprising both quantitative and qualitative factors. Where it is available, market data may also be used to derive the PD for large corporate counterparties. If a counterparty or exposure migrates between rating classes, then this will lead to a change in the estimate of the associated PD. PDs are estimated considering the contractual maturities of exposures and estimated prepayment rates.

The Group estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties. The LGD models consider the structure, collateral, seniority of the claim and recovery costs of any collateral that is integral to the financial asset. For loans secured by retail property, LTV ratios are a key parameter in determining LGD. They are calculated on a discounted cash flow basis using the effective interest rate as the discounting factor.

(in millions of Russian Roubles unless otherwise stated)

EAD represents the expected exposure in the event of a default. The Group derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract including amortisation. The EAD of a financial asset is its gross carrying amount. For lending commitments and financial guarantees, the EAD includes the amount drawn, as well as potential future amounts that may be drawn under the contract, which are estimated based on historical observations and forward-looking forecasts.

As described above, and subject to using a maximum of a 12-month PD for financial assets for which credit risk has not significantly increased, the Group measures ECL considering the risk of default over the maximum contractual period (including any borrower's extension options) over which it is exposed to credit risk, even if, for risk management purposes, the Group considers a longer period. The maximum contractual period extends to the date at which the Group has the right to require repayment of an advance or terminate a loan commitment or guarantee.

Where modelling of a parameter is carried out on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics that include:

- instrument type;
- credit risk gradings;
- collateral type;
- date of initial recognition;
- remaining term to maturity.

The groupings are subject to regular review to ensure that exposures within a particular group remain appropriately homogeneous.

For portfolios in respect of which the Group has limited historical data, external benchmark information is used to supplement the internally available data. The portfolios for which external benchmark information represents a significant input into measurement of ECL are as follows.

	Exposure as at 31 December 2018	**Benchmarks used PD**
Cash and cash equivalents	137 689	Moody's default study/ Internal PD-model
Due from credit and other financial institutions	6 669	
Investment financial assets	96 429	

Credit quality analysis

The following table sets out information about the credit quality of financial assets measured at amortised cost, FVOCI debt instruments, loan commitments and financial guarantee contracts as at 31 December 2018. Unless specially indicated, for financial assets, the amounts in the table represent gross carrying amounts. For loan commitments and financial guarantee contracts, the amounts in the table represent the amounts committed or guaranteed, respectively.

Explanation of the terms: 12-month ECL, lifetime ECL, credit-impaired and purchased or originated credit impaired are included in Note 3.

Credit quality in the tables below is based on the following scale developed internally by the Group:

- "Low credit risk" – assets with counterparties with low probability of default with high ability to fulfil financial obligations in time.

(in millions of Russian Roubles unless otherwise stated)

- "Moderate credit risk" – assets with counterparties with average probability of default and with moderate ability to fulfil financial obligations in time; more detailed consideration is required during monitoring.
- "High credit risk" – assets with higher probability of default; specific attention is required during monitoring.
- "Distressed assets" – assets that are qualified as defaulted considering all available signs of impairment.

	31 December 2018				
	Stage 1 12-month ECL	**Stage 2 Lifetime ECL not credit-impaired**	**Stage 3 Lifetime ECL credit-impaired**	**Purchased or originated credit impaired**	**Total**
Cash equivalents					
rated from AA+ to AA-	7 562	-	-	-	7 562
rated from A+ to A-	13 883	-	-	-	13 883
rated from BBB+ to BBB-	68 133	-	-	-	68 133
rated from BB+ to BB-	853	-	-	-	853
rated from B+ to B-	49 669	-	-	-	49 669
not rated	1 005 322	-	-	-	1 005 322
Total	**1 145 422**	-	-	-	**1 145 422**
Credit loss allowance	**(1 298)**	-	-	-	**(1 298)**
Carrying amount	**1 144 124**	-	-	-	**1 144 124**
Due from credit and other financial institutions at amortised cost					
rated from BBB+ to BBB-	2 619	-	-	-	2 619
rated from B+ to B-	4 047	-	-	-	4 047
not rated	6 652	-	-	-	6 652
Total	**13 318**	-	-	-	**13 318**
Credit loss allowance	**(135)**	-	-	-	**(135)**
Carrying amount	**13 183**	-	-	-	**13 183**
Loans to corporate clients at amortised cost					
Low credit risk	141 051	-	-	-	141 051
Moderate credit risk	347 017	25 732	-	5 348	378 097
High credit risk	28 040	13 835	-	7 343	49 218
Distressed assets	-	-	11 780	-	11 780
Total	**516 108**	**39 567**	**11 780**	**12 691**	**580 146**
Credit loss allowance	**(10 289)**	**(5 937)**	**(9 392)**	-	**(25 618)**
Carrying amount	**505 819**	**33 630**	**2 388**	**12 691**	**554 528**

(in millions of Russian Roubles unless otherwise stated)

	31 December 2018				
	Stage 1 12-month ECL	**Stage 2 Lifetime ECL not credit-impaired**	**Stage 3 Lifetime ECL credit-impaired**	**Purchased or originated credit impaired**	**Total**
Loans to individual clients at amortised cost					
not past due	87 898	2 454	173	-	90 525
overdue less than 31 days	181	890	37	-	1 108
overdue 31-60 days	-	465	18	-	483
overdue 61-90 days	-	307	31	-	338
overdue 91-180 days	-	-	982	-	982
overdue 181-360 days	-	-	1 891	-	1 891
overdue more than 360 days	-	-	1 275	-	1 275
Total	**88 079**	**4 116**	**4 407**	-	**96 602**
Credit loss allowance	**(1 102)**	**(950)**	**(3 416)**	-	**(5 468)**
Carrying amount	**86 977**	**3 166**	**991**	-	**91 134**
Debt investment securities at amortised cost					
rated from BBB+ to BBB-	30 435	-	-	-	30 435
rated from BB+ to BB-	2 525	-	-	-	2 525
rated from B+ to B-	165	-	-	-	165
not rated	6 271	-	450	-	6 721
Total	**39 396**	-	**450**	-	**39 846**
Credit loss allowance	**(175)**	-	**(270)**	-	**(445)**
Carrying amount	**39 221**	-	**180**	-	**39 401**
Debt investment securities at FVOCI					
rated from A+ to A-	123	-	-	-	123
rated from BBB+ to BBB-	133 775	-	-	-	133 775
rated from BB+ to BB-	16 170	-	-	-	16 170
rated from B+ to B-	8 241	-	-	-	8 241
from CCC+ to CCC-	258	-	-	-	258
not rated	16 393	-	-	-	16 393
Total	**174 960**	-	-	-	**174 960**
Credit loss allowance	**(618)**	-	-	-	**(618)**
Gross carrying amount	**177 870**	-	-	-	**177 870**
Carrying amount – fair value	**174 960**	-	-	-	**174 960**
Loan commitments	**59 544**	**15**	-	-	**59 559**
Credit loss allowance	**(46)**	-	-	-	**(46)**
Carrying amount (provision)	**(46)**	-	-	-	**(46)**
Financial guarantee contracts	**3 787**	**500**	**15**	-	**4 302**
Credit loss allowance	**(85)**	**(40)**	**(2)**	-	**(127)**
Carrying amount (provision)	**(109)**	**(40)**	**(2)**	-	**(151)**

(in millions of Russian Roubles unless otherwise stated)

As at 31 December 2018 included in not rated Cash equivalents are counterparties with credit ratings equivalent to Low credit risk category RUB 876 million, Moderate credit risk category RUB 1 004 446 million.

As at 31 December 2018 included in not rated Due from credit and other financial institutions at amortised cost are counterparties with credit ratings equivalent to Moderate credit risk category RUB 6 632 million and Distressed assets in the amount of RUB 20 million.

As at 31 December 2018 included in not rated Debt investment securities at amortised cost are counterparties with credit ratings equivalent to Low credit risk category RUB 2 755 million, Moderate credit risk category RUB 3 516 million.

As at 31 December 2018 included in not rated Debt investment securities at FVOCI are counterparties with credit ratings equivalent to Low credit risk category in the amount of RUB 2 058 million, to Moderate credit risk category RUB 14 335 million.

5 Transition to IFRS 9

Classification of financial assets and financial liabilities on the date of initial application of IFRS 9

The following table shows the original measurement categories in accordance with IAS 39 and the new measurement categories under IFRS 9 for the Group's financial assets and financial liabilities as at 1 January 2018.

	Note	Original classification under IAS 39	New classification under IFRS 9	Original carrying amount under IAS 39	Reclassi-fication	Remeasure-ment	New carrying amount under IFRS 9
Financial assets							
Cash and cash equivalents	11	Loans and receivables	Amortised cost	934 033	-	(673)	933 360
Trading financial assets	13	FVTPL	FVTPL (mandatory)	72 986	(71 133)	-	1 853
Derivative financial assets	13	FVTPL	FVTPL (mandatory)	44 296	-	-	44 296
Due from credit and other financial institutions	12	Loans and receivables	Amortised cost	16 369	-	(166)	16 203
Loans to customers	14	Loans and receivables	Amortised cost	768 676	(32 981)	(6 572)	729 123
Loans to customers [(a)]	14	Loans and receivables	FVTPL (mandatory)	-	32 981	(267)	32 714
Investment financial assets – debt [(c)]	15	Available for sale	FVOCI	24 946	(511)	-	24 435
Investment financial assets – debt [(d)]	15	FVTPL	FVOCI	-	68 070	-	68 070
Investment financial assets – debt [(b)]	15	Available for sale	Amortised cost	-	511	(60)	451
Investment financial assets – debt [(b)]	15	FVTPL	Amortised cost	-	3 063	(119)	2 944
Investment financial assets – equity	15	Available for sale	-	120	(120)	-	-
Investment securities – equity	15	Available for sale	FVTPL (mandatory)	-	120	-	120
Other financial assets	17	Loans and receivables	Amortised cost	1 500	-	(131)	1 369
Total financial assets				**1 862 926**	**-**	**(7 988)**	**1 854 938**

(in millions of Russian Roubles unless otherwise stated)

As a result of the adoption of IFRS 9 there were no reclassification or remeasurement of financial liabilities.

The Group's accounting policies on the classification of financial instruments under IFRS 9 are set out in Note 3. The application of these policies resulted in the reclassifications set out in the table above and explained below.

a. Certain loans to customers held by the Group's investment banking business are classified under IFRS 9 as mandatorily measured at FVTPL due to non-compliance with the SPPI criterion.

b. Certain debt securities are held by the Group Treasury in a separate portfolio for long-term yield. These securities may be sold, but such sales are not expected to be more than infrequent. The Group considers that these securities are held within a business model whose objective is to hold assets to collect the contractual cash flows. These assets are classified as measured at amortised cost under IFRS 9.

c. Certain debt securities are held by the Group Treasury in separate portfolios to meet everyday liquidity needs. The Group Treasury seeks to minimise the costs of managing those liquidity needs and therefore actively manages the return on the portfolio. That return consists of collecting contractual payments as well as gains and losses from the sale of financial assets. The investment strategy often results in sales activity that is significant in value. The Group considers that under IFRS 9 these securities are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets.

d. Before the adoption of IFRS 9, certain debt securities were classified as FVTPL at initial recognition. Due to changes in intentions and managing these securities within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets by the Group Treasury, those securities are classified as measured at FVOCI category on the adoption of IFRS 9.

The following table shows the effects of the reclassification of financial assets and financial liabilities from IAS 39 categories into the amortised cost category under IFRS 9.

From financial instruments at fair value through profit or loss under IAS 39	
Fair value at 31 December 2018	2 752
Fair value loss that would have been recognised during the year ended 31 December 2018 in profit and loss if the financial assets had not been reclassified	(623)

From available-for-sale securities under IAS 39	
Fair value at 31 December 2018	171
Fair value gain that would have been recognised during the year ended 31 December 2018 in other comprehensive income if the financial assets had not been reclassified	7

The following table analyses the impact, net of tax, of transition to IFRS 9 on reserves and retained earnings. The impact relates to the fair value reserve and retained earnings. There is no impact on other components of equity.

	Impact of adopting IFRS 9 at 1 January 2018
Fair value reserve – FVOCI debt (31 December 2017 – Fair value reserve – Available-for-sale)	
Closing balance under IAS 39 (31 December 2017)	394
Reclassification from financial instruments at fair value through profit or loss to debt investment securities at fair value through other comprehensive income	356

(in millions of Russian Roubles unless otherwise stated)

	Impact of adopting IFRS 9 at 1 January 2018
Fair value reserve – FVOCI debt (31 December 2017 – Fair value reserve – Available-for-sale)	
Reclassification of debt investment securities from available-for-sale to amortised cost	(10)
Reclassification of debt investment securities from available-for-sale to fair value through profit or loss	(36)
Recognition of expected credit losses under IFRS 9 for debt investment securities at fair value through other comprehensive income	644
Opening balance under IFRS 9 (1 January 2018)	**1 348**
Retained earnings	
Closing balance under IAS 39 (31 December 2017)	62 104
Reclassifications under IFRS 9	(610)
Recognition of expected credit losses under IFRS 9 (including lease receivables, loan commitments and financial guarantee contracts)	(8 063)
Opening balance under IFRS 9 (1 January 2018)	**53 431**

The following table reconciles:

- the closing impairment allowance for financial assets in accordance with IAS 39 and provisions for loan commitments and financial guarantee contracts in accordance with IAS 37 as at 31 December 2017 to
- the opening ECL allowance determined in accordance with IFRS 9 as at 1 January 2018.

For financial assets, this table is presented by the related financial assets' measurement categories in accordance with IAS 39 and IFRS 9, and shows separately the effect of the changes in the measurement category on the loss allowance at the date of initial application of IFRS 9, i.e. as at 1 January 2018.

	Impairment allowance and provisions			
	31 December 2017 (IAS 39/IAS 37)	**Reclassification**	**Remeasurement**	**1 January 2018 (IFRS 9)**
Loans and receivables under IAS 39/financial assets at amortised cost under IFRS 9 (includes cash and cash equivalents, due from credit and other financial institutions and loans to customers)	44 949	-	7 411	52 360
Available-for-sale debt investment securities under IAS 39 reclassified to amortised cost under IFRS 9	-	225	73	298
Loans and receivables under IAS 39 reclassified to financial assets at FVTPL under IFRS 9 (includes loans to customers)	5 191	(5 191)	-	-
Total measured at amortised cost	**50 140**	**(4 966)**	**7 484**	**52 658**

(in millions of Russian Roubles unless otherwise stated)

	Impairment allowance and provisions			
	31 December 2017 (IAS 39/IAS 37)	**Reclassification**	**Remeasurement**	**1 January 2018 (IFRS 9)**
Available-for-sale debt investment securities under IAS 39 reclassified to amortised cost under IFRS 9	225	(225)	-	-
Available-for-sale debt investment securities under IAS 39/debt investment securities at FVOCI under IFRS 9	-	-	805	805
Total measured at FVOCI	**225**	**(225)**	**805**	**805**
Loans and receivables under IAS 39 reclassified to financial assets at FVTPL under IFRS 9 (includes loans to customers)	-	5 191	(5 191)	-
Total measured at FVTPL	**-**	**5 191**	**(5 191)**	**-**
Loan commitments and financial guarantee contracts issued	1 516	-	1 659	3 175

6 Net interest income

	2018	**2017**
Interest income calculated using the effective interest method		
Financial assets measured at amortised cost		
Loans to customers	65 515	82 324
Due from credit and other financial institutions and the CBR	58 086	35 794
Other financial assets	1 010	4 240*
Debt financial assets measured at FVOCI	8 676	-
Interest income calculated using the effective interest method	**133 287**	**122 358**
Loans to customers at FVTPL	3 397	-
Other financial instruments at fair value through profit or loss	1 249	4 601
Other interest income	**4 646**	**4 601**
	137 933	**126 959**
Interest expense		
Due to customers	(48 636)	(42 710)
Due to credit institutions and the CBR	(32 071)	(27 757)
Debt securities issued	(8 811)	(11 212)
	(89 518)	**(81 679)**
Net interest income	**48 415**	**45 280**

Included interest income on Available-for sale securities.

(in millions of Russian Roubles unless otherwise stated)

7 Net fee and commission income

	2018	2017
Fee and commission income		
Settlements and wire transfers	2 642	2 298
Other cash operations	2 556	2 060
Plastic cards	2 414	2 661
Insurance contracts processing	2 324	1 952
Guarantees and letters of credit	2 177	2 246
Cash handling	1 954	2 031
Currency exchange and brokerage commission	976	1 340
Opening and maintenance of bank accounts	573	537
Other	213	385
	15 829	**15 510**
Fee and commission expense		
Plastic cards	(2 819)	(2 372)
- Commissions to payment systems and other similar commissions	*(2 420)*	*(2 246)*
- Expenses under loyalty programs	*(399)*	*(126)*
Settlements, wire transfers	(226)	(178)
Other	(438)	(452)
	(3 483)	**(3 002)**
Net fee and commission income	**12 346**	**12 508**

Depending on the type of the service commission income when not an integral part of the effective interest rate on a financial asset or liability is recognized either at a point of time or over time according to the pattern the Group fulfills a performance obligation under the contract:

- commission fee for settlement transactions and wire transfers, cash operations, plastic cards, insurance contracts processing, cash handling, currency exchange and brokerage commission, opening and maintenance of bank accounts commission are charged for the execution of payment order in accordance with tariffs depending on the type of the transaction and recognised as income at the moment of the transaction execution;
- commission fee on guarantees and letters of credit issued is paid in advance and is recognized as income over the time of the relevant guarantee or letter of credit.

(in millions of Russian Roubles unless otherwise stated)

8 Salaries, employment benefits and administrative expenses

	2018	2017
Salaries	9 873	7 642
Social security costs	2 417	1 874
Salaries and employment benefits	**12 290**	**9 516**
Occupancy	1 185	1 035
Advertising and business development	1 335	1 155
Property maintenance	749	707
Operating taxes	589	666
Security	557	577
Legal and consulting services	313	222
Communications	298	200
Loss on revaluation of buildings	279	82
Write-off of low-value fixed assets	265	190
Computer maintenance and software expenses	187	179
Transport	151	175
Insurance	141	144
Other	36	45
Administrative expenses	**6 085**	**5 377**

The Group does not have pension arrangements separate from the State pension system of the Russian Federation. The Russian Federation system requires current contributions by the employer calculated as a percentage of current gross salary payments; such expense is charged to profit or loss in the period the related compensation is earned by the employee.

(in millions of Russian Roubles unless otherwise stated)

9 Impairment (losses) recoveries on other non-financial assets, credit (losses) recoveries on other financial assets and credit related commitments and other provisions

Movements in the impairment allowance and credit loss allowance for the year ended 31 December 2018 are as follows:

	Other financial assets	Non-financial assets	Provisions for financial guarantees and credit related commitments	Provisions for claims and other provisions	Total
Balance at the beginning of the year	**514**	**231**	**3 175**	**247**	**4 167**
Net charge (recovery)	214	(100)	(3 002)	5 783	2 895
Write-offs	(229)	(41)	-	(61)	(331)
Disposal of subsidiary	(42)	(35)	-	-	(77)
Balance at the end of the year	**457**	**55**	**173**	**5 969**	**6 654**

Movements in the impairment allowance for year ended 31 December 2017 are as follows:

	Other financial assets	Non-financial assets	Provisions for financial guarantees and credit related commitments	Provisions for claims and other provisions	Total
Balance at the beginning of the year	**438**	**61**	**1 510**	**144**	**2 153**
Net (recovery) charge	(35)	162	6	131	264
Write-offs	(20)	10	-	(29)	(39)
Balance at the end of the year	**383**	**233**	**1 516**	**246**	**2 378**

10 Income tax

	2018	2017
Current tax charge	3 025	2 891
Deferred taxation	4 820	3 223
Income tax expense	**7 845**	**6 114**

Russian legal entities must report taxable income and remit income taxes thereon to the appropriate authorities. The statutory income tax rate for the Bank is 20% in 2018 and 2017.

The effective income tax rate differs from the statutory income tax rate. A reconciliation of income taxes based on the statutory rate with the actual income tax expense is presented below:

(in millions of Russian Roubles unless otherwise stated)

	2018	%	2017	%
Income before tax	35 069		26 817	
Income tax using the applicable tax rate	7 014	20.0%	5 363	20.0%
Income taxed at lower rates	(431)	(1.2%)	(99)	(0.4%)
Net non-deductible costs	1 262	3.6%	850	3.2%
Income tax expense	**7 845**	**22.4%**	**6 114**	**22.8%**

Movements in temporary differences during the years ended 31 December 2018 and 2017 are presented as follows.

	Balance 31 December 2017	Impact of adopting IFRS 9	Balance 1 January 2018	Recognised in profit or loss	Recognised in other comprehensive income and equity	Recognised directly in equity	Disposal of subsidiaries	Balance 31 December 2018
Cash and cash equivalents	-	(134)	(134)	(131)	-	-	-	(265)
Due from credit and other financial institutions	12	(33)	(21)	-	-	-	-	(21)
Trading financial assets	8 708	244	8 952	(8 076)	-	-	-	876
Loans to customers	3 774	(1 368)	2 406	1 293	-	-	(36)	3 663
Investment financial assets	(959)	(278)	(1 237)	4 637	(796)	-	-	2 604
Property and equipment	257	-	257	15	(23)	-	-	249
Other assets	(393)	(26)	(419)	(160)	-	-	10	(569)
Due to customers	(7 286)	-	(7 286)	7 358	-	-	-	72
Debt securities issued	364	-	364	1 317	-	(1 443)	-	238
Other liabilities	(979)	(332)	(1 311)	(1 433)	-	-	32	(2 712)
Total net deferred tax liabilities (assets)	**3 498**	**(1 927)**	**1 571**	**4 820**	**(819)**	**(1 443)**	**6**	**4 135**

	Balance 1 January 2017	Recognised in profit or loss	Recognised in other comprehensive income and equity	Recognised directly in equity	Balance 31 December 2017
Due from credit and other financial institutions	-	12	-	-	12
Financial instruments at fair value through profit or loss	207	8 501	-	-	8 708
Available-for-sale securities	(1 655)	710	(14)	-	(959)
Loans to customers	2 678	1 096	-	-	3 774
Property and equipment	233	50	(26)	-	257
Other assets	(445)	52	-	-	(393)
Due to credit institutions	-	-	-	-	-
Due to customers	48	(7 334)	-	-	(7 286)
Debt securities issued	25	208	-	131	364
Currency translation reserve	6	-	(6)	-	-
Other liabilities	(907)	(72)	-	-	(979)
Total net deferred tax liabilities (assets)	**190**	**3 223**	**(46)**	**131**	**3 498**

(in millions of Russian Roubles unless otherwise stated)

Income tax recognised in other comprehensive loss

The tax effects relating to components of other comprehensive loss comprise the following:

	2018			2017		
	Amount before tax	**Tax benefit / (expense)**	**Amount net-of-tax**	**Amount before tax**	**Tax benefit / (expense)**	**Amount net-of-tax**
Revaluation surplus for buildings	(115)	23	(92)	(132)	26	(106)
Fair value reserve for securities	(3 978)	796	(3 182)	(71)	14	(57)
Currency translation reserve	-	-	-	(45)	6	(39)
Other comprehensive loss	**(4 093)**	**819**	**(3 274)**	**(248)**	**46**	**(202)**

11 Cash and cash equivalents

	31 December 2018	31 December 2017
Cash on hand	18 655	19 732
Correspondent account with the Central bank of the Russian Federation	56 103	71 300
Nostro accounts with other banks		
rated from AA+ to AA-	7 562	3 305
rated from A+ to A-	1 467	5 789
rated from BBB+ to BBB-	3 291	3 236
rated from BB+ to BB-	853	1 241
rated from B+ to B-	109	11
not rated	983	740
Total nostro accounts with other banks	**14 265**	**14 322**
Deposits in credit and other financial institutions with maturity of less than 1 month		
Deposits with the Central bank of the Russian Federation	2 219	22 008
rated from AA+ to AA-	-	57
rated from A+ to A-	12 416	11 741
rated from BBB+ to BBB-	6 520	4 224
rated from BB+ to BB-	-	5 104
rated from B+ to B-	49 560	56 434
not rated	1 004 339	729 111
Total deposits in credit and other financial institutions with maturity of less than 1 month	**1 075 054**	**828 679**
Total gross cash and cash equivalents	**1 164 077**	**934 033**
Credit loss allowance	(1 298)	-
Total net cash and cash equivalents	**1 162 779**	**934 033**

Ratings are based on Fitch, Moody’s and Standard & Poor’s rating system.

No cash and cash equivalents are past due.

The correspondent account with the Central bank of the Russian Federation represents balances held with the Central bank of the Russian Federation related to settlement activity, and was available for withdrawal at the year end.

As at 31 December 2018, receivables under reverse sale and repurchase agreements included in cash and cash equivalents are RUB 1 058 970 million (31 December 2017: RUB 793 501 million).

(in millions of Russian Roubles unless otherwise stated)

As at 31 December 2018, the fair value of securities that serve as collateral under reverse sale and repurchase agreements is RUB 1 152 996 million (31 December 2017: RUB 907 864 million).

As at 31 December 2018, deposits in not rated credit and other financial institutions with maturity of less than 1 month include term deposits secured by liquid securities under agreements to resell (reverse repo) in the amount of RUB 1 004 339 million (31 December 2017: RUB 729 111 million).

As of 31 December 2018, the total gross amount of cash and cash equivalents to the top twenty counterparties (or groups of related counterparties) was RUB 1 143 863 million (2017: RUB 929 928 million) or 98,3% (2017: 99,6%) of the Group's total gross amount of cash and cash equivalents.

Movements in cash and cash equivalents credit loss allowance by three ECL stages for the year ended 31 December 2018 are as follows:

	2018				2017
	Stage 1 12-month ECL	Stage 2 Lifetime ECL not credit-impaired	Stage 3 Lifetime ECL credit-impaired	Total	Total
Balance at the beginning of the year	**673**	**-**	**-**	**673**	**-**
Net charge	626	-	-	626	-
Write-offs	(1)	-	-	(1)	-
Balance at the end of the year	**1 298**	**-**	**-**	**1 298**	**-**

Comparative amounts for the year ended 31 December 2017 represent impairment allowance and reflect measurement basis under IAS 39.

Information about the currency and maturity and effective interest rates of cash and cash equivalents is presented in Note 30.

12 Due from credit and other financial institutions

	31 December 2018	31 December 2017
Term deposits		
rated from BBB+ to BBB-	2 619	-
rated from BB+ to BB-	-	5 556
rated from B+ to B-	4 047	1 044
not rated	6 652	9 769
Total gross due from credit and other financial institutions	**13 318**	**16 369**
Credit loss allowance	(135)	-
Total net due from credit and other financial institutions	**13 183**	**16 369**

Ratings are based on Fitch, Moody’s and Standard & Poor’s rating system.

No due from credit and other financial institutions are past due.

As at 31 December 2018, receivables under reverse sale and repurchase agreements included in due from credit and other financial institutions are RUB 7 762 million (31 December 2017: RUB 8 423 million).

As at 31 December 2018, the fair value of securities that serve as collateral under reverse sale and repurchase agreements is RUB 10 417 million (31 December 2017: RUB 10 488 million).

(in millions of Russian Roubles unless otherwise stated)

As at 31 December 2018, deposits included in not rated credit and other financial institutions are receivables in the amount of RUB 3 679 million (31 December 2017: RUB 6 319 million) secured by liquid securities under agreements to resell (reverse repo).

As of 31 December 2018, the total amount of due from credit and other financial institutions was attributable to seven counterparties (31 December 2017: eight counterparties) or groups of related counterparties.

Movements in due from credit and other financial institutions credit loss allowance by three ECL stages for the year ended ended 31 December 2018 are as follows:

	2018				2017
	Stage 1 12-month ECL	**Stage 2 Lifetime ECL not credit-impaired**	**Stage 3 Lifetime ECL credit-impaired**	**Total**	**Total**
Balance at the beginning of the year	**166**	**-**	**-**	**166**	**-**
Net recovery	(31)	-	-	(31)	-
Balance at the end of the year	**135**	**-**	**-**	**135**	**-**

Comparative amounts for the year ended 31 December 2017 represent impairment allowance and reflect measurement basis under IAS 39.

Information about the currency and maturity and effective interest rates on deposits in credit and other financial institutions is presented in Note 30.

13 Trading financial assets

	31 December 2018	**31 December 2017**
Held by the Group		
Government and municipal bonds		
Russian Government Federal bonds	1 418	16 506
Russian Government Eurobonds	470	8 049
Regional authorities and municipal bonds	65	1 576
Corporate bonds		
rated from BBB+ to BBB-	3 109	17 226
rated from BB+ to BB-	2 955	5 507
rated from B+ to B-	127	1 641
not rated	129	718
Derivative financial instruments	**4 636**	**44 296**
Total held by the Group	**12 909**	**95 519**
Pledged under sale and repurchase agreements		
Government and municipal bonds		
Russian Government Federal bonds	-	840
Russian Government Eurobonds	-	16 850
Corporate bonds		
rated from BBB+ to BBB-	2 606	2 138
rated from BB+ to BB-	150	1 935
Total pledged under sale and repurchase agreements	**2 756**	**21 763**
Total trading financial assets	**15 665**	**117 282**

Ratings are based on Fitch, Moody's and Standard & Poor's rating system.

(in millions of Russian Roubles unless otherwise stated)

No trading financial assets are past due.

As at 31 December 2018, trading financial assets in the amount of RUB 5 639 million (31 December 2017: RUB 65 352 million) are qualified to be pledged against borrowings from the Central bank of the Russian Federation.

14 Loans to customers

	31 December 2018	31 December 2017
Loans to customers at amortised cost		
Loans to corporate clients	580 146	731 105
Credit loss allowance	(25 618)	(45 168)
Total loans to corporate clients at amortised cost, net	**554 528**	**685 937**
Loans to individuals		
Cash loans	72 219	63 256
Mortgage loans	20 679	20 319
Credit card loans	3 585	3 713
Auto loans	119	423
Credit loss allowance	(5 468)	(4 972)
Total loans to individuals, net	**91 134**	**82 739**
Total gross loans to customers at amortised cost	**676 748**	**818 816**
Credit loss allowance	**(31 086)**	**(50 140)**
Total net loans to customers at amortised cost	**645 662**	**768 676**
Loans to customers at FVTPL		
Loans to corporate clients	63 383	-
Total loans to customers at amortised cost and FVTPL	**709 045**	**768 676**

Credit quality of loan portfolio

The following table provides information on credit quality of the loan portfolio as at 31 December 2018 and 31 December 2017:

	31 December 2018	31 December 2017
Loans to customers		
- Not past due	705 067	789 661
- Overdue less than 31 days	18 257	4 805
- Overdue 31-60 days	3 614	3 255
- Overdue 61-90 days	1 239	1 334
- Overdue 91-180 days	2 793	8 905
- Overdue 181-360 days	4 803	5 334
- Overdue more than 360 days	4 358	5 522
Total gross loans to customers	**740 131**	**818 816**
Credit loss allowance	**(31 086)**	**(50 140)**
Total net loans to customers	**709 045**	**768 676**

(in millions of Russian Roubles unless otherwise stated)

As at 31 December 2018, the gross amount of overdue loans with payments that are overdue at least for one day totals RUB 35 064 million, which represents 4.7% of the gross loan portfolio (31 December 2017: RUB 29 155 million and 3.6%, respectively).

As at 31 December 2018, non-performing loans (NPLs), or loans with payments that are overdue over ninety days, amount to RUB 11 954 million or 1.6% of the gross loan portfolio (31 December 2017: RUB 19 761 million and 2.4%, respectively).

As at 31 December 2018, the ratio of total credit loss allowance to overdue loans equals 88.7%, the ratio of total credit loss allowance to NPLs equals 260.0% (31 December 2017: 172.0%, 253.7%, respectively).

As at 31 December 2018, the Group has no modified loans to customers.

Credit quality of loans to corporate clients portfolio

The following table provides information on credit quality of loans to corporate clients as at 31 December 2018 and 31 December 2017:

	31 December 2018	31 December 2017
Loans to corporate clients		
- Not past due	614 542	709 092
- Overdue less than 31 days	17 149	3 699
- Overdue 31-60 days	3 131	2 603
- Overdue 61-90 days	901	863
- Overdue 91-180 days	1 811	7 898
- Overdue 181-360 days	2 912	3 095
- Overdue more than 360 days	3 083	3 855
Total gross loans to corporate clients	**643 529**	**731 105**
Credit loss allowance	**(25 618)**	**(45 168)**
Total net loans to corporate clients	**617 911**	**685 937**

As at 31 December 2017, loans included in not past due category in the amount of RUB 74 992 million are not past due but impaired.

Analysis of collateral

Corporate loans are secured by the following types of collateral, depending on the type of transaction: real estate and other property, equipment and motor vehicles, inventories, receivables, guarantees and sureties, securities, promissory notes.

The following table provides information on collateral securing loans to corporate customers, net of impairment, by types of collateral as at 31 December 2018 and 31 December 2017:

	31 December 2018	31 December 2017
Real estate and other property	129 339	115 225
Claims for contract receivables	56 403	7 086
Securities	35 022	94 073
Equipment and motor vehicles	12 297	30 217
Goods in turnover	7 013	10 132
Guaranteed deposits	89	68 896
Bank’s own debt securities	13	160
Corporate guarantees and no collateral	377 735	360 148
	617 911	**685 937**

The Group generally does not consider corporate guarantees for impairment assessment purposes.

The amounts in the table above represent the carrying value of the related loan, and do not necessarily represent the fair value of the collateral.

As at 31 December 2018, there were no loans for which no ECL was recognised because of collateral.

As at 31 December 2018, there were no loans written-off for which collection procedures were still in process.

The recoverability of loans which are neither past due nor impaired is primarily dependent on the creditworthiness of the borrowers rather than the value of collateral, and the Group does not necessarily update the valuation of collateral as at each reporting date.

For loans secured by multiple types of collateral, collateral that is most relevant for impairment assessment is disclosed. Guarantees and sureties received from individuals, such as shareholders of SME borrowers, are not considered for impairment assessment purposes. Accordingly, such loans and unsecured portions of partially secured exposures are presented as loans without collateral or other credit enhancement.

Collateral obtained

During the year ended 31 December 2018, the Group did not obtain assets by taking possession of collateral for loans to corporate customers (during the year ended 31 December 2017: RUB 82 million). The Group’s policy is to sell such assets as soon as it is practicable.

Analysis of movements in the credit loss allowance

Movements in the credit loss allowance for loans to corporate clients by three ECL stages for the year ended 31 December 2018 are as follows:

(in millions of Russian Roubles unless otherwise stated)

	2018 *				2017
	Stage 1 12-month ECL	**Stage 2 Lifetime ECL not credit-impaired**	**Stage 3 Lifetime ECL credit-impaired**	**Total**	**Total**
Loans to corporate clients					
Balance at the beginning of the year	**7 796**	**1 285**	**35 318**	**44 399**	**32 698**
Transfer to 12-month ECL	207	(207)	-	-	-
Transfer to lifetime ECL not credit-impaired	(300)	300	-	-	-
Transfer to lifetime ECL credit-impaired	(106)	(5)	111	-	-
Net remeasurement of loss allowance	(1 155)	1 304	(1 775)	(1 626)	14 847
New financial assets originated or purchased	7 316	3 707	286	11 309	-
Financial assets that have been fully repaid	(3 683)	(465)	(5 137)	(9 285)	-
Transfer to assets held for sale	-	-	(7 700)	(7 700)	-
Write-offs	-	-	(12 492)	(12 492)	(2 377)
Recoveries of amounts previously written-off	-	-	294	294	-
Unwinding of discount	-	-	1 029	1 029	-
Disposal of subsidiary	(93)	(103)	(572)	(768)	-
Foreign exchange and other movements	307	121	30	458	-
Balance at the end of the year	**10 289**	**5 937**	**9 392**	**25 618**	**45 168**

Comparative amounts for the year ended 31 December 2017 represent impairment allowance and reflect measurement basis under IAS 39.

The total amount of undiscounted ECL on initial recognition on purchased credit-impaired financial assets that were initially recognised during the year was RUB 8 380 million.

Significant changes in the gross carrying amount of loans to corporate clients during the year that contributed to changes in loss allowance were as follows:

Repayment of loans to corporate clients in the amount of RUB 354 630 million during the year resulted in decrease of ECL in amount of RUB 9 285 million.

Write-offs of loans to corporate clients in the amount of RUB 112 486 million during the year resulted in decrease of ECL in the amount of RUB 20 192 million.

Transfers from 12-month ECL to lifetime ECL not credit impaired and to lifetime ECL credit impaired in the amount of RUB 5 062 million during the year resulted in increase of ECL in the amount of RUB 3 003 million.

* The loss allowance in these tables includes ECL on loan commitments for certain corporate products.

(in millions of Russian Roubles unless otherwise stated)

Issuance of corporate loans in the amount of RUB 411 872 million during the year resulted in increase of ECL in the amount of RUB 11 309 million.

Credit quality of loans to individuals

The following table provides information on the credit quality of loans to individuals as at 31 December 2018:

	Cash loans	Mortgage loans	Credit card loans	Auto loans	Total
Loans to individuals					
- Not past due	67 455	19 605	3 356	109	90 525
- Overdue less than 31 days	883	222	-	3	1 108
- Overdue 31-60 days	400	54	28	1	483
- Overdue 61-90 days	295	18	25	-	338
- Overdue 91-180 days	722	208	49	3	982
- Overdue 181-360 days	1 646	160	83	2	1 891
- Overdue more than 360 days	818	412	44	1	1 275
Gross loans to individuals	**72 219**	**20 679**	**3 585**	**119**	**96 602**
Credit loss allowance	**(4 927)**	**(294)**	**(243)**	**(4)**	**(5 468)**
Net loans to individuals	**67 292**	**20 385**	**3 342**	**115**	**91 134**

The following table provides information on the credit quality of loans to individuals as at 31 December 2017:

	Cash loans	Mortgage loans	Credit card loans	Auto Loans	Total
Loans to individuals					
- Not past due	57 997	18 705	3 479	388	80 569
- Overdue less than 31 days	919	185	-	2	1 106
- Overdue 31-60 days	542	75	33	2	652
- Overdue 61-90 days	371	81	18	1	471
- Overdue 91-180 days	818	128	52	9	1 007
- Overdue 181-360 days	1 751	383	93	12	2 239
- Overdue more than 360 days	858	762	38	9	1 667
Gross loans to individuals	**63 256**	**20 319**	**3 713**	**423**	**87 711**
Credit loss allowance	**(4 083)**	**(661)**	**(202)**	**(26)**	**(4 972)**
Net loans to individuals	**59 173**	**19 658**	**3 511**	**397**	**82 739**

Analysis of collateral

Mortgage loans are secured by the underlying housing real estate. Auto loans are secured by the underlying cars. Credit card overdrafts and other loans to individuals are not secured.

For the allowance on a portfolio basis, management does not estimate loan impairment based on a specific analysis of the fair value of collateral but instead applies actual historical loss experience.

As at 31 December 2018, impaired mortgage loans in the gross amount of RUB 834 million are secured by collateral with a fair value of RUB 653 million (31 December 2017: RUB 1 614 million and RUB 1 148 million, respectively).

(in millions of Russian Roubles unless otherwise stated)

Analysis of movements in the credit loss allowance

Movements in the credit loss allowance by classes of loans to individuals and by three ECL stages for the year ended 31 December 2018 are as follows:

	2018[*]				2017
	Stage 1 12-month ECL	**Stage 2 Lifetime ECL not credit-impaired**	**Stage 3 Lifetime ECL credit-impaired**	**Total**	**Total**
Cash loans					
Balance at the beginning of the year	**1 294**	**933**	**3 880**	**6 107**	**6 085**
Transfer to 12-month ECL	477	(178)	(299)	-	-
Transfer to lifetime ECL not credit-impaired	(117)	229	(112)	-	-
Transfer to lifetime ECL credit-impaired	(138)	(505)	643	-	-
Net remeasurement of loss allowance	(734)	335	1 433	1 034	3 773
New financial assets originated or purchased	506	210	268	984	-
Financial assets that have been fully repaid	(304)	(145)	(273)	(722)	-
Write-offs	-	-	(3 529)	(3 529)	(5 775)
Recoveries of amounts previously written-off	27	5	475	507	-
Unwinding of discount	-	-	546	546	-
Balance at the end of the year	**1 011**	**884**	**3 032**	**4 927**	**4 083**
Mortgage loans					
Balance at the beginning of the year	**79**	**39**	**565**	**683**	**1 127**
Transfer to 12-month ECL	23	(9)	(14)	-	-
Transfer to lifetime ECL not credit-impaired	(1)	3	(2)	-	-
Transfer to lifetime ECL credit-impaired	(2)	(16)	18	-	-
Net remeasurement of loss allowance	(64)	12	26	(26)	(178)
New financial assets originated or purchased	29	-	48	77	-
Financial assets that have been fully repaid	(15)	(14)	(82)	(111)	-
Write-offs	-	-	(631)	(631)	(288)
Recoveries of amounts previously written-off	-	-	269	269	-
Unwinding of discount	-	-	27	27	-
Foreign exchange and other movements	2	-	4	6	-
Balance at the end of the year	**51**	**15**	**228**	**294**	**661**

[*] The loss allowance in these tables includes ECL on loan commitments for certain retail products such as credit cards and overdrafts.

(in millions of Russian Roubles unless otherwise stated)

	2018				2017
	Stage 1 12-month ECL	**Stage 2 Lifetime ECL not credit-impaired**	**Stage 3 Lifetime ECL credit-impaired**	**Total**	**Total**
Credit card loans					
Balance at the beginning of the year	**51**	**82**	**177**	**310**	**239**
Transfer to 12-month ECL	17	(17)	-	-	-
Transfer to lifetime ECL not credit-impaired	(3)	3	-	-	-
Transfer to lifetime ECL credit-impaired	(2)	(22)	24	-	-
Net remeasurement of loss allowance	(20)	31	48	59	155
New financial assets originated or purchased	11	10	36	57	-
Financial assets that have been fully repaid	(14)	(37)	(20)	(71)	-
Write-offs	-	-	(183)	(183)	(192)
Recoveries of amounts previously written-off	-	-	36	36	-
Unwinding of discount	-	-	35	35	-
Balance at the end of the year	**40**	**50**	**153**	**243**	**202**
Auto loans					
Balance at the beginning of the year	**2**	**1**	**19**	**22**	**54**
Net remeasurement of loss allowance	(1)	-	(7)	(8)	-
Financial assets that have been fully repaid	(1)	-	(4)	(5)	-
Write-offs	-	-	(24)	(24)	(28)
Recoveries of amounts previously written-off	-	-	19	19	-
Balance at the end of the year	**-**	**1**	**3**	**4**	**26**

Comparative amounts for the year ended 31 December 2017 represent impairment allowance and reflect measurement basis under IAS 39.

As at 31 December 2018, the total gross amount of loans to the top ten borrowers (or groups of related borrowers) was RUB 335 850 million (2017: RUB 365 965 million) or 45,4% (2017: 44,7%) of the Group's total gross amount of loans to customers.

(in millions of Russian Roubles unless otherwise stated)

Industry and geographical analysis of the loan portfolio

Loans to customers were issued primarily to customers located within the Russian Federation, who operate in the following economic sectors:

	31 December 2018	31 December 2017
Loans to individuals	96 602	87 711
Crude oil production and trading	175 881	182 716
Petroleum refining / production and trading	140 819	132 982
Residential and commercial construction and development	55 230	55 611
Automotive, motorcycles and spare parts	51 457	53 294
Property rental	50 961	47 187
Equipment leasing	33 360	5 147
Industrial chemicals	30 558	27 949
Metallurgical	24 783	35 726
Food and farm products	18 567	40 947
Financial companies	17 920	8 350
Services	13 739	32 229
Consumer electronics, appliances and computers	8 424	8 349
Industrial equipment and machinery	7 023	25 649
Clothing, shoes, textiles and sporting goods	5 268	6 467
Consumer chemicals, perfumes and hygiene products	3 485	2 299
Transport infrastructure contractors	1 968	1 092
Construction and decorative materials, furniture	1 492	13 697
Industrial and infrastructure construction	1 271	15 977
Paper, stationery and packaging products	915	1 718
Government and municipal bodies	90	320
Telecommunications	69	24
Products for home, gifts, jewelry and business accessories	57	93
Pharmaceutical and medical products	35	32 526
Books, video, print and copy	32	171
Electric utility	-	66
Other	125	519
Total gross loans to customers	**740 131**	**818 816**
Credit loss allowance	(31 086)	(50 140)
Net loans to customers	**709 045**	**768 676**

Finance lease

Finance lease receivables included in loans to customers are as follows:

	31 December 2018	31 December 2017
Gross investment in finance lease	-	9 522
Unearned interest income	-	(1 972)
Net investment in finance lease before allowance	**-**	**7 550**
Impairment allowance	-	(207)
Net investment in finance lease	**-**	**7 343**

(in millions of Russian Roubles unless otherwise stated)

The contractual maturity of the net investment in leases is as follows:

	31 December 2018	31 December 2017
Less than 1 year	-	3 567
Between 1 and 5 years	-	3 676
More than 5 years	-	17
Overdue	-	83
	-	**7 343**

Loan maturities

Information about the currency and maturity and effective interest rates of loans to customers is presented in Note 30.

15 Investment financial assets

	31 December 2018	31 December 2017
Investment financial assets measured at fair value through other comprehensive income – debt instruments, including pledged under repurchase agreements	174 960	-
Investment financial assets measured at amortised cost, including pledged under repurchase agreements	39 401	-
Investment financial assets at fair value through profit or loss	120	-
Available-for-sale securities, including pledged under repurchase agreements	-	25 066
Total investment financial assets	**214 481**	**25 066**

As at 31 December 2018, debt instruments at fair value through other comprehensive income in the amount of RUB 166 447 million are qualified to be pledged against borrowings from the Central bank of the Russian Federation (31 December 2017: debt instruments available-for-sale in the amount of RUB 7 201 million are qualified to be pledged against borrowings from the Central bank of the Russian Federation).

Investment financial assets measured at fair value through other comprehensive income - debt instruments

	31 December 2018
Held by the Group	
Russian Government Federal bonds (OFZ)	18 891
Russian Government eurobonds	7 671
Regional authorities and municipal bonds	1 367
Corporate bonds	41 825
Corporate eurobonds	2 525
Total held by the Group	**72 279**

(in millions of Russian Roubles unless otherwise stated)

	31 December 2018
Pledged under sale and repurchase agreements	
Russian Government Federal bonds (OFZ)	5 374
Russian Government eurobonds	61 112
Corporate bonds	27 103
Corporate eurobonds	9 092
Total pledged under sale and repurchase agreements	**102 681**
Total investment financial assets measured at fair value through other comprehensive income – debt instruments	**174 960**

Investment financial assets measured at amortised cost

	31 December 2018
Held by the Group	
Corporate eurobonds	7 885
Corporate bonds	4 337
Promissory notes	450
Total held by the Group	**12 672**
Pledged under sale and repurchase agreements	
Corporate eurobonds	24 086
Corporate bonds	3 088
Total pledged under sale and repurchase agreements	**27 174**
Credit loss allowance	(445)
Investment financial assets measured at amortised cost	**39 401**

Investment financial assets designated as at fair value through profit or loss

	31 December 2018
Equity investments	120
Total investment financial assets designated as at fair value through profit or loss	**120**

(in millions of Russian Roubles unless otherwise stated)

Available-for-sale securities

	31 December 2017
Held by the Group	
Corporate bonds	
from BBB+ to BBB-	68
from BB+ to BB-	6 555
from B+ to B-	7 810
not rated	8 495
Promissory notes	
not rated	225
Equity investments	120
Total held by the Group	**23 273**
Pledged under sale and repurchase agreements	
Corporate bonds	
from BBB+ to BBB-	858
from BB+ to BB-	935
Total pledged under sale and repurchase agreements	**1 793**
Total available-for-sale securities	**25 066**

Movements in the credit loss allowance of investment financial assets measured at fair value through other comprehensive income by three ECL stages for the year ended 31 December 2018 are as follows:

	2018			
	Stage 1 12-month ECL	Stage 2 Lifetime ECL not credit-impaired	Stage 3 Lifetime ECL credit-impaired	Total
Investment financial assets measured at fair value through other comprehensive income - debt instruments				
Balance at the beginning of the year	805	-	-	805
Net recovery	(187)	-	-	(187)
Balance at the end of the year	**618**	**-**	**-**	**618**

Movements in the credit loss allowance of investment financial assets measured at amortised cost by three ECL stages for the year ended 31 December 2018 are as follows:

	2018			
	Stage 1 12-month ECL	Stage 2 Lifetime ECL not credit-impaired	Stage 3 Lifetime ECL credit-impaired	Total
Investment financial assets measured at amortised cost				
Balance at the beginning of the year	21	7	270	298
Net charge (recovery)	154	(7)	-	147
Balance at the end of the year	**175**	**-**	**270**	**445**

(in millions of Russian Roubles unless otherwise stated)

16 Property and equipment

The movement in property and equipment for the year ended 31 December 2018 is presented in the table below:

	Aircrafts	Buildings	Vehicles	Computers and office equipment	Furniture and other property	Construction in progress	Total
Cost/revalued amount							
At 1 January 2018	**-**	**5 524**	**1 101**	**1 138**	**2 981**	**64**	**10 808**
Additions	-	4	400	547	321	49	**1 321**
Reclassification	-	(3)	(21)	-	-	-	**(24)**
Disposals	-	(544)	(23)	(3)	(58)	-	**(628)**
Disposal of subsidiary	-	-	(15)	(1)	(8)	-	**(24)**
Transfers	-	-	6	23	31	(60)	**-**
Revaluation	-	(392)	-	-	-	-	**(392)**
Impairment	-	-	(1)	-	(1)	-	**(2)**
Elimination of accumulated depreciation on revalued buildings	-	(118)	-	-	-	-	**(118)**
At 31 December 2018	**-**	**4 471**	**1 447**	**1 704**	**3 266**	**53**	**10 941**
Accumulated depreciation							
At 1 January 2017	**-**	**-**	**594**	**524**	**1 824**	**-**	**2 942**
Depreciation charge	-	126	185	385	354	-	**1 050**
Disposals	-	(8)	(24)	(3)	(54)	-	**(89)**
Disposal of subsidiary	-	-	(2)	(1)	(2)	-	**(5)**
Transfers	-	-	(21)	-	-	-	**(21)**
Elimination of accumulated depreciation on revalued buildings	-	(118)	-	-	-	-	**(118)**
At 31 December 2018	**-**	**-**	**732**	**905**	**2 122**	**-**	**3 759**
Carrying value							
At 31 December 2018	**-**	**4 471**	**715**	**799**	**1 144**	**53**	**7 182**

(in millions of Russian Roubles unless otherwise stated)

The movement in property and equipment for the year ended 31 December 2017 is presented in the table below:

	Aircrafts	Buildings	Vehicles	Computers and office equipment	Furniture and other property	Construction in progress	Total
Cost/revalued amount							
At 1 January 2017	**14 978**	**5 007**	**880**	**706**	**2 626**	**63**	**24 260**
Additions	-	851	310	433	378	3	**1 975**
Property received as a result of termination of lease agreements	-	-	1	-	-	-	**1**
Reclassification	-	-	-	2	-	(2)	**-**
Disposals	-	-	(26)	(1)	(23)	-	**(50)**
Disposal of subsidiary	(14 460)	-	-	-	-	-	**(14 460)**
Transfers	-	-	(62)	(2)	-	-	**(64)**
Revaluation	-	(219)	-	-	-	-	**(219)**
Impairment	-	-	(2)	-	-	-	**(2)**
Elimination of accumulated depreciation on revalued buildings	-	(115)	-	-	-	-	**(115)**
Currency exchange differences on translation	(518)	-	-	-	-	-	**(518)**
At 31 December 2017	**-**	**5 524**	**1 101**	**1 138**	**2 981**	**64**	**10 808**
Accumulated depreciation							
At 1 January 2017	**707**	**-**	**485**	**306**	**1 484**	**-**	**2 982**
Depreciation charge	994	115	179	219	357	-	**1 864**
Disposals	-	-	(11)	(1)	(17)	-	**(29)**
Disposal of subsidiary	(1 683)	-	-	-	-	-	**(1 683)**
Elimination of accumulated depreciation on revalued buildings	-	(115)	-	-	-	-	**(115)**
Transfers	-	-	(59)	-	-	-	**(59)**
Currency exchange differences on translation	(18)	-	-	-	-	-	**(18)**
At 31 December 2017	**-**	**-**	**594**	**524**	**1 824**	**-**	**2 942**
Carrying value							
At 31 December 2017	**-**	**5 524**	**507**	**614**	**1 157**	**64**	**7 866**

Revalued assets

The buildings were independently valued at 31 December 2018. The valuation was carried out by an independent firm of appraisers, who hold a recognised and relevant professional qualification and who have recent experience in valuation of assets of similar location and category.

The appraisals were performed using the income capitalisation and comparative sales and/or offer approaches of valuation. The income capitalisation approach considers income and expense data relating to the property being valued and estimates fair value through a capitalisation process. The market approach is based upon an analysis of the results of comparable sales and/or offers of similar buildings. Final fair value was calculated based on integrated analysis of both approaches. Thus, these buildings were classified to Level 3 of the fair value hierarchy.

The following key assumptions are used in applying the income capitalisation approach:

- net income for the base year is calculated using information on actual rental rates, possible vacancy losses, operating and maintenance expenses;
- vacancy losses as a percentage of potential gross rent income are estimated in the range of 11.3% to 13.3%;
- buildings maintenance and general administrative expenses are estimated in the range from 15.3% to 18.6% of effective gross rent income;
- capitalisation rate in the range from 11% to 12.3% is applied to capitalise net income for the base year.

For the comparative sales and/or offers approach the most significant assumption made is a negotiation discount in the range from 10.5% to 14.0% implicit in advertised market prices.

Changes in these estimates could effect the value of the buildings. For example, to the extent that adjustments differs by plus/minus ten percent, the building valuation as of 31 December 2018 would be RUB 447 million (31 December 2017: RUB 552 million) higher/lower.

The carrying value of buildings as of 31 December 2018, if the buildings would not have been revalued, would be RUB 3 963 million (31 December 2017: RUB 4 784 million).

(in millions of Russian Roubles unless otherwise stated)

17 Other assets

	31 December 2018	31 December 2017
Receivables and settlements with counterparties	2 140	664
Receivables for commissions	672	702
Receivables under cession agreements	528	517
Impairment allowance	(457)	(383)
Total other financial assets	**2 883**	**1 500**
Current tax assets	2 314	2 198
Repossessed collateral	735	679
Assets held for sale	609	2 435
Investment property	428	815
Intangible assets	417	484
Advances issued	258	720
Deferred expenses	59	168
Other	491	544
Property held for further leasing	-	424
Impairment allowance	(55)	(233)
Total other non-financial assets	**5 256**	**8 234**
Total other assets	**8 139**	**9 734**

Included in assets held for sale is real estate in Moscow and Moscow region, obtained by taking control over collateral for impaired loans.

18 Due to credit institutions

	31 December 2018	31 December 2017
Payables under repurchase agreements	487 959	534 452
Term deposits	15 827	57 252
Syndicated debt	21 799	29 487
Current accounts	27 345	18 670
Total due to credit institutions	**552 930**	**639 861**

As at 31 December 2018, the fair value of securities that serve as collateral under sale and repurchase agreements is RUB 551 204 million (31 December 2017: RUB 630 957 million).

As at 31 December 2018, the fair value of securities received as collateral under reverse repo deals being pledged for direct repo deals is RUB 429 174 million (31 December 2017: RUB 612 596 million).

As of 31 December 2018, the total gross amount of due to credit institutions to the top twenty counterparties (or groups of related counterparties) was RUB 539 015 million (2017: RUB 631 777 million) or 97,5 % (2017: 98,7%) of the Group's total gross amount of due to credit institutions.

Information about the currency and maturity and effective interest rates on due to credit institutions is presented in Note 30.

(in millions of Russian Roubles unless otherwise stated)

19 Due to customers

	31 December 2018	31 December 2017
Corporate customers		
Term and demand deposits and payables under derivative contracts	789 711	482 374
Current accounts	33 086	101 744
Subordinated debt	43 571	39 842
Payables under repurchase agreements	30 065	26 100
Term notes	666	447
Total corporate customers	**897 099**	**650 507**
Individuals		
Term and demand deposits	355 277	276 292
Current accounts	19 799	14 925
Total individuals	**375 076**	**291 217**
Total due to customers	**1 272 175**	**941 724**

As at 31 December 2018, the fair value of securities that serve as collateral under sale and repurchase agreements is RUB 33 838 million (31 December 2017: RUB 28 549 million).

As at 31 December 2018, the fair value of securities received as collateral under reverse repo deals being pledged for direct repo deals is RUB 23 334 million (31 December 2017: RUB 23 354 million).

As of 31 December 2018, the total gross amount of due to customers to the top ten counterparties (or groups of related counterparties) was RUB 769 258 million (2017: RUB 524 486 million) or 60,5% (2017: 55,7%) of the Group's total gross amount of due to customers.

Information about the currency and maturity and effective interest rates on due to customers is presented in Note 30.

20 Debt securities issued

	31 December 2018	31 December 2017
Bonds	61 134	66 649
Subordinated bonds	44 171	49 631
Total debt securities issued	**105 305**	**116 280**

(in millions of Russian Roubles unless otherwise stated)

The table below provides a summary of bonds issued as at 31 December 2018 and 31 December 2017:

	Nominal amount of the initial issue RUB'mln / USD'mln	Amount of the issue outstanding		Issue date	Maturity date	Coupon rate
		31 December 2018	31 December 2017			
USD denominated subordinated Eurobonds issue	600	39 109	35 017	05.04.2017	05.10.2027	7.50%
USD denominated Eurobonds issue	500	26 352	-	14.02.2018	14.02.2023	5.55%
USD denominated Eurobonds issue	500	25 757	24 603	07.11.2016	07.11.2021	5.88%
RUB denominated subordinated Eurobonds issue	5 000	5 062	5 059	26.11.2014	26.05.2025	16.50%
RUB denominated bonds issue BO-11	15 000	4 933	4 815	10.07.2014	10.07.2019	9.15%
RUB denominated bonds issue BO-09	3 000	2 882	2 880	25.03.2015	25.03.2020	10.25%
Mortgage-backed bonds	3 328	1 153	2 387	02.12.2016	07.12.2043	10.15%
RUB denominated bonds issue BO-10	5 000	57	4 105	10.07.2014	10.07.2019	11.00%
USD denominated Eurobonds issue	500	-	20 035	01.02.2013	01.02.2018	7.70%
USD denominated subordinated Eurobonds issue	500	-	4 442	13.05.2013	13.11.2018	8.70%
RUB denominated bonds issue BO-06	5 000	-	3 592	24.10.2013	24.10.2018	10.15%
RUB denominated subordinated bonds issue 11	3 000	-	3 026	11.12.2012	05.06.2018	12.25%
RUB denominated bonds issue BO-07	7 000	-	2 159	30.10.2013	30.10.2018	10.30%
RUB denominated subordinated bonds issue 12	2 000	-	2 087	27.02.2013	22.08.2018	12.25%
RUB denominated bonds issue 01	3 000	-	1 236	27.10.2016	21.10.2021	12.50%
Mortgage-backed bonds	3 702	-	837	16.06.2014	07.06.2039	10.65%
		105 305	**116 280**			

Bondholders are entitled to demand early redemption of certain bonds at their nominal value.

Coupon payments are made semi-annually or quarterly, and selected coupon rates are subject to change in accordance with terms of the issuance within a predetermined range.

Information about the currency and maturity and effective interest rates on debt securities issued is presented in Note 30.

(in millions of Russian Roubles unless otherwise stated)

21 Other liabilities

	31 December 2018	31 December 2017
Derivative financial instruments	6 329	1 551
Advances received under cession agreements	1 514	15
Cash collection payables	601	468
Payables to suppliers and other creditors	438	640
Payable to employees	1 413	580
Other liabilities	1 623	868
Total other financial liabilities	**11 918**	**4 122**
Allowance for credit related commitments	4 758	1 665
Allowance for other commitments	1 385	96
Taxes payable	686	439
Deferred income	601	2 068
Payables to Deposit Insurance Agency	487	321
Current tax liabilities	208	16
Other liabilities	53	231
Total other non-financial liabilities	**8 178**	**4 836**
Total other liabilities	**20 096**	**8 958**

22 Share capital

Share capital consists of ordinary shares and was contributed by the shareholders in Roubles. The shareholders are entitled to dividends and capital distributions. Issued, outstanding and paid share capital at 31 December 2018 comprises 27 079 709 866 shares (31 December 2017: 27 079 709 866 shares) with par value of 1 RUB per share. In addition, at 31 December 2018 the Bank has 9 196 448 142 authorised but unissued ordinary shares with an aggregate nominal value of RUB 9 196 million. The total hyperinflation adjustment related to equity as at 31 December 2002 was RUB 862 million.

In May 2017 the Group issued subordinated perpetual Eurobonds in the amount of USD 700 million at par with a coupon rate of 8.875% per annum. The Group has the right to call the Eurobonds in November 2022 or on any subsequent coupon payment date thereafter at the option of the Group. The coupon is paid on a quarterly basis and the coupon rate is fixed until the first call date after which it is reset every 5 years. The coupon payment is not cumulative and may be cancelled at the discretion of the Group.

In July 2018 the Bank issued domestic perpetual subordinated bonds in the total amount of RUB 5 billion and a coupon rate of 12.00% per annum during the 1-11 coupon periods. The bonds are callable after 5.5 years of the placement date and then every 5 years. The coupon is paid on semi-year basis and the coupon rate is fixed. Coupon rate is reset every 10 coupon periods. The coupon payment is not cumulative and may be cancelled at the discretion of the Group.

In October 2018 the Group optimised its capital structure with a partial redemption of USD 700 million 8.875% per annum subordinated perpetual Eurobonds at par. Upon the partial redemption of this subordinated perpetual Eurobonds and cancellation of equivalent amounts USD 670 million of the subordinated perpetual Eurobonds remained outstanding.

(in millions of Russian Roubles unless otherwise stated)

As the Group has discretion in relation to coupon and principal repayment, the Group classified subordinated perpetual Eurobonds and bonds as equity instruments in the consolidated statement of financial position. The CBR approved the inclusion of the perpetual subordinated Eurobonds and bonds in the calculation of statutory capital adequacy ratio. The Eurobonds and bonds are Basel-III compliant and eligible for inclusion into the Group's Additional Tier 1 capital upon receiving approval from the CBR (Note 28).

The USD denominated subordinated perpetual Eurobonds are translated to its RUB equivalent at the period-end exchange rate with exchange differences recorded in retained earnings when incurred. Issuance costs are also recorded in retained earnings when incurred.

23 Commitments

The Group has outstanding commitments to extend loans. These commitments take the form of approved loans and credit card limits and overdraft facilities.

The Group provides financial guarantees and letters of credit to guarantee the performance of customers to third parties. These agreements have fixed limits and generally extend for a period of up to five years.

The Group applies the same credit risk management policies and procedures when granting credit commitments, financial guarantees and letters of credit as it does for granting loans to customers.

The contractual amounts of commitments are set out in the following table by category. The amounts reflected in the table for guarantees and letters of credit represent the maximum accounting loss that would be recognised at the reporting date if counterparties failed completely to perform as contracted.

	31 December 2018	**31 December 2017**
Guarantees and letters of credit	152 507	89 475
Undrawn loan commitments	34 027	25 436
Other contingent liabilities	4 886	17
	191 420	**114 928**

The total outstanding contractual commitments above do not necessarily represent future cash requirements, as these commitments may expire or terminate without being funded.

24 Operating leases

Leases as lessee

Future minimum lease payments on non-cancellable lease agreements are as follows:

	31 December 2018	**31 December 2017**
Less than 1 year	1 097	992
Between 1 and 5 years	2 170	2 108
More than 5 years	241	76
	3 508	**3 176**

During the year ended 31 December 2018 RUB 1 185 million was recognised as an expense in profit or loss in respect of operating leases (31 December 2017: RUB 1 035 million).

25 Contingencies

Insurance

The insurance industry in the Russian Federation is in a developing state and many forms of insurance protection common in other parts of the world are not yet generally available. The Group does not have full coverage for its premises and equipment, business interruption, or third party liability in respect of property or environmental damage arising from accidents on property or relating to operations. Until the Group obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on operations and financial position.

Litigation

In the ordinary course of business, the Group is subject to legal actions and complaints. Management believes that the ultimate liability, if any, arising from such actions or complaints will not have a material adverse effect on the financial condition or the results of future operations.

Taxation contingencies

The taxation system in the Russian Federation continues to evolve and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are sometimes contradictory and subject to varying interpretation by different tax authorities. Taxes are subject to review and investigation by a number of authorities which have the authority to impose severe fines, penalties and interest charges. A tax year remains open for review by the tax authorities during the three subsequent calendar years; however, under certain circumstances, a tax year may remain open for a longer period. Recent events in the Russian Federation suggest that the tax authorities are taking a more assertive position in their interpretation and enforcement of tax legislation.

Starting from 1 January 2012 new transfer pricing rules came into force in Russia. These provide the possibility for tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect of controllable transactions if their prices deviate from the market range or profitability range. According to the provisions of transfer pricing rules, the taxpayer should sequentially apply five market price determination methods prescribed by the Tax Code.

Tax liabilities arising from transactions between companies are determined using actual transaction prices. It is possible, with the evolution of the interpretation of transfer pricing rules in the Russian Federation and changes in the approach of the Russian tax authorities, that such transfer prices could be challenged. Since the current Russian transfer pricing rules became effective relatively recently, the impact of any such challenge cannot be reliably estimated; however, it may be significant to the financial position and/or the overall operations of the Group.

These circumstances may create tax risks in the Russian Federation that are substantially more significant than in other countries. Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable Russian tax legislation, official pronouncements and court decisions. However, the interpretations of the relevant authorities could differ and the effect on the financial position, if the authorities were successful in enforcing their interpretations, could be significant.

(in millions of Russian Roubles unless otherwise stated)

26 Custody activities

The Group provides custody services to its customers, whereby it holds securities on behalf of customers and receives fee income for providing these services. These securities are not assets of the Group and are not recognised in the consolidated statement of financial position.

27 Related party transactions

The outstanding balances with related parties and related average interest rates as at 31 December 2018 and 31 December 2017 are as follows:

	31 December 2018		31 December 2017	
	Amount	**Average effective interest rate**	**Amount**	**Average effective interest rate**
Cash and cash equivalents				
Under control of principal beneficiary	-	-	4 114	6.2%
Total cash and cash equivalents	**-**		**4 114**	
Due from credit and other financial institutions				
Under control of principal beneficiary	814	0.1%	-	-
Total due from credit and other financial institutions	**814**		**-**	
Trading financial assets				
Under control of principal beneficiary	23		1 451	
Total trading financial assets	**23**		**1 451**	
Loans to customers				
Under control of principal beneficiary	24 314	12.2%	22 600	12.7%
Management	686	8.5%	134	14.5%
Total loans to customers	**25 000**		**22 734**	
Due to customers				
Term deposits by customers				
Parent company	9 999	6.7%	-	-
Under control of principal beneficiary	9 277	7.3%	2 067	7.3%
Principal beneficiary	1 122	2.9%	174	7.4%
Management	388	5.4%	187	5.8%
Total term deposits by customers	**20 786**		**2 428**	
Current accounts by customers				
Under control of principal beneficiary	1 840		3 595	
Management	42		23	
Parent company	26		1 321	
Principal beneficiary	4		2	
Total current accounts by customers	**1 912**		**4 941**	
Total due to customers	**22 698**		**7 369**	
Debt securities issued				
Under control of principal beneficiary	5 712	9.5%	7 942	10.9%
Total debts securities issued	**5 712**		**7 942**	
Other liabilities				
Under control of principal beneficiary	802		-	
Total other liabilities	**802**		**-**	
Guarantees issued				
Under control of principal beneficiary	90		201	
Total guarantees issued	**90**		**201**	

(in millions of Russian Roubles unless otherwise stated)

As at 31 December 2018, the company under control of principal beneficiary has an investment in perpetual debt issued in amount of RUB 4 458 million (31 December 2017: RUB 2 221 million). During the period ended 31 December 2018 the company under control of principal beneficiary received coupon payments on perpetual debt issued from the Group in the amount of RUB 339 million.

As at 31 December 2018, the undrawn loan commitments under credit line agreements for principal beneficiary and for management are RUB 111 million (31 December 2017: RUB 890 million).

Amounts included in profit or loss and other comprehensive income for the years ended 31 December 2018 and 31 December 2017 in relation to transactions with related parties are as follows:

	2018	2017
Interest income		
Under control of principal beneficiary	3 177	3 590
Parent company	41	277
Management	34	14
Principal beneficiary	2	-
Total interest income	**3 254**	**3 881**
Interest expense		
Under control of principal beneficiary	(1 639)	(1 008)
Parent company	(140)	(44)
Principal beneficiary	(47)	(42)
Management	(19)	(15)
Total interest expense	**(1 845)**	**(1 109)**
Commission income		
Under control of principal beneficiary	364	273
Parent company	45	39
Management	1	-
Total commission income	**410**	**312**
Net foreign exchange loss		
Under control of principal beneficiary	(8 389)	608
Management	(1)	-
Total net foreign exchange loss	**(8 390)**	**608**

Total remuneration of the Supervisory Board and the Management Board included in employee compensation for the years ended 31 December 2018 and 31 December 2017 (refer to Note 8) is as follows:

	2018	2017
Board Members of the Management Board	(543)	(453)
Members of the Supervisory Board	(90)	(76)
	(633)	**(529)**

(in millions of Russian Roubles unless otherwise stated)

28 Capital management

The CBR sets and monitors capital requirements for the Group.

The Group defines as capital those items defined by statutory regulation as capital for banking groups. Since 1 January 2016 the Group calculated amount of capital in accordance with Provision of the CBR dated 3 December 2016 No. 509-P '*On Calculation of Amount of Own Funds (Capital), Economic Ratios and Amounts (Limits) of Open Currency Positions of Banking Groups'*. As at 31 December 2018 and 31 December 2017, minimum levels of basic capital ratio (ratio N20.1), main capital ratio (ratio N20.2), own funds (capital) ratio (ratio N20.0) are 4.5%, 6.0% and 8.0%, accordingly.

Starting from 1 January 2016 the Group should comply with capital mark-ups: capital conservation mark-up, countercycle mark-up and mark-up for systematical importance. Management believes that the Group maintains capital adequacy at the level appropriate to the nature and volume of its operations.

The Group provides the territorial CBR office that supervises the Bank with information on mandatory ratios in accordance with regulatory requirements. The Accounting Department controls on a daily basis compliance with capital adequacy ratios.

In case capital adequacy ratios become close to limits set by the CBR and the Group's internal limits this information is communicated to the Management Board and the Supervisory Board. The Group is in compliance with the statutory capital ratios as at 31 December 2018 and 31 December 2017.

The capital adequacy ratio of the Group calculated in accordance with the Basel III requirements as adopted in the Russian Federation, based on the IFRS financial statements as at 31 December 2018 and 31 December 2017 is as follows:

	31 December 2018	31 December 2017
Tier 1 capital		
Share capital and additional paid-in capital	74 189	74 189
Retained earnings	71 637	62 104
Intangible assets	(417)	(484)
Core tier 1 capital	**145 409**	**135 809**
Additional capital		
Perpetual debt issued	46 691	40 320
Total tier 1 capital	**192 100**	**176 129**
Tier 2 capital		
Revaluation surplus for buildings	490	582
Fair value reserve for securities	(1 834)	394
Subordinated debt		
Subordinated loans	63 072	56 055
Subordinated bonds	43 563	41 257
Total tier 2 capital	**105 291**	**98 288**
Total capital	**297 391**	**274 417**
Risk-weighted assets		
Banking book	922 193	943 174
Trading book	322 582	133 987
Operational risk	113 602	97 409
Total risk weighted assets	**1 358 377**	**1 174 570**
Total core tier 1 capital expressed as a percentage of risk-weighted assets (core tier 1 capital ratio) (%)	**10.7**	**11.6**
Total tier 1 capital expressed as a percentage of risk-weighted assets (tier 1 capital ratio) (%)	**14.1**	**15.0**
Total capital expressed as a percentage of risk-weighted assets (total capital ratio) (%)	**21.9**	**23.4**

In June 2015 the State Corporation "Deposit Insurance Agency" provided a subordinated loan of RUB 20 231 million to the Bank in a form of federal loan bonds (OFZ). The Bank has an obligation to return securities received back to the lender at the maturity of the agreement. The Bank pays charges equal to coupons on the bonds transferred plus a fixed margin. The contract also includes certain restrictions on ability of the Bank to sell or pledge securities received. The arrangement is a securities lending transaction.

The Group does not recognise securities received and a subordinated obligation to return them to the lender in the consolidated statement of financial position of the Group. The obligation to return securities received to the State Corporation "Deposit Insurance Agency" is subordinated to other ordinary obligations of the Group and the terms of the loan satisfy the criteria for inclusion of the loan into the regulatory capital of the Bank in accordance with Russian banking legislation. As such, the Bank includes the amount of the subordinated loan described above into its tier 2 capital for the purpose of statutory regulatory capital and capital calculated for capital management purposes in accordance with Basel III.

The risk-weighted assets are measured by means of a hierarchy of risk weights classified according to the nature of – and reflecting an estimate of credit, market and other risks associated with – each asset and counterparty, taking into account any eligible collateral or guarantees.

29 Analysis by segment

The Group has four reportable segments, as described below, which are strategic business units. The strategic business units offer different products and services, and are managed separately because they require different technology and marketing strategies. For each of the strategic business units, the Chairman of the Management Board reviews internal management reports on at least a quarterly basis. The following summary describes the operations in each of the reportable segments:

- Corporate business comprises corporate lending, overdraft lending, factoring, financial and operating leasing, letters of credit, guarantees, corporate deposit services, settlements and money transfers
- Retail banking comprises retail demand and term deposit services; retail lending, including cashloans, car loans and mortgages, money transfers and private banking services; banking card products, settlements and money transfers
- Treasury comprises interbank lending and borrowings from banks, securities trading and brokerage in securities, repo transactions, foreign exchange services, issuance of domestic bonds and promissory notes
- Cash operations comprises all operations connected with cash, cash handling, calculation and transportation.

Information regarding the results of each reportable segment is included below. Performance is measured based on segment profit before income tax, which is calculated based on consolidated financial information prepared in accordance with IFRS, as included in the internal management reports that are reviewed by the Chairman of the Management Board. Segment profit is used to measure performance as management believes that such information is the most relevant in evaluating the results of certain segments relative to others who operate within these industries. Inter-segment pricing is determined on an arm's length basis.

(in millions of Russian Roubles unless otherwise stated)

The segment breakdown of assets and liabilities is set out below:

	31 December 2018	31 December 2017
ASSETS		
Corporate banking	632 583	695 723
Retail banking	94 830	86 294
Treasury	1 387 225	1 071 712
Cash operations	23 088	24 863
Unallocated assets	8 201	9 599
Total assets	**2 145 927**	**1 888 191**
LIABILITIES		
Corporate banking	903 244	653 110
Retail banking	376 710	294 736
Treasury	658 619	748 892
Cash operations	6 161	5 525
Unallocated liabilities	10 020	8 339
Total liabilities	**1 954 754**	**1 710 602**

Segment information for the main reportable segments for the year ended 31 December 2018 is set below:

	Corporate banking	Retail banking	Treasury	Cash operations	Unallocated	Total
External interest income	55 132	13 814	68 901	86	-	137 933
Fee and commission income	4 344	6 302	635	4 548	-	15 829
Net loss on other financial instruments at fair value through profit or loss	-	-	(189)	-	-	(189)
Net loss from sale and redemption of financial assets at FVOCI	-	-	(251)	-	-	(251)
Net foreign exchange gains	709	-	2 014	-	-	2 723
Other operating income (expenses), net	2 092	257	1 794	(59)	-	4 084
(Expenses) revenue from other segments	(5 719)	15 922	(11 170)	967	-	-
Revenue	**56 558**	**36 295**	**61 734**	**5 542**	**-**	**160 129**
Charge for credit loss on debt financial assets	(366)	(1 265)	(590)	-	-	(2 221)
Interest expense	(28 016)	(20 934)	(40 565)	(3)	-	(89 518)
Fee and commission expense	(3)	(2 963)	(502)	(15)	-	(3 483)
Net loss on loans to customers at fair value through profit or loss	(5 611)	-	-	-	-	(5 611)
Impairment (losses) recoveries on other non-financial assets, credit (losses) recoveries on other financial assets and credit related commitments and other provisions	(2 591)	(86)	(132)	(86)	-	(2 895)
General administrative and other expenses	(2 865)	(8 854)	(1 127)	(5 312)	(3 174)	(21 332)
Expense	**(39 452)**	**(34 102)**	**(42 916)**	**(5 416)**	**(3 174)**	**(125 060)**
Segment result	**17 106**	**2 193**	**18 818**	**126**	**(3 174)**	**35 069**

(in millions of Russian Roubles unless otherwise stated)

Segment information for the main reportable segments for the year ended 31 December 2017 is set below:

	Corporate business	Retail banking	Treasury	Cash operations	Unallocated	Total
External interest income	66 283	16 095	44 523	58	-	126 959
Fee and commission income	4 288	6 067	1 027	4 128	-	15 510
Net gain on securities	-	-	1 114	-	-	1 114
Net foreign exchange gains	-	-	2 701	-	-	2 701
Other operating income (expenses), net	3 449	88	(1 382)	(38)	-	2 117
(Expenses) revenue from other segments	(10 779)	11 482	(1 499)	796	-	-
Revenue	**63 241**	**33 732**	**46 484**	**4 944**	**-**	**148 401**
Impairment losses on Loans	(14 847)	(3 750)	-	-	-	(18 597)
Interest expense	(23 491)	(19 842)	(38 346)	-	-	(81 679)
Fee and commission expense	(13)	(2 508)	(459)	(22)	-	(3 002)
General administrative and other expenses	(2 784)	(5 596)	(432)	(4 404)	(5 090)	(18 306)
Expense	**(41 135)**	**(31 696)**	**(39 237)**	**(4 426)**	**(5 090)**	**(121 584)**
Segment result	**22 106**	**2 036**	**7 247**	**518**	**(5 090)**	**26 817**

Information about geographical areas

The majority of revenues from external customers relate to residents of the Russian Federation. There are no external customers (groups of related customers) with individual income from operations which exceed 10% of total income from operations. The majority of non-current assets are located in the Russian Federation.

30 Risk management, corporate governance and internal control

Corporate governance framework

The Bank is established as an public joint-stock company in accordance with Russian law. The supreme governing body of the Bank is the general shareholders' meeting that is called for annual or extraordinary meetings. The general shareholders' meeting makes strategic decisions on the Bank's operations.

The general shareholders' meeting elects the Supervisory Board. The Supervisory Board is responsible for overall governance of the Bank's activities.

Russian legislation and the charter of the Bank establish decisions that are exclusively approved by the general shareholders' meeting and that are approved by the Supervisory Board.

As at 31 December 2018, the Supervisory Board includes:

- William F. Owens – Chairman

Members:

- Roman I. Avdeev
- Andrew S. Gazitua
- Thomas G. Grasse
- Vladimir A. Chubar

- Sergey Y. Menzhinskiy
- Alexey A. Stepanenko
- Lord Peter H. Dursbery
- Andreas Klingen
- Ilkka S. Salonen.

During 2018, there were no changes in the Supervisory Board.

General activities of the Bank are managed by the sole executive body of the Bank (Chairman of the Management Board) and collective executive body of the Bank (Management Board). The Supervisory Board meeting elects the Chairman of the Management Board. The executive bodies are responsible for implementation of decisions of the general shareholders' meeting and the Supervisory Board. Executive bodies report to the Supervisory Board and to the general shareholders' meeting.

As at 31 December 2018, the Management Board includes:

- Vladimir A. Chubar – Chairman of the Management Board
- Pavel B. Shevchuk – First Deputy Chairman of the Management Board
- Mikhail V. Polunin – First Deputy Chairman of the Management Board
- Kamil R. Yusupov – Deputy Chairman of the Management Board
- Alexey V. Kosyakov – Deputy Chairman of the Management Board
- Alexey A. Stepanenko – Deputy Chairman of the Management Board
- Svetlana V. Sass – Chief Accountant, Member of the Management Board
- Elena V. Shved – Director of the Finance Department, Member of the Management Board
- Anton O. Viritchev – Head of the Risk Management, Member of the Management Board
- Oleg A. Borunov – Deputy Chairman of the Management Board
- Alexander N. Kaznacheev – Deputy Chairman of the Management Board

During the year ended 31 December 2018 the following changes occurred in the composition of the Management Board:

- Mikhail V. Polunin – new member
- Pavel B. Shevchuk – new member
- Kamil R. Yusupov – new member
- Andrey A. Kryukov – resigned
- Dmitry A. Eremin – resigned
- Yury A. Ubeev – resigned

Internal control policies and procedures

The Supervisory Board and the Management Board have responsibility for the development, implementation and maintenance of internal controls in the Bank that are commensurate with the scale and nature of operations.

The purpose of internal controls is to ensure:

- proper and comprehensive risk assessment and management;
- proper business and accounting and financial reporting functions, including proper authorization, processing and recording of transactions;
- completeness, accuracy and timeliness of accounting records, managerial information, regulatory reports, etc.;
- reliability of IT-systems, data and systems integrity and protection;
- prevention of fraudulent or illegal activities, including misappropriation of assets;

- compliance with laws and regulations.

Management is responsible for identifying and assessing risks, designing controls and monitoring their effectiveness. Management monitors the effectiveness of internal controls and periodically implements additional controls or modifies existing controls as considered necessary.

The Group developed a system of standards, policies and procedures to ensure effective operations and compliance with relevant legal and regulatory requirements, including the following areas:

- requirements for appropriate segregation of duties, including the independent authorization of transactions
- requirements for the recording, reconciliation and monitoring of transactions
- compliance with regulatory and other legal requirements
- documentating of controls and procedures
- requirements for the periodic assessment of operational risks, and the adequacy of controls and procedures to address the risks identified
- requirements for the reporting of operational losses and proposed remedial action
- development of contingency plans
- training and professional development
- ethical and business standards, and
- risk mitigation, including insurance where this is effective.

In 2014 new requirements for the organisation of internal control system in credit organisations came into force. The new version of Provision of the Central bank of Russian Federation dated 16 December 2003 No. 242-P '*On the Organisation of Internal Control in Credit Organisations and Banking Groups'* sets out the specific requirements for the internal audit service and the internal control service (the compliance service).

The main functions of the Internal Audit Service include the following:

- audit and efficiency assessment of the system of internal control as a whole, fulfillment of the decisions of key management structures
- audit of efficiency of methodology of assessment of banking risks and risk management procedures, regulated by internal documents in the Bank (methods, programmes, rules and procedures for banking operations and transactions, and for the management of banking risks)
- audit of reliability of internal control system over automated information systems
- audit and testing of fairness, completeness and timeliness of accounting and reporting function and the reliability (including the trustworthiness, fullness and objectivity) of the collection and submission of financial information
- audit of applicable methods of safekeeping of the Bank's property
- assessment of economic reasonability and efficiency of operations and other deals
- audit of internal control processes and procedures
- audit of the internal control service and the risk management service.

The Internal Control Service conducts compliance activities focused primarily on regulatory risks faced by the Group.

The main functions of the Internal Control (Compliance) Service include the following:

- identification of compliance risks and regulatory risks
- monitoring of events related to regulatory risk, including probability of occurrence and quantitative assessment of its' consequences
- monitoring of regulatory risk
- preparation of recommendations on regulatory risk management
- coordination and participation in design of measures to decrease regulatory risk
- monitoring of efficiency of regulatory risk management
- participation in preparation of internal documents on regulatory risk management, anti-corruption, compliance with corporate behaviour rules, code of professional ethics and minimisation of conflicts of interest
- analysis of dynamics of clients' complaints
- analysis of economic reasonableness of agreements with suppliers
- participation in interaction with authorities, self-organised organisations, associations and financial market participants.

Compliance with Group standards is supported by a program of periodic reviews undertaken by the Internal Audit Service. The Internal Audit Service is independent from management and reports directly to the Supervisory Board. The results of the Internal Audit Service reviews are discussed with relevant business process managers, with summaries submitted to the Audit Committee and Supervisory Board and senior management of the Group.

Russian legislation, including Federal Law dated 2 December 1990 No. 395-1 '*On Banks and Banking Activity'*, Direction of the CBR dated 1 April 2014 No. 3223-U '*On Requirement to Head of Risk Management Service, Head of Internal Control Service, Head of Internal Audit Service of the Credit Organisation'*, establish the professional qualifications, business reputation and other requirements for members of the Supervisory Board, Management Board, Heads of the Internal Audit Service, Internal Control Service and Risk Management Service and other key management personnel. All members of the Bank's Risks Division meet these requirements.

Management believes that the Bank complies with the CBR requirements related to risk management and internal control systems, including requirements related to the Internal Audit and Control function, and that risk management and internal control systems are appropriate for the scale, nature and complexity of operations.

Risk management policies and procedures

Management of risk is fundamental to the business of banking and forms an essential element of the Group's operations. The major (significant) risks faced by the Group are those related to market risk, credit risk, liquidity risk, and operational, legal and reputational risks.

Credit risk

Credit risk is the risk of financial loss occurring as a result of default by a borrower or counterparty on their obligation to the Group. The Group has policies and procedures for the management of credit exposures (both for recognised and unrecognised exposures), including guidelines to limit portfolio concentration and the establishment of a Credit Committee, which actively monitors credit risk. The credit policy is reviewed and approved by the Management Board.

The credit policy establishes:

- procedures for review and approval of credit applications

(in millions of Russian Roubles unless otherwise stated)

- methodology for the credit assessment of borrowers (corporate and individuals)
- methodology for the credit assessment of counterparties, issuers and insurance companies
- methodology for the evaluation of collateral
- credit documentation requirements
- procedures for the ongoing monitoring of loans and other credit exposures.

Retail credit applications are reviewed by the Retail Lending Division through the use of scoring models and procedures to evaluate borrowers' credit worthiness developed together with the Risk Division.

Apart from individual customer analysis, the credit portfolio is assessed by the Risk Division with regard to credit concentration and market risks.

The maximum exposure to credit risk is generally reflected in the carrying amounts of financial assets on the consolidated statement of financial position. The impact of possible netting of assets and liabilities to reduce potential credit exposure is not significant.

The maximum exposure to credit risk in relation to assets recognised at 31 December 2018 and 31 December 2017 is as follows:

	31 December 2018	**31 December 2017**
ASSETS		
Cash and cash equivalents excluding cash on hand	1 144 124	914 301
Obligatory reserves with the Central bank of the Russian Federation	13 065	8 884
Due from credit and other financial institutions	13 183	16 369
Trading financial assets	15 665	117 282
Available-for-sale securities	-	24 946
Investment financial assets	214 481	-
Loans to customers	709 045	768 676
Other financial assets	2 883	1 500
Total maximum exposure to credit risk on statement of financial position	**2 112 446**	**1 851 958**

For the analysis of concentration of credit risk in respect of loans to customers refer to Note 14.

The maximum exposure to credit risk in relation to guarantees and commitments at the reporting date is presented in Note 23.

Guarantees and standby letters of credit, which represent irrevocable assurances that the Group will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. Documentary and commercial letters of credit, which are written undertakings by the Group on behalf of a customer authorising a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions, can be covered by the funds deposited by customers and therefore bear limited credit risk.

With respect to undrawn loan commitments the Group is potentially exposed to loss in an amount equal to the total amount of such commitments. However, the likely amount of loss is less than that, since most commitments are contingent upon certain conditions set out in the loan agreements.

In accordance with the requirements of the CBR, the Bank also calculates on a daily basis mandatory maximum risk exposure ratio per borrower or group of related borrowers (N6), which regulates the Bank's credit risk in respect of a borrower or group of related borrowers and sets the maximum ratio of the total liabilities of a borrower (borrowers within a group of related borrowers) owed to the Bank, to the Bank's own funds (capital). As at 31 December 2018 and 31 December 2017, the maximum level of

N6 ratio set by the CBR was 25%. The N6 ratio calculated by the Bank was in compliance with limits set by the CBR as at 31 December 2018 and 31 December 2017.

The Bank's management is responsible for the compliance of the banking group, wherein the Bank is the parent credit institution, with the requirements of the CBR in respect of mandatory ratios, including the banking group's maximum risk exposure ratio per borrower or group of related borrowers (N21); the banking group's maximum risk exposure to large credit risks ratio (N22).

N21 ratio regulates the credit risk of the banking group, wherein the Bank is the parent credit institution, in respect of a borrower or group of related borrowers and sets the maximum ratio of the banking group's total credit claims (excluding unconsolidated participants of the banking group) to the borrower or group of related borrowers to the banking group's own funds (capital).

N22 ratio regulates the total exposure to large credit risks of the banking group, wherein the Bank is the parent credit institution, and sets the maximum ratio of the banking group's total exposure to large credit risks (excluding unconsolidated participants of the banking group) to the banking group's own funds (capital).

The structure of the banking group, wherein the Bank is the parent credit institution, is determined in accordance with the requirements of the Provision of the CBR dated 3 December 2016 No. 509-P '*Calculation of Own Funds (Capital), Mandatory Ratios and Open Currency Position Limits for Banking Groups'* and may differ from the Group structure determined in accordance with IFRS requirements.

The Bank was in compliance with the mandatory ratios in respect of the banking group's credit risk as at 31 December 2018 and 31 December 2017.

Offsetting financial assets and financial liabilities

The disclosures set out in the tables below include financial assets and financial liabilities that:

- are offset in the Group's consolidated statement of financial position or
- are subject to an enforceable master netting arrangement or similar agreement that covers similar financial instruments, irrespective of whether they are offset in the statement of financial position.

Similar agreements include derivative clearing agreements, global master repurchase agreements. Similar financial instruments include derivatives, sales and repurchase agreements, and reverse sale and repurchase agreements.

The Group's derivative transactions that are not transacted on an exchange are entered into under International Derivative Swaps and Dealers Association (ISDA) Master Netting Agreements. In general, under such agreements the amounts owed by each counterparty that are due on a single day in respect of transactions outstanding in the same currency under the agreement are aggregated into a single net amount payable by one party to the other. In certain circumstances, for example when a credit event such as a default occurs, all outstanding transactions under the agreement are terminated, the termination value is assessed, and only a single net amount is due or payable in settlement transactions.

Sale and repurchase, reverse sale and repurchase transactions are covered by master agreements with netting terms similar to those of ISDA Master Netting Agreements.

These ISDA and similar master netting arrangements do not meet the offsetting criteria in the consolidated statement of financial position. This is because they create a right of set-off of recognised amounts that is enforceable only following an event of default, insolvency or bankruptcy of the Group or the counterparties. In addition, the Group and its counterparties do not intend to settle on a net basis or to realize the assets and settle the liabilities simultaneously.

The Group receives and accepts collateral in the form of cash and marketable securities in respect of sale and repurchase, and reverse sale and repurchase agreements.

(in millions of Russian Roubles unless otherwise stated)

Such collateral is subject to the standard industry terms of the ISDA Credit Support Annex. This means that securities received/given as collateral can be pledged or sold during the term of the transaction, but must be returned on maturity of the transaction. The terms also give each counterparty the right to terminate the related transactions upon the counterparty's failure to post collateral.

The table below shows financial assets and financial liabilities subject to offsetting, enforceable master netting arrangements and similar arrangements as at 31 December 2018:

Types of financial assets/liabilities	**Gross amount of recognised financial assets/liabilities**	**Gross amount of recognised financial liabilities/assets offset in the consolidated statement of financial position**	**Gross amount of financial assets/liabilities presented in the consolidated statement of financial position**	**Related amounts subject to offset under specific conditions**		
				Financial instruments	**Cash collateral received**	**Net amount**
Reverse sale and repurchase	1 066 732	-	1 066 732	1 066 732	-	-
Total financial assets	**1 066 732**	-	**1 066 732**	**1 066 732**	-	-
Sale and repurchase	518 024	-	518 024	518 024	-	-
Total financial liabilities	**518 024**	-	**518 024**	**518 024**	-	-

The table below shows financial assets and financial liabilities subject to offsetting, enforceable master netting arrangements and similar arrangements as at 31 December 2017:

Types of financial assets/liabilities	**Gross amounts of recognised financial assets/liabilities**	**Gross amount of recognised financial liabilities/assets offset in the consolidated statement of financial position**	**Net amount of financial assets/liabilities presented in the consolidated statement of financial position**	**Related amounts subject to offset under specific conditions**		
				Financial instruments	**Cash collateral received**	**Net amount**
Reverse sale and repurchase	801 924	-	801 924	801 924	-	-
Total financial assets	**801 924**	-	**801 924**	**801 924**	-	-
Sale and repurchase	560 552	-	560 552	560 552	-	-
Total financial liabilities	**560 552**	-	**560 552**	**560 552**	-	-

The gross amounts of financial assets and financial liabilities and their net amounts as presented in the consolidated statement of financial position that are disclosed in the above tables are measured in the consolidated statement of financial position on the following basis:

- assets and liabilities resulting from sale and repurchase agreements, reverse sale and repurchase agreements – amortised cost.

The table below reconciles the "Net amounts of financial assets and financial liabilities presented in the consolidated statement of financial position", as set out above, to the line items presented in the consolidated statement of financial position as at 31 December 2018.

(in millions of Russian Roubles unless otherwise stated)

Types of financial assets/liabilities	Gross amounts of recognised financial asset/liability	Line item in the consolidated statement of financial position	Gross amount in the consolidated statement of financial position	Financial assets/liabilities not in the scope of offsetting disclosure	Note
Reverse sale and repurchase agreements	1 058 970	Cash and cash equivalents	1 164 077	105 107	11
	7 762	Deposits in credit and other financial institutions	13 318	5 556	12
Sale and repurchase agreements	487 959	Due to credit institutions	552 930	64 971	18
	30 065	Due to customers	1 272 175	1 242 110	19

The table below reconciles the "Net amounts of financial assets and financial liabilities presented in the consolidated statement of financial position", as set out above, to the line items presented in the consolidated statement of financial position as at 31 December 2017.

Types of financial assets/liabilities	Gross amounts of recognised financial asset/liability	Line item in the consolidated statement of financial position	Gross amount in the consolidated statement of financial position	Financial assets/liabilities not in the scope of offsetting disclosure	Note
Reverse sale and repurchase agreements	793 501	Cash and cash equivalents	934 033	140 532	11
	8 423	Deposits in credit and other financial institutions	16 369	7 946	12
Sale and repurchase agreements	534 452	Due to credit institutions	639 861	105 409	18
	26 100	Due to customers	941 724	915 624	19

Operational risk

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

The Group is exposed to several types of operational risk, including unauthorised transactions by employees, operational errors by employees such as clerical or record keeping errors, errors resulting from faulty computer or telecommunications systems and the risk that the Group will be used for money laundering and financing of terrorist activities.

The Group's Operational Risk Management Policy is based on Russian statutory requirements, recommendations of the CBR and the Basel Committee on Banking Supervision, and internationally recognised principles. The Group gathers data on operational risk occurrences and monitors key risk indicators, and organizational units carry out self-assessment of risk and subsequently provide operational risk mapping across the Group.

The Group also seeks to manage its operational risks by recruiting qualified staff, provides training, regularly updating operational procedures, monitoring the security of its IT systems and ensuring that its infrastructure systems are robust.

The Group established an Operational Risk Unit as a part of the Internal Control Division. The Operational Risk Unit determines policies and procedures in the area of operational risks.

The Operational Risk Unit collects information in relation to the circumstances leading to losses and uses this information for necessary corrections of processes and control tools. The Operational Risk Unit reports to the Head of the Internal Control Service on important developments and issues. The Head of the Internal Control Service reports directly to the Chairman of the Management Board.

(in millions of Russian Roubles unless otherwise stated)

Liquidity risk

Liquidity risk is defined as the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The Group is exposed to daily calls on its available cash resources from overnight deposits, current deposits, maturing deposits, loan draw downs and guarantees. The Group maintains liquidity management with the objective of ensuring that funds will be available at all times to honor all cash flow obligations as they become due.

The Asset and Liability Management Committee (ALCO) sets limits on the minimum proportion of maturing funds available to cover such cash outflows and on the minimum level of interbank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand.

The Group calculates liquidity ratios on a daily basis in accordance with the requirements of the CBR. These ratios are:

i) instant liquidity ratio (N2), which is calculated as the ratio of highly-liquid assets to liabilities payable on demand;

ii) current liquidity ratio (N3), which is calculated as the ratio of liquid assets to liabilities maturing within 30 calendar days;

iii) long-term liquidity ratio (N4), which is calculated as the ratio of assets maturing after one year to regulatory capital and liabilities maturing after one year.

The Group was in compliance with these ratios as at 31 December 2018 and 31 December 2017.

The following tables as at 31 December 2018 and 31 December 2017 show the undiscounted cash flows from financial liabilities on the basis of their contractual maturity. Debt securities issued are shown in accordance with their early redemption dates. These expected cash flows can vary significantly from the actual future cash flows. Foreign currency payments are translated using the spot exchange rate at the reporting date.

31 December 2018	Less than 1 month	1 to 6 months	6 months to 1 year	Over 1 year	Total	Carrying value
LIABILITIES						
Due to credit institutions	424 158	129 290	732	1 523	**555 703**	**552 930**
Due to customers	375 757	436 478	238 859	373 880	**1 424 974**	**1 272 175**
Debt securities issued	221	2 858	7 868	115 101	**126 048**	**105 305**
Other financial liabilities	8 132	2 029	1 581	176	**11 918**	**11 918**
Total contractual future payments for financial obligations	**808 268**	**570 655**	**249 040**	**490 680**	**2 118 643**	**1 942 328**
Guarantees and letters of credit	152 507				**152 507**	
Credit related commitments	34 027				**34 027**	

(in millions of Russian Roubles unless otherwise stated)

31 December 2017	**Less than 1 month**	**1 to 6 months**	**6 months to 1 year**	**Over 1 year**	**Total**	**Carrying value**
LIABILITIES						
Due to credit institutions	472 414	151 178	17 896	2 096	**643 584**	**639 861**
Due to customers	221 775	444 686	104 270	295 386	**1 066 117**	**941 724**
Debt securities issued	4 333	26 068	15 297	92 060	**137 758**	**116 280**
Other financial liabilities	2 127	754	443	798	**4 122**	**4 122**
Total contractual future payments for financial obligations	**700 649**	**622 686**	**137 906**	**390 340**	**1 851 581**	**1 701 987**
Guarantees and letters of credit	89 475				**89 475**	
Credit related commitments	25 436				**25 436**	

In accordance with Russian legislation, individuals can withdraw their term deposits at any time, losing in most of the cases the accrued interest. Management believes term deposits from individuals to be a stable source of funding based on the past experience, thus classifying them in accordance with their stated maturity dates. The amount of such deposits, by each time band, is as follows:

	31 December 2018	**31 December 2017**
Demand and less than 1 month	35 703	28 981
From 1 to 6 months	171 484	155 342
From 6 to 12 months	115 711	88 719
More than 1 year	32 379	3 250
	355 277	**276 292**

In accordance with terms of issuance of bonds the holders are entitled to demand early redemption of bonds at their nominal value at certain dates. Management believes based on the past experience that it can manage amounts that are claimed for early redemption by changing coupon rates on bonds, thus classifying bonds in accordance with their stated final maturity dates. Maturity based on early redemption dates as at 31 December 2018 and 31 December 2017 is shown in the tables below:

31 December 2018	**Less than 1 month**	**1 to 6 months**	**6 months to 1 year**	**1 to 3 years**	**3 to 5 years**	**Over 5 years**	**Total**
Debt securities issued	-	-	4 991	33 701	66 613	-	**105 305**

31 December 2017	**Less than 1 month**	**1 to 6 months**	**6 months to 1 year**	**1 to 3 years**	**3 to 5 years**	**Over 5 years**	**Total**
Debt securities issued	4 105	23 060	12 280	12 753	60 856	3 226	**116 280**

The following tables provide an analysis, by expected maturities, of amounts recognised in the consolidated statement of financial position.

Securities included in trading financial assets and investment financial assets that qualify as collateral for borrowing from the Central bank of the Russian Federation are shown in the category “Less than 1 month” as management believes they are liquid assets which can be sold quickly or pledged into a repo transaction in response to liquidity needs, if necessary. Liquid securities included in the Lombard list of the Central bank of the Russian Federation pledged as collateral are presented in accordance with maturity of related repo transactions.

As at 31 December 2018 and 31 December 2017 the contractual maturities of all instruments included in trading financial assets and investment financial assets were as follows:

(in millions of Russian Roubles unless otherwise stated)

31 December 2018	**Less than 1 month**	**1 to 6 months**	**6 months to 1 year**	**1 to 3 years**	**3 to 5 years**	**Over 5 years**	**No maturity**	**Total**
Trading financial asests	1 468	3 009	729	1 275	3 443	5 741	-	**15 665**
Investment financial asests	602	10 814	2 718	25 827	39 969	134 431	120	**214 481**

31 December 2017	**Less than 1 month**	**1 to 6 months**	**6 months to 1 year**	**1 to 3 years**	**3 to 5 years**	**Over 5 years**	**No maturity**	**Total**
Financial instruments at fair value through profit or loss	4 589	5 738	10 632	4 051	53 672	38 600	-	**117 282**
Available-for-sale securities	2 354	6 927	1 510	4 195	9 408	552	120	**25 066**

(in millions of Russian Roubles unless otherwise stated)

31 December 2018	Less than 1 month	1 to 3 months	3 to 6 months	6 to 9 months	9 months to 1 year	1 to 2 years	2 to 3 years	3 to 5 years	Over 5 years	No maturity	Overdue	Total
ASSETS												
Cash and cash equivalents	1 162 779	-	-	-	-	-	-	-	-	-	-	**1 162 779**
Obligatory reserves with the CBR	-	-	-	-	-	-	-	-	-	13 065	-	**13 065**
Due from credit and other financial institutions	3 433	3 679	-	4 030	2 041	-	-	-	-	-	-	**13 183**
Trading financial assets	7 091	13	2 823	728	-	230	784	2 407	1 589	-	-	**15 665**
Loans to customers	47 420	44 272	121 229	75 420	40 032	124 186	56 901	99 371	92 838	-	7 376	**709 045**
Investment financial assets	166 848	524	491	330	1 860	1 715	11 273	20 463	10 857	120	-	**214 481**
Investments in associates	-	-	-	-	-	-	-	-	-	2 275	-	**2 275**
Property and equipment	-	-	-	-	-	-	-	-	-	7 182	-	**7 182**
Deferred tax assets	-	-	-	-	-	-	-	-	-	113	-	**113**
Other assets	581	523	827	725	726	6	2 319	240	-	2 192	-	**8 139**
	1 388 152	**49 011**	**125 370**	**81 233**	**44 659**	**126 137**	**71 277**	**122 481**	**105 284**	**24 947**	**7 376**	**2 145 927**
LIABILITIES												
Due to credit institutions	423 502	89 632	38 068	-	704	114	646	264	-	-	-	**552 930**
Due to customers	374 578	329 450	102 403	143 027	87 037	38 785	39 078	114 246	43 571	-	-	**1 272 175**
Debt securities issued	-	-	-	4 991	-	2 882	25 757	26 352	45 323	-	-	**105 305**
Deferred tax liabilities	-	-	-	-	-	-	-	-	-	4 248	-	**4 248**
Other liabilities	9 013	1 099	3 310	2 216	1 715	2 401	251	88	3	-	-	**20 096**
	807 093	**420 181**	**143 781**	**150 234**	**89 456**	**44 182**	**65 732**	**140 950**	**88 897**	**4 248**	**-**	**1 954 754**
Net position	**581 059**	**(371 170)**	**(18 411)**	**(69 001)**	**(44 797)**	**81 955**	**5 545**	**(18 469)**	**16 387**	**20 699**	**7 376**	**191 173**
Cumulative position	**581 059**	**209 889**	**191 478**	**122 477**	**77 680**	**159 635**	**165 180**	**146 711**	**163 098**	**183 797**	**191 173**	

Management of the Group in its liquidity forecasts estimates that the liquidity gaps in the table above will be sufficiently covered by planned prolongations and planned funding raised from usual sources of financing and by ability to sell quickly or pledge into a repo transaction securities received under reverse repurchase agreements, which are liquid assets, as well as by the undrawn credit line facilities from the CBR and other financial institutions.

(in millions of Russian Roubles unless otherwise stated)

31 December 2017	Less than 1 month	1 to 3 months	3 to 6 months	6 to 9 months	9 months to 1 year	1 to 2 years	2 to 3 years	3 to 5 years	Over 5 years	No maturity	Overdue	Total
ASSETS												
Cash and cash equivalents	934 033	-	-	-	-	-	-	-	-	-	-	**934 033**
Obligatory reserves with the CBR	-	-	-	-	-	-	-	-	-	8 884	-	**8 884**
Due from credit and other financial institutions	4	4 450	6 340	2 125	-	3 450	-	-	-	-	-	**16 369**
Financial instruments at fair value through profit or loss	77 040	1 772	2 044	-	-	-	-	36 426	-	-	-	**117 282**
Available-for-sale securities	7 546	20	5 388	-	914	1 911	284	8 331	552	120	-	**25 066**
Loans to customers	123 170	80 102	51 699	53 163	34 946	66 640	102 236	203 359	42 167	-	11 194	**768 676**
Property and equipment	-	-	-	-	-	-	-	-	-	7 866	-	**7 866**
Deferred tax assets	-	-	-	-	-	-	-	-	-	281	-	**281**
Other assets	350	1 124	850	524	320	235	2 201	282	-	3 848	-	**9 734**
	1 142 143	**87 468**	**66 321**	**55 812**	**36 180**	**72 236**	**104 721**	**248 398**	**42 719**	**20 999**	**11 194**	**1 888 191**
LIABILITIES												
Due to credit institutions	471 111	111 281	38 298	95	17 327	138	303	1 197	111	-	-	**639 861**
Due to customers	221 490	143 702	294 734	58 795	40 854	17 784	455	120 191	43 719	-	-	**941 724**
Debt securities issued	-	20 033	3 026	2 087	10 193	8 920	2 880	25 838	43 303	-	-	**116 280**
Deferred tax liabilities	-	-	-	-	-	-	-	-	-	3 779	-	**3 779**
Other liabilities	2 687	1 125	694	808	608	361	238	-	2 437	-	-	**8 958**
	695 288	**276 141**	**336 752**	**61 785**	**68 982**	**27 203**	**3 876**	**147 226**	**89 570**	**3 779**	**-**	**1 710 602**
Net position	**446 855**	**(188 673)**	**(270 431)**	**(5 973)**	**(32 802)**	**45 033**	**100 845**	**101 172**	**(46 851)**	**17 220**	**11 194**	**177 589**
Cumulative position	**446 855**	**258 182**	**(12 249)**	**(18 222)**	**(51 024)**	**(5 991)**	**94 854**	**196 026**	**149 175**	**166 395**	**177 589**	

(in millions of Russian Roubles unless otherwise stated)

Market risk

Market risk is the risk that movements in market prices, including foreign exchange rates, interest rates, credit spreads and equity prices will affect income or the value of portfolios. Market risk comprises currency risk, interest rate risk and other price risks. Market risk arises from open positions in interest rate currency and equity financial instruments which are exposed to general and specific market movements and changes in the level of volatility of market prices.

The objective of market risk management is to manage and control market risk exposures within acceptable parameters whilst optimizing the return on risk.

Overall authority for market risk is vested in the ALCO which is chaired by the Chairman of the Management Board. Market risk limits are approved by the ALCO based on recommendations of the Risk Division's Financial Risk Management Department.

The Group manages its market risk by setting open position limits in relation to financial instruments, interest rate maturity and currency positions and stop-loss limits. Limits and positions are monitored on a regular basis and reviewed and approved by the Management Board and/or the ALCO.

In addition, the Group uses a wide range of stress tests to model the financial impact of a variety of exceptional market scenarios on individual trading portfolios and the overall position. Stress tests provide an indication of the potential size of losses that could arise in extreme conditions.

Interest rate risk is also managed by monitoring the interest rate gap and is supplemented by monitoring the sensitivity of net interest margin to various standard and non-standard interest rate scenarios.

Interest rate risk

Interest rate risk is the risk that movements in interest rates will affect income or the value of financial instruments.

The Group is exposed to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes but may also reduce or create losses in the event that unexpected movements occur.

Interest rate risk arises when the actual or forecasted assets of a given maturity period are either greater or less than the actual or forecasted liabilities in that maturity period.

The table below summarises the exposure to interest rate risks. The table presents the aggregated amounts of financial assets and liabilities at carrying amounts, categorised by the earlier of contractual interest repricing or maturity dates.

	Less than 1 month	1 to 6 months	6 months to 1 year	Over 1 year	Overdue	Total
31 December 2018						
Interest-bearing assets	1 124 310	180 743	124 241	596 848	7 376	2 033 518
Interest-bearing liabilities	717 850	559 553	235 759	337 018	-	1 850 180
Net interest sensitivity gap as at 31 December 2018	**406 460**	**(378 810)**	**(111 518)**	**259 830**	**7 376**	**183 338**
31 December 2017						
Interest-bearing assets	954 740	151 441	102 375	500 790	11 194	**1 720 540**
Interest-bearing liabilities	696 705	611 076	129 351	260 733	-	**1 697 865**
Net interest sensitivity gap as at 31 December 2017	**258 035**	**(459 635)**	**(26 976)**	**240 057**	**11 194**	**22 675**

(in millions of Russian Roubles unless otherwise stated)

An analysis of sensitivity of profit or loss and equity to changes in market interest rates based on a simplified scenario of a 200 bp symmetrical fall or rise in all yield curves and positions of interest-bearing assets and liabilities existing as at 31 December 2018 and 31 December 2017 is as follows:

	2018		2017	
	Profit or loss	**Equity**	**Profit or loss**	**Equity**
200 bp parallel rise	4 264	4 264	(1 320)	(1 320)
200 bp parallel fall	(4 264)	(4 264)	1 320	1 320

An analysis of sensitivity of profit or loss and equity as a result of changes in the fair value of trading financial assets and investment financial assets due to changes in the interest rates based on positions existing as at 31 December 2018 and 31 December 2017 and a simplified scenario of a 200 bp symmetrical fall or rise in all yield curves is as follows:

	2018		2017	
	Profit or loss	**Equity**	**Profit or loss**	**Equity**
200 bp parallel rise	(749)	(18 449)	(5 791)	(6 534)
200 bp parallel fall	749	18 449	5 791	6 534

Currency risk

The Group has assets and liabilities denominated in several foreign currencies. Foreign currency risk arises when the actual or forecasted assets in a foreign currency are either greater or less than the liabilities in that currency.

An analysis of sensitivity of profit or loss and equity to changes in the foreign currency exchange rates based on positions existing as at 31 December 2018 and 31 December 2017 and a simplified scenario of a 20% change in USD to RUB exchange rates is as follows:

	2018		2017	
	Profit or loss	**Equity**	**Profit or loss**	**Equity**
20% appreciation of USD against RUB	6 709	6 709	9 300	9 300
20% depreciation of USD against RUB	(6 709)	(6 709)	(9 300)	(9 300)

Equity price risk

Price risk is the risk that the value of an equity financial instrument will fluctuate as a result of changes in market prices whether those changes are caused by factors specific to the individual instrument or factors affecting all instruments traded in the market. Price risk arises when the Group takes a long or short position in an equity financial instrument.

Equity price risk is not significant.

(in millions of Russian Roubles unless otherwise stated)

Interest rate analysis

The interest rate policy is reviewed and approved by the ALCO. The average effective interest rates for interest bearing financial instruments are as follows:

	2018			**2017**		
	USD	**RUB**	**Other foreign currencies**	**USD**	**RUB**	**Other foreign currencies**
Interest bearing assets						
Cash and cash equivalents	3.8%	8.3%	0.1%	4.1%	8.1%	-
Deposits in credit and other financial institutions	6.2%	10.5%	1.8%	5.3%	10.7%	2.7%
Trading financial assets						
– government and municipal bonds	4.0%	9.1%	2.9%	3.5%	8.2%	-
– corporate bonds	7.0%	7.3%	3.0%	4.0%	9.4%	2.0%
Loans to customers	6.3%	11.5%	4.1%	5.9%	12.5%	3.6%
Investment financial assets						
– government and municipal bonds	4.6%	7.5%	0.0%	-	-	-
– corporate bonds	4.4%	6.0%	2.7%	5.6%	9.6%	2.2%
Interest bearing liabilities						
Due to credit institutions						
– term deposits	3.6%	8.0%	0.1%	3.2%	8.4%	1.5%
– syndicated debt	4.7%	-	1.5%	3.8%	-	1.5%
Due to customers						
– term deposits	3.9%	7.4%	0.7%	2.4%	8.0%	1.7%
– subordinated debt	4.9%	8.8%	-	4.9%	8.8%	-
Debt securities issued	6.5%	12.1%	-	7.1%	11.6%	-

Currency analysis

The Group is exposed to effects of fluctuation in the prevailing foreign currency exchange rates on its financial position and cash flows. The Group sets limits on the level of exposure by currencies. These limits also comply with the minimum requirements of the Central bank of the Russian Federation. The exposure of assets and liabilities to foreign currency exchange rate risk is as follows:

(in millions of Russian Roubles unless otherwise stated)

31 December 2018	**USD**	**RUB**	**Other currencies**	**Total**
ASSETS				
Cash and cash equivalents	504 921	654 680	3 178	1 162 779
Obligatory reserves with the CBR	-	13 065	-	13 065
Due from credit and other financial institutions	5 475	4 029	3 679	13 183
Trading financial assets	1 904	12 623	1 138	15 665
Loans to customers	236 051	403 778	69 216	709 045
Investment financial assets	101 301	103 044	10 136	214 481
Investments in associates	-	2 275	-	2 275
Property and equipment	-	7 182	-	7 182
Deferred tax assets	-	113	-	113
Other assets	772	7 351	16	8 139
	850 424	**1 208 140**	**87 363**	**2 145 927**
LIABILITIES				
Due to credit institutions	295 208	235 299	22 423	552 930
Due to customers	525 006	681 525	65 644	1 272 175
Debt securities issued	91 218	14 087	-	105 305
Deferred tax liabilities	-	4 248	-	4 248
Other liabilities	5 083	13 980	1 033	20 096
	916 515	**949 139**	**89 100**	**1 954 754**
Net position before hedging	**(66 091)**	**259 001**	**(1 737)**	**191 173**
Derivative financial instruments	108 021	(110 064)	2 043	-
Net position	**41 930**	**148 937**	**306**	**191 173**

31 December 2017	**USD**	**RUB**	**Other currencies**	**Total**
ASSETS				
Cash and cash equivalents	88 360	842 430	3 243	**934 033**
Obligatory reserves with the CBR	-	8 884	-	**8 884**
Due from credit and other financial institutions	82	8 427	7 860	**16 369**
Financial instruments at fair value through profit or loss	51 773	27 487	38 022	**117 282**
Available-for-sale securities	5 460	19 053	553	**25 066**
Loans to customers	137 255	485 778	145 643	**768 676**
Property and equipment	-	7 866	-	**7 866**
Deferred tax assets	-	281	-	**281**
Other assets	126	9 223	385	**9 734**
	283 056	**1 409 429**	**195 706**	**1 888 191**
LIABILITIES				
Due to credit institutions	260 676	364 332	14 853	**639 861**
Due to customers	192 397	491 214	258 113	**941 724**
Debt securities issued	84 096	32 184	-	**116 280**
Deferred tax liabilities	-	3 779	-	**3 779**
Other liabilities	1 276	6 947	735	**8 958**
	538 445	**898 456**	**273 701**	**1 710 602**
Net position before hedging	**(255 389)**	**510 973**	**(77 995)**	**177 589**
Derivative financial instruments	313 514	(390 663)	77 149	-
Net position	**58 125**	**120 310**	**(846)**	**177 589**

(in millions of Russian Roubles unless otherwise stated)

As at 31 December 2017 and 31 December 2018 the Group's significant open currency position in USD is due to the fact that perpetual debt issued in USD is reflected in equity and is not included in the table above.

Geographical risk

The geographical risk is the risk due to political, economic or social instability in the respective country.

The geographical concentration of major financial assets and liabilities as at 31 December 2018 and 31 December 2017 is disclosed in the table below:

31 December 2018	Russia	OECD	Other non-OECD	Total
ASSETS				
Cash and cash equivalents	1 093 983	19 330	49 466	**1 162 779**
Obligatory reserves with the CBR	13 065	-	-	**13 065**
Due from credit and other financial institutions	4 661	814	7 708	**13 183**
Trading financial assets	12 468	3 140	57	**15 665**
Investment financial assets	170 938	42 773	770	**214 481**
Loans to customers	458 374	127 983	122 688	**709 045**
Investments in associates	2 275	-	-	**2 275**
	1 755 764	**194 040**	**180 689**	**2 130 493**
LIABILITIES				
Due to credit institutions	478 839	48 222	25 869	**552 930**
Due to customers	1 253 324	14 283	4 568	**1 272 175**
Debt securities issued	9 026	96 279	-	**105 305**
	1 741 189	**158 784**	**30 437**	**1 930 410**
Net position	**14 575**	**35 256**	**150 252**	**200 083**

31 December 2017	Russia	OECD	Other non-OECD	Total
ASSETS				
Cash and cash equivalents	901 552	22 395	10 086	**934 033**
Obligatory reserves with the CBR	8 884	-	-	**8 884**
Due from credit and other financial institutions	6 323	3 450	6 596	**16 369**
Financial instruments at fair value through profit or loss	65 744	50 537	1 001	**117 282**
Available-for-sale securities	18 680	5 666	720	**25 066**
Loans to customers	640 752	80 744	47 180	**768 676**
	1 641 935	**162 792**	**65 583**	**1 870 310**
LIABILITIES				
Due to credit institutions	612 513	21 404	5 944	**639 861**
Due to customers	924 678	12 139	4 907	**941 724**
Debt securities issued	27 125	89 155	-	**116 280**
	1 564 316	**122 698**	**10 851**	**1 697 865**
Net position	**77 619**	**40 094**	**54 732**	**172 445**

The majority of non-financial assets and liabilities is located in Russia.

(in millions of Russian Roubles unless otherwise stated)

31 Transfers of financial assets

Transferred financial assets that are not derecognised in their entirety

	Trading financial assets	Investment financial assets
2018		
Carrying amount of assets	2 756	129 779
Carrying amount of associated liabilities	2 276	108 264
2017		
Carrying amount of assets	21 763	1 793
Carrying amount of associated liabilities	18 204	1 448

Securities

The Group has transactions to sell securities under agreements to repurchase and to purchase securities under agreements to resell. Sale and repurchase agreements are transactions in which the Group sells a security and simultaneously agrees to repurchase it (or an asset that is substantially the same) at a fixed price on a future date. A part of securities that serve as collateral under reverse repurchase agreements has been pledged under sale and repurchase agreements by the Group. The securities sold under agreements to repurchase are transferred to a third party and the Group receives cash in exchange. These financial assets may be repledged or resold by counterparties in the absence of any default by the Group, but the counterparty has an obligation to return the securities when the contract matures. The Group has determined that it retains substantially all the risks and rewards related to these securities and therefore has not derecognised them. These securities are presented as “pledged under sale and repurchase agreements” in Notes 13 and 15. The cash received is recognised as a financial liability for the obligation to repay the purchase price for this collateral, and is included in due to credit institutions and due to customers (Notes 18 and 19). Because the Group sells the contractual rights to the cash flows of the securities, it cannot use the transferred assets during the term of the agreement.

These transactions are conducted under terms that are usual and customary to standard lending activities, as well as the requirements determined by exchanges where the Group acts as intermediary.

32 Financial assets and liabilities: fair values and accounting classifications

Accounting classifications and fair values

The table below sets out the carrying amounts and fair values of financial assets and financial liabilities as at 31 December 2018:

(in millions of Russian Roubles unless otherwise stated)

	FVTPL	Amortised cost	FVOCI	Total carrying amount	Fair value
Cash and cash equivalents	-	1 162 779	-	1 162 779	1 162 779
Obligatory reserves with the CBR	-	13 065	-	13 065	13 065
Due from credit and other financial institutions	-	13 183	-	13 183	13 183
Trading financial assets	15 665	-	-	15 665	15 665
Loans to customers	63 383	645 662	-	709 045	717 280
Investment financial assets	120	39 401	174 960	214 481	213 148
Assets held for sale	-	609	-	609	609
Other financial assets	-	2 883	-	2 883	2 883
	79 168	**1 877 582**	**174 960**	**2 131 710**	**2 138 612**
Due to credit institutions	-	552 930	-	552 930	552 930
Due to customers	-	1 272 175	-	1 272 175	1 281 946
Debt securities issued	-	105 305	-	105 305	95 046
Other financial liabilities	6 329	5 589	-	11 918	11 918
	6 329	**1 935 999**	**-**	**1 942 328**	**1 941 840**

The main assumptions used by management to estimate the fair values of financial instruments as at 31 December 2018 are:

- discount rates from 9.9% to 12.8% (roubles) and from 4.0% to 8.2% (foreign currency) are used for discounting future cash flows from corporate loans;
- discount rates from 9.8% to 26.2% (roubles) and from 6.5% to 9.9% (foreign currency) are used for discounting future cash flows from loans to individuals;
- discount rates from 6.0% to 7.3% (roubles) and from 1.7% to 3.3% (foreign currency) are used for discounting future cash flows from corporate deposits;
- discount rates from 5.8% to 6.1% (roubles) and from 1.5% to 2.8% (foreign currency) are used for discounting future cash flows from retail deposits.

The table below sets out the carrying amounts and fair values of financial assets and financial liabilities as at 31 December 2017:

	Fair value through profit or loss	Loans and receivables	Available-for-sale	Other amortised cost	Total carrying amount	Fair value
Cash and cash equivalents	-	934 033	-	-	934 033	934 033
Obligatory reserves with the CBR	-	8 884	-	-	8 884	8 884
Due from credit and other financial institutions	-	16 369	-	-	16 369	16 369
Financial instruments at fair value through profit or loss	117 282	-	-	-	117 282	117 282
Available-for-sale securities	-	-	25 066	-	25 066	25 066
Loans to customers	-	768 676	-	-	768 676	770 867
Other financial assets	-	1 500	-	-	1 500	1 500
	117 282	**1 729 462**	**25 066**	**-**	**1 871 810**	**1 874 001**
Due to credit institutions	-	-	-	639 861	639 861	639 861
Due to customers	36 426	-	-	905 298	941 724	949 607
Debt securities issued	-	-	-	116 280	116 280	115 056
Other financial liabilities	1 551	-	-	2 571	4 122	4 122
	37 977	**-**	**-**	**1 664 010**	**1 701 987**	**1 708 646**

The main assumptions used by management to estimate the fair values of financial instruments as at 31 December 2017 are:

- discount rates from 9.0% to 15.4% (roubles) and from 3.2% to 8.3% (foreign currency) are used for discounting future cash flows from corporate loans;
- discount rates from 10.9% to 26.4% (roubles) and from 9.0% to 10.9% (foreign currency) are used for discounting future cash flows from loans to individuals;
- discount rates from 5.2% to 8.9% (roubles) and from 0.1% to 2.7% (foreign currency) are used for discounting future cash flows from corporate deposits;
- discount rates from 5.5% to 8.5% (roubles) and from 0.9% to 1.4% (foreign currency) are used for discounting future cash flows from retail deposits.

The estimates of fair value are intended to approximate 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. However, given the uncertainties and the use of subjective judgment, the fair value should not be interpreted as being realisable in an immediate sale of the assets or transfer of liabilities.

Fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments, the Group determines fair values using other valuation techniques.

Valuation techniques include net present value and discounted cash flow models, comparison to similar instruments for which market-observable prices exist, Monte Carlo and polynomial-option pricing models and other valuation models. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other premia used in estimating discount rates, bond and equity prices, foreign currency exchange rates, equity and equity index prices and expected price volatilities and correlations. The objective of valuation techniques is to arrive at a fair value determination that reflects the price of the financial instrument at the reporting date that would have been determined by market participants acting at arm’s length.

The Group uses widely recognised valuation models to determine the fair value of common and more simple financial instruments, such as interest rate and currency swaps that use only observable market data and require little management judgment and estimation. Observable prices and model inputs are usually available in the market for listed debt and equity securities, exchange-traded derivatives, and simple over-the-counter derivatives such as interest rate swaps.

There is no active market for loans to customers. The estimation of fair value for loans to customers is based on management’s assumptions.

Fair value hierarchy

The Group measures fair values for financial instruments recorded in the consolidated statement of financial position using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

- Level 1: Quoted market price (unadjusted) in an active market for an identical instrument.
- Level 2: Valuation techniques based on observable inputs, either directly (i.e., as prices) or indirectly (i.e., derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.
- Level 3: Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the

(in millions of Russian Roubles unless otherwise stated)

unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

The following tables show an analysis of financial instruments recorded at fair value and financial instruments recorded at amortised cost for which fair value does not approximate their carrying amount as at 31 December 2018 and 31 December 2017:

31 December 2018	**Level 1**	**Level 2**	**Level 3**	**Total**
Trading financial assets	11 029	4 636	-	**15 665**
Loans to customers	-	-	717 280	**717 280**
Investment financial assets	212 848	120	180	**213 148**
Due to customers	-	1 281 946	-	**1 281 946**
Debt securities issued	95 046	-	-	**95 046**
Other financial liabilities	-	11 918	-	**11 918**

31 December 2017	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial instruments at fair value through profit or loss	72 986	44 296	-	**117 282**
Available-for-sale securities	23 191	1 755	-	**24 946**
Loans to customers	-	-	770 867	**770 867**
Due to customers	-	949 607	-	**949 607**
Debt securities issued	115 056	-	-	**115 056**
Other financial liabilities	-	4 122	-	**4 122**

During the year ended 31 December 2018 there was transfer of assets between Level 1 and Level 3 in amount of RUB 180 million (31 December 2017: no transfers).

A reconciliation of movements in fair value of loans to customers at FVTPL for the year ended 31 December 2018 is as follows:

	31 December 2018
Fair value at 1 January 2018	32 714
Loan issues	39 618
Loan repayments	(12 429)
Interest income recognised	3 397
Changes in fair value measurement	(5 611)
Write-offs	(1 909)
Net foreign exchange gain	7 603
Fair value at 31 December 2018	**63 383**

The table below sets out information about significant unobservable inputs used in the measuring of financial instruments categorised as Level 3 in the fair value hierarchy as at 31 December 2018:

Type of instrument	**Fair values**	**Valuation technique**	**Significant unobservable input**	**Unobservable inputs used**
Loans to customers at FVTPL	63 383	Discounted cash flow from operating activities	Risk-adjusted discount rate	RUB: 8,43% - 33,8% USD: 5,2% - 7,1% EUR: 3,7%

If discount rates differ by plus/minus one percent, fair values of these instruments would be RUB 61 531 million – RUB 64 358 million.

(in millions of Russian Roubles unless otherwise stated)

33 Earnings per share

Basic earnings per share are calculated by dividing profit for the period by the weighted average number of ordinary shares in issue during the period.

Basic earnings per share are calculated as follows:

	2018	2017
Profit for the year	27 224	20 703
Interest paid on perpetual debt securities issued, net of tax	(3 098)	(1 482)
Total profit for the year	24 126	19 221
Weighted average number of ordinary shares in issue	27 079 709 866	24 449 572 880
Basic and diluted earnings per share (in RUB per share)	**0.89**	**0.79**

34 Acquisition and disposal

Disposal of subsidiary

In June 2018, the Group sold 100% share in its subsidiary “MKB-Leasing” Group to a third party for a cash consideration of RUB 1 550 million. The Group recognised gain from disposal of a subsidiary in the amount of RUB 637 million. The financial result of a subsidiary for the period before disposal in amount of RUB 826 million (income) is included in the consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2018.

The disposal of a subsidiary had the following effect on assets and liabilities at the date of disposal as a result of the deconsolidation:

	Recognised amounts on disposal
ASSETS	
Cash and cash equivalents	703
Loans to customers	9 204
- loans to corporate clients	*9 204*
Property and equipment	19
Deferred tax asset	236
Other assets	4 015
LIABILITIES	
Due to credit institutions	9 118
Due to customers	20
- due to corporate customers	*20*
Debt securities issued	3 024
Deferred tax liability	230
Other liabilities	872
Net identifiable liabilities	**913**
Consideration received	1 550
Cash disposed of	(703)
Net cash inflow	**847**

(in millions of Russian Roubles unless otherwise stated)

35 Changes in liabilities arising from financing activities

Changes in liabilities arising from financing activities during the years ended 31 December 2018 and 31 December 2017 are presented as follows:

	Total amount as at 31 December 2017	Cash flow changes arising from financing activities	Non-cash flow changes arising from financing activities	Cash flow changes arising from investing activities	Non-cash flow changes arising from operating activities		Total amount as at 31 December 2018
			The effect of changes in foreign exchange rates	Net cash inflow (outflow) on disposal of subsidiary	The effect of changes in foreign exchange rates	Changes in the amount of accrued interest	
Syndicated loans in Due to credit institutions	**29 487**	(11 076)	3 408	-	19	(39)	**21 799**
Subordinated debt in Due to customers	**39 842**	-	3 561	-	38	130	**43 571**
Bonds in Debt securities issued	**66 649**	(11 305)	9 190	(3 024)	74	(450)	**61 134**
Subordinated bonds in Debt securities issued	**49 631**	(13 362)	7 690	-	79	133	**44 171**
Total	**185 609**	**(35 743)**	**23 849**	**(3 024)**	**210**	**(226)**	**170 675**

	Total amount as at 31 December 2016	Cash flow changes arising from financing activities	Non-cash flow changes arising from financing activities	Non-cash flow changes arising from operating activities		Total amount as at 31 December 2017
			The effect of changes in foreign exchange rates	The effect of changes in foreign exchange rates	Changes in the amount of accrued interest	
Subordinated debt in Due to credit institutions	**623**	(582)	(24)	(2)	(15)	-
Syndicated loans in Deposits by credit institutions	-	28 006	1 232	1	248	**29 487**
Subordinated debt in Due to customers	**18 273**	22 000	(917)	(15)	501	**39 842**
Bonds in Debt securities issued	**95 252**	(25 257)	(2 595)	(5)	(746)	**66 649**
Subordinated bonds in Debt securities issued	**40 806**	10 452	(1 545)	(55)	(27)	**49 631**
Total	**154 954**	**34 619**	**(3 849)**	**(76)**	**(39)**	**185 609**

36 Events subsequent to the reporting date

In January 2019 the Bank paid out the 9th coupon in the amount of RUB 2.4 million or RUB 42.85 per bond on domestic bonds series BO-10. The issue was originally placed on 10 July 2014 with a maturity of 5 years. The nominal value of the issue is RUB 5 billion.

In January 2019 the Bank paid out the 9th coupon in the amount of RUB 387.4 million or RUB 46.13 per bond on domestic bonds series BO-11. The issue was originally placed on 10 July 2014 with a maturity of 5 years. The nominal value of the issue is RUB 15 billion.

In January 2019 the Bank paid out the 1st coupon in the amount of RUB 299.2 million or RUB 59.84 per bond on perpetual subordinated bonds series 15. The issue was originally placed on 24 July 2018. The nominal value of the issue is RUB 5 billion.

In February 2019 the Bank placed senior Loan Participation Notes in the total amount of EUR 500 million at par with a fixed coupon rate of 5.15% p.a. and maturity of 5 years.

The Group made a decision to participate in the tender for acquisition of Asian-Pacific Bank (“APB”). The tender for sale of 99.999999983% of APB’s shares will be conducted by the Fund for Consolidation of the Banking Sector on 14 March 2019.