# CREDIT BANK OF MOSCOW
# (public joint-stock company)

Consolidated Interim Condensed
Financial Statements
for the six-month period
ended 30 June 2019

# Contents

# Independent Auditors' Report on Review of Consolidated Interim Condensed Financial Information

**To the Shareholders and Supervisory Board**

CREDIT BANK OF MOSCOW (public joint-stock company)

## Introduction

We have reviewed the accompanying consolidated interim condensed statement of financial position of CREDIT BANK OF MOSCOW (public joint-stock company) and its subsidiaries (the Group) as at 30 June 2019, and the related consolidated interim condensed statements of profit or loss and other comprehensive income for the three- and six-month periods ended 30 June 2019, and the related consolidated interim condensed statements of changes in equity and cash flows for the the six-month period ended 30 June 2019, and notes to the consolidated interim condensed financial information (the consolidated interim condensed financial information). Management is responsible for the preparation and presentation of this consolidated interim condensed financial information in accordance with IAS 34 *Interim Financial Reporting.* Our responsibility is to express a conclusion on this consolidated interim condensed financial information based on our review.

## Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*. A review of consolidated interim condensed financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Reviewed entity: CREDIT BANK OF MOSCOW (public joint-stock company)

Registration No. in the Unified State Register of Legal Entities [illegible]

Moscow, Russian Federation

Audit firm: JSC "KPMG", a company incorporated under the Laws of the Russian Federation, a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

Registration No. in the Unified State Register of Legal Entities [illegible]

Member of the Self-regulated organization of auditors "Russian Union of auditors" (Association). The Principal Registration Number of the Entity in the Register of Auditors and Audit Organisations: No. [illegible]

## Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the consolidated interim condensed financial information as at 30 June 2019, and for the three- and six-month periods ended 30 June 2019 is not prepared, in all material respects, in accordance with IAS 34 Interim Financial Reporting.

Lukashova N.V.

Director

JSC "KPMG"

Moscow, Russia

23 August 2019

*(in millions of Russian Roubles unless otherwise stated)*

| | Notes | Six-Month Period Ended 30 June 2019 (Unaudited) | Six-Month Period Ended 30 June 2018 (Unaudited) | Three-Month Period Ended 30 June 2019 (Unaudited) | Three-Month Period Ended 30 June 2018 (Unaudited) |
|---|---|---|---|---|---|
| Interest income calculated using the effective interest method | 4 | 68 511 | 65 501 | 34 329 | 31 736 |
| Other interest income | 4 | 2 038 | 1 989 | 1 014 | 880 |
| Interest expense | 4 | (51 512) | (43 662) | (25 953) | (21 799) |
| **Net interest income** | 4 | **19 037** | **23 828** | **9 390** | **10 817** |
| Charge for credit losses on debt financial assets and loss on modifications | 9,10, 12,13 | (5 555) | (31) | (335) | (267) |
| **Net interest income after credit losses and loss on modifications on debt financial assets** | | **13 482** | **23 797** | **9 055** | **10 550** |
| Fee and commission income | 5 | 7 461 | 7 262 | 4 016 | 3 872 |
| Fee and commission expense | 5 | (1 865) | (1 549) | (911) | (939) |
| Net loss on loans to customers at FVTPL | | (396) | (3 839) | (396) | (2 311) |
| Net gain (loss) on trading financial assets | | 53 | 13 | 590 | (28) |
| Net (loss) gain from sale and redemption of investment financial assets at FVOCI | | (201) | 759 | (459) | 424 |
| Net realised gain on investment financial assets at amortised cost | | 300 | - | 290 | - |
| Net foreign exchange (losses) gains | | (7 851) | (1 308) | (3 112) | 4 874 |
| Impairment (losses) recoveries on other non-financial assets, (charge for) recovery of credit losses on other financial assets and credit related commitments and other provisions | 7 | 3 403 | (1 445) | 282 | (677) |
| State deposit insurance scheme contributions | | (1 215) | (829) | (666) | (495) |
| Operating lease income | | 20 | 54 | 9 | 24 |
| Net income from disposal of subsidiaries | | - | 637 | - | 637 |
| Other net operating income | | 6 | 285 | 86 | 399 |
| **Non-interest (expense) income** | | **(285)** | **40** | **(271)** | **5 780** |
| **Operating income** | | **13 197** | **23 837** | **8 784** | **16 330** |
| Salaries and employment benefits | 6 | (7 767) | (6 103) | (4 715) | (3 590) |
| Administrative expenses | 6 | (2 018) | (2 522) | (1 310) | (1 397) |
| Depreciation of premises and equipment and right-of-use assets | | (952) | (488) | (482) | (248) |
| **Operating expense** | | **(10 737)** | **(9 113)** | **(6 507)** | **(5 235)** |
| **Profit before income taxes** | | **2 460** | **14 724** | **2 277** | **11 095** |
| Income tax | 8 | (299) | (3 720) | (354) | (2 384) |
| **Profit for the period** | | **2 161** | **11 004** | **1 923** | **8 711** |

The consolidated interim condensed 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 interim condensed financial statements.

*(in millions of Russian Roubles unless otherwise stated)*

| | Notes | Six-Month Period Ended 30 June 2019 (Unaudited) | Six-Month Period Ended 30 June 2018 (Unaudited) | Three-Month Period Ended 30 June 2019 (Unaudited) | Three-Month Period Ended 30 June 2018 (Unaudited) |
|---|---|---|---|---|---|
| **Profit for the period** | | **2 161** | **11 004** | **1 923** | **8 711** |
| **Other comprehensive income (loss)** | | | | | |
| ***Items that are or may be reclassified subsequently to profit or loss:*** | | | | | |
| *Movement in fair value reserve (debt instruments):* | | | | | |
| - net change in fair value | | 2 563 | (3 279) | (520) | (2 253) |
| - net amount transferred to profit or loss | | 212 | (107) | 705 | (5) |
| *Income tax related to items that are or may be reclassified subsequently to profit or loss* | | (555) | 678 | (37) | 452 |
| **Other comprehensive income (loss) for the period, net of income tax** | | **2 220** | **(2 708)** | **148** | **(1 806)** |
| **Total comprehensive income for the period** | | **4 381** | **8 296** | **2 071** | **6 905** |
| **Basic and diluted earnings per share (in RUB per share)** | 23 | **0.02** | **0.35** | **0.04** | **0.29** |

Chairman of the Management Board — Vladimir A. Chubar

Chief Accountant — Svetlana V. Sass

The consolidated interim condensed 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 interim condensed financial statements.

*(in millions of Russian Roubles unless otherwise stated)*

| | Notes | 30 June 2019 (Unaudited) | 31 December 2018 |
|---|---|---|---|
| **ASSETS** | | | |
| Cash and cash equivalents | 9 | 702 466 | 1 162 779 |
| Obligatory reserves with the Central bank of the Russian Federation | | 15 568 | 13 065 |
| Due from credit and other financial institutions | 10 | 466 782 | 13 183 |
| Trading financial assets | 11 | 17 463 | 15 665 |
| - *held by the Group* | *11* | *16 521* | *12 909* |
| - *pledged under sale and repurchase agreements* | *11* | *942* | *2 756* |
| Loans to customers | 12 | 666 480 | 709 045 |
| - *loans to corporate clients* | *12* | *570 830* | *617 911* |
| - *loans to individuals* | *12* | *95 650* | *91 134* |
| Investment financial assets | 13 | 230 856 | 214 481 |
| - *held by the Group* | | *182 244* | *84 703* |
| - *pledged under sale and repurchase agreements* | | *48 612* | *129 778* |
| Investments in associates | | 2 333 | 2 275 |
| Property and equipment | | 9 971 | 7 182 |
| Deferred tax asset | | 70 | 113 |
| Other assets | | 6 242 | 8 139 |
| **Total assets** | | **2 118 231** | **2 145 927** |
| **LIABILITIES AND EQUITY** | | | |
| Due to credit institutions | 14 | 553 489 | 552 930 |
| Due to customers | 15 | 1 204 637 | 1 272 175 |
| - *due to corporate customers* | *15* | *767 406* | *897 099* |
| - *due to individuals* | *15* | *437 231* | *375 076* |
| Debt securities issued | 16 | 155 111 | 105 305 |
| Deferred tax liability | | 3 930 | 4 248 |
| Other liabilities | | 11 399 | 20 096 |
| **Total liabilities** | | **1 928 566** | **1 954 754** |
| **Equity** | | | |
| Share capital | 17 | 27 942 | 27 942 |
| Additional paid-in capital | | 46 247 | 46 247 |
| Perpetual debt issued | 17 | 42 385 | 46 691 |
| Revaluation surplus for buildings | | 490 | 490 |
| Fair value reserve for securities | | 386 | (1 834) |
| Retained earnings | | 72 215 | 71 637 |
| **Total equity** | | **189 665** | **191 173** |
| **Total liabilities and equity** | | **2 118 231** | **2 145 927** |

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

*(in millions of Russian Roubles unless otherwise stated)*

| | Notes | Six-Month Period Ended 30 June 2019 (Unaudited) | Six-Month Period Ended 30 June 2018 (Unaudited) |
|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| Interest receipts | | 64 966 | 69 022 |
| Interest payments | | (46 677) | (45 671) |
| Fees and commission receipts | | 7 631 | 7 257 |
| Fees and commission payments | | (1 622) | (1 321) |
| Net (payments) receipts from operations with securities | | (483) | 854 |
| Net (payments) receipts from foreign exchange | | (15 441) | 18 291 |
| State deposit insurance scheme contributions payments | | (1 135) | (767) |
| Net other operating (expense) income (payments) receipts | | (334) | 572 |
| Operating leases income receipts | | 20 | 54 |
| Salaries and employment benefits paid | | (7 352) | (5 592) |
| Administrative expenses paid | | (2 057) | (2 224) |
| Income tax paid | | (609) | (1 643) |
| **Operating cash flows before changes in operating assets and liabilities** | | **(3 093)** | **38 832** |
| **(Increase) decrease in operating assets** | | | |
| Obligatory reserves with the Central bank of the Russian Federation | | (2 503) | (1 491) |
| Due from credit and other financial institutions | | (470 466) | 8 246 |
| Trading financial assets | | 334 | (4 170) |
| Loans to customers | | (4 828) | 101 295 |
| Other assets | | 1 090 | (5 764) |
| **Increase (decrease) in operating liabilities** | | | |
| Due to credit institutions except syndicated and subordinated loans | | 30 480 | 20 191 |
| Due to customers except subordinated loans | | (16 835) | 10 377 |
| Other liabilities | | (2 735) | (143) |
| **Net cash (used in) from operations** | | **(468 556)** | **167 373** |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| Purchase of investment financial assets | | (158 369) | (167 634) |
| Proceeds from disposal and redemption of investment financial assets | | 144 448 | 75 922 |
| Net disposal of subsidiary | | - | (703) |
| Purchase of property and equipment and intangible assets | | (1 526) | (583) |
| Sale of property and equipment and intangible assets | | 149 | - |
| Sale of investment property | | 90 | - |
| **Net cash used in investing activities** | | **(15 208)** | **(92 998)** |

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

*(in millions of Russian Roubles unless otherwise stated)*

| | Notes | Six-Month Period Ended 30 June 2019 (Unaudited) | Six-Month Period Ended 30 June 2018 (Unaudited) |
|---|---|---|---|
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | |
| Proceeds from placement and issuance of perpetual debt | | 325 | - |
| Repayment of perpetual debt issued | | (818) | - |
| Interest on perpetual debt paid | | (1 951) | (1 870) |
| Proceeds from syndicated borrowings | | 28 120 | 376 |
| Repayment of syndicated borrowings | | (19 920) | (11 452) |
| Partial redemption of subordinated bonds | | (423) | (3 000) |
| Proceeds from placement and issuance of subordinated bonds | | 263 | - |
| Proceeds from placement and issuance of other bonds | | 81 462 | 31 875 |
| Repayments of other bonds | | (23 523) | (34 356) |
| Cash outflow from lease liabilities | | (355) | - |
| Dividends paid | 17 | (2 979) | - |
| **Net cash from (used in) financing activities** | | **60 201** | **(18 427)** |
| **Effect of exchange rates changes on cash and cash equivalents** | | **(37 445)** | **34 071** |
| **Effect of changes in ECL on cash and cash equivalents** | | **696** | **(720)** |
| **Change in cash and cash equivalents** | | **(460 313)** | **89 299** |
| Cash and cash equivalents, beginning of the period | | 1 162 779 | 933 360 |
| **Cash and cash equivalents, end of the period** | 9 | **702 466** | **1 022 659** |

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

*(in millions of Russian Roubles unless otherwise stated)*

| | Notes | Share capital | Additional paid-in capital | Perpetual debt issued | Revaluation surplus for buildings | Fair value reserve for securities | Retained earnings | Total equity |
|---|---|---|---|---|---|---|---|---|
| **Balance as at 1 January 2018** | | **27 942** | **46 247** | **40 320** | **582** | **1 348** | **53 431** | **169 870** |
| Total comprehensive income for the period (Unaudited) | | - | - | - | - | (2 708) | 11 004 | **8 296** |
| Interest paid on perpetual debt issued (Unaudited) | | - | - | - | - | - | (1 870) | **(1 870)** |
| Foreign exchange translation of perpetual debt issued (Unaudited) | | - | - | 3 610 | - | - | (3 610) | - |
| Tax effect on perpetual debt issued (Unaudited) | | - | - | - | - | - | 1 097 | **1 097** |
| **Balance as at 30 June 2018 (Unaudited)** | | **27 942** | **46 247** | **43 930** | **582** | **(1 360)** | **60 052** | **177 393** |
| **Balance as at 1 January 2019** | | **27 942** | **46 247** | **46 691** | **490** | **(1 834)** | **71 637** | **191 173** |
| Total comprehensive income for the period (Unaudited) | | - | - | - | - | 2 220 | 2 161 | **4 381** |
| Perpetual debt redemption (Unaudited) | | - | - | (818) | - | - | - | **(818)** |
| Interest paid on perpetual debt issued (Unaudited) | | - | - | - | - | - | (1 951) | **(1 951)** |
| Perpetual debt issued (Unaudited) | | - | - | 325 | - | - | - | **325** |
| Foreign exchange translation of perpetual debt issued (Unaudited) | | - | - | (3 813) | - | - | 3 813 | - |
| Dividends paid (Unaudited) | 17 | - | - | - | - | - | (2 979) | **(2 979)** |
| Tax effect on perpetual debt issued (Unaudited) | | - | - | - | - | - | (466) | **(466)** |
| **Balance as at 30 June 2019 (Unaudited)** | | **27 942** | **46 247** | **42 385** | **490** | **386** | **72 215** | **189 665** |

Chairman of the Management Board Vladimir A. Chubar

Chief Accountant Svetlana V. Sass

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

*(in millions of Russian Roubles unless otherwise stated)*

# 1 Background

### Principal activities

These consolidated interim condensed 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, 1 189 ATMs and 6 836 payment terminals.

The principal subsidiaries of the Group are as follows:

| Name | Country of incorporation | Principal activities | Degree of control, % | |
|---|---|---|---|---|
| | | | 30 June 2019 | 31 December 2018 |
| "CBOM Finance p.l.c." | Ireland | Raising finance | 100% | 100% |
| JSC NCO "INKAKHRAN" | Russia | Cash handling | 100% | 100% |
| LLC "Inkakhran-Servis" | 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% |

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.

### Shareholders

The Bank's shareholders as at 30 June 2019 are:

- LLC Concern Rossium – 60,00%*
- RegionFinanceResurs JSC – 9,43%
- LLC IC Algoritm – 6,34%
- Other shareholders – 24,23%.

* The ownership share of PJSC "CREDIT BANK OF MOSCOW", which includes the direct ownership share of LLC Concern Rossium of 56,07% and the ownership share of the LLC Concern Rossium subsidiaries of 3,93%

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

Related party transactions are detailed in Note 19.

**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 interim condensed 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.

**Seasonality of operations**

The Group operates in industry where significant seasonal or cyclical variations in operating income are not experienced during the financial year.

# 2 Basis of preparation

**Statement of compliance**

The accompanying consolidated interim condensed financial statements are prepared in accordance with IAS 34 '*Interim Financial Reporting*', and should be read in conjunction with the Group's last annual consolidated financial statements as at and for the year ended 31 December 2018 ("last annual financial statements"). They do not include all of the information required for a complete set of IFRS financial statements. However, selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in the Group's financial position and performance since the last annual financial statements.

**Basis of measurement**

The consolidated interim condensed 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.

*(in millions of Russian Roubles unless otherwise stated)*

### 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 interim condensed 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:

| | **30 June 2019** | **31 December 2018** | **30 June 2018** |
|---|---|---|---|
| USD | 63,0756 | 69,4706 | 62,7565 |
| EUR | 71,8179 | 79,4605 | 72,9921 |

## Use of estimates and judgments

The preparation of consolidated interim condensed financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results could differ from those estimates.

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

In preparing these consolidated interim condensed financial statements the critical judgments made by management in applying the accounting policies and the key sources of estimation uncertainty are the same as those that applied to the consolidated financial statements for the year ended 31 December 2018.

### Changes in accounting policies and presentation

Except as described below, the accounting policies applied in these consolidated interim condensed financial statements are the same as those applied in the last annual financial statements. The changes in accounting policies are also expected to be reflected in the Group's consolidated financial statements as at and for the year ending 31 December 2019. The Group has initially adopted IFRS 16 *'Leases'* from 1 January 2019. A number of other new amendments and interpretations to standards are effective from 1 January 2019 but they do not have a material effect on the Group's consolidated financial statements.

### *IFRS 16 Leases*

IFRS 16 introduced a single, on-balance sheet accounting model for lessees. As a result, the Group, as a lessee, has recognised right-of-use assets representing its rights to use the underlying assets and lease liabilities representing its obligation to make lease payments. Lessor accounting remains similar to previous accounting policies. The Group has applied IFRS 16 using the modified retrospective approach. Accordingly, the comparative information presented for 2018 has not been restated – i.e. it is presented, as previously reported, under IAS 17 and related interpretations. The details of the changes in accounting policies are disclosed below.

*(in millions of Russian Roubles unless otherwise stated)*

**Definition of a lease**

Previously, the Group determined at contract inception whether an arrangement was or contained a lease under IFRIC 4 *'Determining Whether an Arrangement Contains a Lease'*. The Group now assesses whether a contract is or contains a lease based on the new definition of a lease. Under IFRS 16, a contract is, or contains, a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration. On transition to IFRS 16, the Group elected to apply the practical expedient to grandfather the assessment of which transactions are leases. It applied IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed. Therefore, the definition of a lease under IFRS 16 has been applied only to contracts entered into or changed on or after 1 January 2019.

At inception or on reassessment of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease and non-lease component on the basis of their relative stand-alone prices.

**As a lessee**

The Group leases many assets, including properties and vehicles. As a lessee, the Group previously classified leases as operating or finance leases based on its assessment of whether the lease transferred substantially all of the risks and rewards of ownership. Under IFRS 16, the Group recognises right-of-use assets and lease liabilities for most leases – i.e. these leases are on-balance sheet.

However, the Group has elected not to recognise right-of-use assets and lease liabilities for some leases of low-value assets. The Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

The Group presents right-of-use assets that do not meet the definition of investment property in 'property and equipment', the same line item as it presents underlying assets of the same nature that it owns. The carrying amounts of right-of-use assets are as below.

| **(Unaudited)** | **Property** | **Vehicles** |
|---|---|---|
| Balance at 1 January 2019 | 2 999 | 48 |
| Balance at 30 June 2019 | 2 904 | 38 |

The Group presents lease liabilities in 'other liabilities' in the consolidated interim condensed statement of financial position.

**i. Significant accounting policies**

The Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, and subsequently at cost less any accumulated depreciation and impairment losses, and adjusted for certain remeasurements of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate. The lease liability is subsequently increased by the interest cost on the lease liability and decreased by lease payment made. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, a change in the estimate of the amount expected to be payable under a residual value guarantee, or as appropriate, changes in the assessment of whether a purchase or extension option is reasonably certain to be exercised or a termination option is reasonably certain not to be exercised.

The Group has applied judgement to determine the lease term for some lease contracts in which it is a lessee that include renewal options. The assessment of whether the Group is reasonably certain to exercise such options impacts the lease term, which significantly affects the amount of lease liabilities and right-of-use assets recognised.

*(in millions of Russian Roubles unless otherwise stated)*

**ii. Transition**

Previously, the Group classified property leases as operating leases under IAS 17. At transition, for leases classified as operating leases under IAS 17, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Group's incremental borrowing rate as at 1 January 2019. Right-of-use assets are measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments – the Group applied this approach to all leases.

The Group used the following practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17.

– Applied the exemption not to recognise right-of-use assets and liabilities for leases with less than 12 months of lease term.

– Excluded initial direct costs from measuring the right-of-use asset at the date of initial application.

– Used hindsight when determining the lease term if the contract contains options to extend or terminate the lease.

The Group leases a number of items of vehicles. These leases were classified as finance leases under IAS 17. For these finance leases, the carrying amount of the right-of-use asset and the lease liability at 1 January 2019 were determined at the carrying amount of the lease asset and lease liability under IAS 17 immediately before that date.

**As a lessor**

The Group does not lease out any investment property, including right-of-use assets.

The accounting policies applicable to the Group as a lessor are not different from those under IAS 17. However, when the Group is an intermediate lessor the sub-leases are classified with reference to the right-of-use asset arising from the head lease, not with reference to the underlying asset.

The Group is not required to make any adjustments on transition to IFRS 16 for leases in which it acts as a lessor. However, the Group has applied IFRS 15 '*Revenue from Contracts with Customers*' to allocate consideration in the contract to each lease and non-lease component. The Group sub-leases some of its properties. Under IAS 17, the head lease and sub-lease contracts were classified as operating leases. The sub-lease contracts are classified as operating leases under IFRS 16.

**Impacts on financial statements**

**i. Impacts on transition**

On transition to IFRS 16, the Group recognised additional right-of-use assets and additional lease liabilities with no impact on retained earnings. The impact on transition is summarised below.

| | **1 January 2019 (Unaudited)** |
|---|---|
| Right-of-use assets presented in property and equipment | 2 999 |
| Lease liabilities presented in other liabilities | 2 911 |

When measuring lease liabilities for leases that were classified as operating leases, the Group discounted lease payments using its incremental borrowing rate at 1 January 2019. The weighted-average rate applied is 8,86%.

*(in millions of Russian Roubles unless otherwise stated)*

| | **1 January 2019 (Unaudited)** |
|---|---|
| Operating lease commitments as at 31 December 2018 as disclosed in the consolidated financial statements of the Group | 3 508 |
| Discounted using the incremental borrowing rate at 1 January 2019 | 2 261 |
| Finance lease liabilities recognised as at 31 December 2018 | 31 |
| Recognition exemption for leases of low-value assets, for leases with less than 12 month lease term at transition and other contracts | (131) |
| Extension options reasonably certain to be exercised | 781 |
| **Lease liabilities recognised at 1 January 2019** | **2 942** |

### ii. Impacts for the period

As a result of initially applying IFRS 16, in relation to the leases that were previously classified as operating leases, the Group recognised RUB 2 999 million of right-of-use assets and RUB 2 911 million of lease liabilities as at 1 January 2019. Also in relation to those leases under IFRS 16, the Group recognised depreciation and interest costs, instead of operating lease expense. During the six months ended 30 June 2019, the Group recognised RUB 414 million of depreciation charges and RUB 131 million of interest costs from these leases. For the impact of IFRS 16 on segment information see Note 21.

# 3 Significant accounting policies

The accounting policies applied in these consolidated interim condensed financial statements are the same as those applied in the last annual consolidated financial statements, except those related to the Group's adoption of IFRS 16 (Note 2), which are applicable from 1 January 2019.

*(in millions of Russian Roubles unless otherwise stated)*

# 4 Net interest income

| | Six-Month Period Ended 30 June 2019 (Unaudited) | Six-Month Period Ended 30 June 2018 (Unaudited) | Three-Month Period Ended 30 June 2019 (Unaudited) | Three-Month Period Ended 30 June 2018 (Unaudited) |
|---|---|---|---|---|
| **Interest income calculated using the effective interest method** | | | | |
| **Financial assets measured at amortised cost** | | | | |
| Loans to customers | 30 086 | 33 467 | 15 143 | 16 164 |
| Due from credit and other financial institutions and the CBR | 31 735 | 28 402 | 15 706 | 13 800 |
| Other financial assets | 860 | 223 | 406 | 173 |
| **Debt financial assets measured at FVOCI** | **5 830** | **3 409** | **3 074** | **1 599** |
| **Interest income calculated using the effective interest method** | **68 511** | **65 501** | **34 329** | **31 736** |
| Loans to customers at FVTPL | 1 716 | 1 534 | 855 | 740 |
| Other financial instruments at fair value through profit or loss | 322 | 455 | 159 | 140 |
| **Other interest income** | **2 038** | **1 989** | **1 014** | **880** |
| | **70 549** | **67 490** | **35 343** | **32 616** |
| **Interest expense** | | | | |
| Due to customers | (32 341) | (21 494) | (16 871) | (11 174) |
| Due to credit institutions | (14 635) | (17 582) | (6 853) | (8 290) |
| Debt securities issued | (4 405) | (4 582) | (2 162) | (2 333) |
| Lease liabilities | (131) | (4) | (67) | (2) |
| | **(51 512)** | **(43 662)** | **(25 953)** | **(21 799)** |
| **Net interest income** | **19 037** | **23 828** | **9 390** | **10 817** |

*(in millions of Russian Roubles unless otherwise stated)*

# 5 Net fee and commission income

| | Six-Month Period Ended 30 June 2019 (Unaudited) | Six-Month Period Ended 30 June 2018 (Unaudited) | Three-Month Period Ended 30 June 2019 (Unaudited) | Three-Month Period Ended 30 June 2018 (Unaudited) |
|---|---|---|---|---|
| **Fee and commission income** | | | | |
| Other cash operations | 1 528 | 1 113 | 831 | 617 |
| Settlements and wire transfers | 1 223 | 1 228 | 696 | 662 |
| Plastic cards | 1 087 | 1 165 | 569 | 619 |
| Insurance contracts processing | 969 | 1 050 | 560 | 665 |
| Guarantees and letters of credit | 963 | 967 | 494 | 527 |
| Cash handling | 917 | 916 | 419 | 481 |
| Currency exchange and brokerage commission | 472 | 460 | 288 | 248 |
| Opening and maintenance of bank accounts | 271 | 276 | 132 | 14 |
| Other | 31 | 87 | 27 | 39 |
| | **7 461** | **7 262** | **4 016** | **3 872** |
| **Fee and commission expense** | | | | |
| Plastic cards | (1 459) | (1 370) | (698) | (855) |
| Settlements, wire transfers and plastic cards | (120) | (55) | (75) | (31) |
| Guarantees and other credit related facilities received | (189) | (18) | (99) | (11) |
| Other | (97) | (106) | (39) | (42) |
| | **(1 865)** | **(1 549)** | **(911)** | **(939)** |
| **Net fee and commission income** | **5 596** | **5 713** | **3 105** | **2 933** |

# 6 Salaries, employment benefits and administrative expenses

| | Six-Month Period Ended 30 June 2019 (Unaudited) | Six-Month Period Ended 30 June 2018 (Unaudited) | Three-Month Period Ended 30 June 2019 (Unaudited) | Three-Month Period Ended 30 June 2018 (Unaudited) |
|---|---|---|---|---|
| Salaries | 6 368 | 4 853 | 4 033 | 2 923 |
| Social security costs | 1 399 | 1 250 | 682 | 667 |
| **Salaries and employment benefits** | **7 767** | **6 103** | **4 715** | **3 590** |
| Operating taxes | 351 | 256 | 245 | 148 |
| Property maintenance | 329 | 316 | 190 | 188 |
| Security | 294 | 261 | 151 | 135 |
| Advertising and business development | 255 | 545 | 247 | 296 |
| Legal and consulting services | 172 | 127 | 121 | 72 |
| Communications | 162 | 121 | 98 | 80 |
| Write-off of low-value fixed assets | 120 | 112 | 78 | 67 |
| Occupancy | 105 | 569 | 60 | 290 |
| Computer maintenance and software expenses | 83 | 75 | 57 | 39 |
| Insurance | 76 | 67 | 38 | 34 |
| Transport | 55 | 57 | 16 | 36 |
| Other | 16 | 16 | 9 | 12 |
| **Administrative expenses** | **2 018** | **2 522** | **1 310** | **1 397** |

*(in millions of Russian Roubles unless otherwise stated)*

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.

# 7 Impairment (losses) recoveries on other non-financial assets, (charge for) recovery of credit losses on other financial assets and credit related commitments and other provisions

Movements in the impairment allowance and credit loss allowance for the six-month period ended 30 June 2019 are as follows:

| (Unaudited) | 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 period** | **457** | **55** | **173** | **5 969** | **6 654** |
| Net charge (recovery) | 291 | 148 | 94 | (3 936) | **(3 403)** |
| Write-offs | - | (104) | - | (50) | **(154)** |
| **Balance at the end of the period** | **748** | **99** | **267** | **1 983** | **3 097** |

The Group revised historical losses for non-financial guarantees and adjusted provision rate accordingly during three-month period ended 31 March 2019. The Group also obtained collateral for a significant non-financial guarantee in 2019. Provisions for claims and other provisions as at 30 June 2019 would be RUB 2 806 millions higher without the described changes.

Movements in the impairment allowance and credit loss allowance for the six-month period ended 30 June 2018 are as follows:

| (Unaudited) | 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 period** | **514** | **231** | **3 175** | **247** | **4 167** |
| Net charge (recovery) | 33 | (132) | (3 059) | 4 603 | **1 445** |
| Write-offs | (2) | (22) | - | (48) | **(72)** |
| Disposal of subsidiary | (42) | (35) | - | - | **(77)** |
| **Balance at the end of the period** | **503** | **42** | **116** | **4 802** | **5 463** |

*(in millions of Russian Roubles unless otherwise stated)*

# 8 Income tax

| | Six-Month Period Ended 30 June 2019 (Unaudited) | Six-Month Period Ended 30 June 2018 (Unaudited) |
|---|---|---|
| Current tax charge | 1 889 | 2 189 |
| Deferred taxation | (1 590) | 1 531 |
| **Income tax expense** | **299** | **3 720** |

Russian legal entities must report taxable income and remit income taxes thereon to the appropriate authorities. The statutory income tax rate is 20% in 2019 and 2018.

# 9 Cash and cash equivalents

| | 30 June 2019 (Unaudited) | 31 December 2018 |
|---|---|---|
| Cash on hand | 25 476 | 18 655 |
| Correspondent account with the Central bank of the Russian Federation | 83 547 | 56 103 |
| **Nostro accounts with other banks** | | |
| rated from AA+ to AA- | 1 496 | 7 562 |
| rated from A+ to A- | 1 682 | 1 467 |
| rated from BBB+ to BBB- | 706 | 3 291 |
| rated from BB+ to BB- | 475 | 853 |
| rated from B+ to B- | 7 | 109 |
| not rated | 424 | 983 |
| **Total nostro accounts with other banks** | **4 790** | **14 265** |
| **Deposits in credit and other financial institutions with maturity of less than 1 month** | | |
| Deposits with the Central bank of the Russian Federation | 2 443 | 2 219 |
| rated from AA+ to AA- | 131 | - |
| rated from A+ to A- | - | 12 416 |
| rated from BBB+ to BBB- | 957 | 6 520 |
| rated from BB+ to BB- | 236 | - |
| rated from B+ to B- | 57 989 | 49 560 |
| not rated | 527 499 | 1 004 339 |
| **Total deposits in credit and other financial institutions with maturity of less than 1 month** | **589 255** | **1 075 054** |
| **Total gross cash and cash equivalents** | **703 068** | **1 164 077** |
| Credit loss allowance | (602) | (1 298) |
| **Total net cash and cash equivalents** | **702 466** | **1 162 779** |

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

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 period end.

*(in millions of Russian Roubles unless otherwise stated)*

As at 30 June 2019, not rated cash and cash equivalents include counterparties with ratings equivalent to Low credit risk for amount of RUB 349 million, counterparties with ratings equivalent to Moderate credit risk for amount of RUB 527 574 million.

As at 30 June 2019, 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 527 499 million from which 98,02% have rating from B+ to BBB- (31 December 2018: RUB 1 004 339 million and 99,02%).

As at 30 June 2019, receivables under reverse sale and repurchase agreements included in cash and cash equivalents are RUB 586 680 million (31 December 2018: RUB 1 058 970 million).

As at 30 June 2019, the fair value of securities that serve as collateral under reverse sale and repurchase agreements is RUB 641 776 million (31 December 2018: RUB 1 152 996 million).

As at 30 June 2019, cash and cash equivalents for which external benchmark information represents a significant input into measurement of ECL are RUB 149 751 million (31 December 2018: RUB 137 689 million).

Movements in cash and cash equivalents credit loss allowance for the six-month periods ended 30 June 2019 and 30 June 2018 are as follows:

| | Six-month period ended 30 June 2019 (Unaudited) | Six-month period ended 30 June 2018 (Unaudited) |
|---|---|---|
| **Balance at the beginning of the period** | **1 298** | **673** |
| Net (recovery) charge | (696) | 720 |
| **Balance at the end of the period** | **602** | **1 393** |

As at 30 June 2019 and 30 June 2018 the Group recognises expected credit loss allowance in the amount of 12-month expected credit loss.

# 10 Due from credit and other financial institutions

| | 30 June 2019 (Unaudited) | 31 December 2018 |
|---|---|---|
| **Term deposits** | | |
| rated from AA+ to AA- | 6 | - |
| rated from A+ to A- | 677 | - |
| rated from BBB+ to BBB- | 729 | 2 619 |
| rated from BB+ to BB- | 1 547 | - |
| rated from B+ to B- | 3 072 | 4 047 |
| not rated | 461 416 | 6 652 |
| **Total gross due from credit and other financial institutions** | **467 447** | **13 318** |
| Credit loss allowance | (665) | (135) |
| **Total net due from credit and other financial institutions** | **466 782** | **13 183** |

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

As at 30 June 2019, not rated deposits in credit and other financial institutions measured at amortised cost include counterparties with ratings equivalent to Moderate credit risk for amount of RUB 461 389 million and distressed assets for amount of RUB 27 million.

As at 30 June 2019, deposits included in not rated credit and other financial institutions are receivables in the amount of RUB 461 389 million (31 December 2018: RUB 3 679 million) secured by liquid securities under agreements to resell (reverse repo).

*(in millions of Russian Roubles unless otherwise stated)*

As at 30 June 2019, receivables under reverse sale and repurchase agreements included in due from credit and other financial institutions are RUB 464 461 million (31 December 2018: RUB 7 762 million).

As at 30 June 2019, the fair value of securities that serve as collateral under reverse sale and repurchase agreements is RUB 512 510 million (31 December 2018: RUB 10 417 million).

As at 30 June 2019, deposits in credit and other financial institutions for which external benchmark information represents a significant input into measurement of ECL are RUB 6 031 million (31 December 2018: RUB 6 669 million).

Movements in due from credit and other financial institutions credit loss allowance for the six-month periods ended 30 June 2019 and 30 June 2018 are as follows:

| | Six-month period ended 30 June 2019 (Unaudited) | Six-month period ended 30 June 2018 (Unaudited) |
|---|---|---|
| **Balance at the beginning of the period** | **135** | **166** |
| Net charge (recovery) | 530 | (105) |
| **Balance at the end of the period** | **665** | **61** |

As at 30 June 2019 and 30 June 2018, the Group recognises expected credit loss allowance in the amount of 12-month expected credit losses except for distressed credit impaired assets which are recognised in the amount of lifetime expected credit losses.

# 11 Trading financial assets

| | 30 June 2019 (Unaudited) | 31 December 2018 |
|---|---|---|
| **Held by the Group** | | |
| **Government and municipal bonds** | | |
| Russian Government Federal bonds | - | 1 418 |
| Russian Government Eurobonds | 1 041 | 470 |
| Regional authorities and municipal bonds | 207 | 65 |
| **Corporate bonds** | | |
| rated from A+ to A- | 18 | - |
| rated from BBB+ to BBB- | 3 347 | 3 109 |
| rated from BB+ to BB- | 4 116 | 2 955 |
| rated from B+ to B- | 131 | 127 |
| not rated | 897 | 129 |
| **Derivative financial instruments** | **6 764** | **4 636** |
| **Total held by the Group** | **16 521** | **12 909** |
| **Pledged under sale and repurchase agreements** | | |
| **Corporate bonds** | | |
| rated from BBB+ to BBB- | 751 | 2 606 |
| rated from BB+ to BB- | 191 | 150 |
| **Total pledged under sale and repurchase agreements** | **942** | **2 756** |
| **Total trading financial assets** | **17 463** | **15 665** |

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

*(in millions of Russian Roubles unless otherwise stated)*

As at 30 June 2019, trading financial assets in the amount of RUB 3 598 million (31 December 2018: RUB 5 639 million) are qualified to be pledged against borrowings from the Central bank of the Russian Federation.

# 12 Loans to customers

| | 30 June 2019 (Unaudited) | 31 December 2018 |
|---|---|---|
| **Loans to customers at amortised cost** | | |
| Loans to corporate clients | 544 838 | 580 146 |
| Credit loss allowance | (33 213) | (25 618) |
| **Total loans to corporate clients at amortised cost, net** | **511 625** | **554 528** |
| **Loans to individuals** | | |
| Cash loans | 74 113 | 72 219 |
| Mortgage loans | 23 375 | 20 679 |
| Credit card loans | 3 587 | 3 585 |
| Auto loans | 64 | 119 |
| Credit loss allowance | (5 489) | (5 468) |
| **Total loans to individuals, net** | **95 650** | **91 134** |
| **Total gross loans to customers at amortised cost** | **645 977** | **676 748** |
| **Credit loss allowance** | **(38 702)** | **(31 086)** |
| **Total net loans to customers at amortised cost** | **607 275** | **645 662** |
| **Loans to customers at FVTPL** | | |
| Loans to corporate clients | 59 205 | 63 383 |
| **Total loans to customers at amortised cost and FVTPL** | **666 480** | **709 045** |

## Credit quality of loan portfolio

The following table provides information on credit quality of the loan portfolio as at 30 June 2019 and 31 December 2018:

| | 30 June 2019 (Unaudited) | 31 December 2018 |
|---|---|---|
| **Loans to customers** | | |
| - Not past due | 672 013 | 705 067 |
| - Overdue less than 31 days | 4 103 | 18 257 |
| - Overdue 31-60 days | 563 | 3 614 |
| - Overdue 61-90 days | 1 291 | 1 239 |
| - Overdue 91-180 days | 10 014 | 2 793 |
| - Overdue 181-360 days | 10 208 | 4 803 |
| - Overdue more than 360 days | 6 990 | 4 358 |
| **Total gross loans to customers** | **705 182** | **740 131** |
| **Credit loss allowance** | **(38 702)** | **(31 086)** |
| **Total net loans to customers** | **666 480** | **709 045** |

*(in millions of Russian Roubles unless otherwise stated)*

As at 30 June 2019, the gross amount of overdue loans with payments that are overdue at least for one day totals RUB 33 169 million, which represents 4,7% of the gross loan portfolio (31 December 2018: RUB 35 064 million and 4,7%, respectively).

As at 30 June 2019, non-performing loans (NPLs), or loans with payments that are overdue over ninety days, amount to RUB 27 212 million or 3,9% of the gross loan portfolio (31 December 2018: RUB 11 954 million and 1,6%, respectively).

As at 30 June 2019, the ratio of total credit loss allowance to overdue loans equals 116,7%, the ratio of total credit loss allowance to NPLs equals 142,2% (31 December 2018: 88,7%, 260,0%, respectively).

### Credit quality of loans to corporate clients portfolio

The following table provides information on credit quality of loans to corporate clients as at 30 June 2019 and 31 December 2018:

| | 30 June 2019 (Unaudited) | 31 December 2018 |
|---|---|---|
| **Loans to corporate clients** | | |
| - Not past due | 577 771 | 614 542 |
| - Overdue less than 31 days | 1 971 | 17 149 |
| - Overdue 31-60 days | - | 3 131 |
| - Overdue 61-90 days | 791 | 901 |
| - Overdue 91-180 days | 8 867 | 1 811 |
| - Overdue 181-360 days | 8 537 | 2 912 |
| - Overdue more than 360 days | 6 106 | 3 083 |
| **Total gross loans to corporate clients** | **604 043** | **643 529** |
| **Credit loss allowance** | **(33 213)** | **(25 618)** |
| **Total net loans to corporate clients** | **570 830** | **617 911** |

### Credit quality analysis

| | 30 June 2019 (Unaudited) | | | | |
|---|---|---|---|---|---|
| | **Stage 1 12-month ECL** | **Stage 2 Lifetime ECL not credit-impaired** | **Stage 3 Lifetime ECL credit-impaired** | **Originated credit-impaired** | **Total** |
| ***Loans to corporate clients at amortised cost*** | | | | | |
| Low credit risk | 126 354 | - | - | - | 126 354 |
| Moderate credit risk | 330 332 | - | - | - | 330 332 |
| High credit risk | 36 451 | 17 842 | - | 10 153 | 64 446 |
| Distressed assets | - | - | 23 706 | - | 23 706 |
| **Total** | **493 137** | **17 842** | **23 706** | **10 153** | **544 838** |
| **Credit loss allowance** | **(10 685)** | **(3 163)** | **(18 984)** | **(381)** | **(33 213)** |
| **Carrying amount** | **482 452** | **14 679** | **4 722** | **9 772** | **511 625** |
| ***Loan commitments*** | **58 360** | **36** | **-** | **-** | **58 396** |
| **Credit loss allowance** | **(61)** | **-** | **-** | **-** | **(61)** |
| **Carrying amount** | **(61)** | **-** | **-** | **-** | **(61)** |
| ***Financial guarantee contracts*** | **7 223** | **-** | **2 355** | **-** | **9 578** |
| **Credit loss allowance** | **(206)** | **-** | **-** | **-** | **(206)** |
| **Carrying amount** | **(269)** | **-** | **(23)** | **-** | **(292)** |

*(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** | **Originated credit-impaired** | **Total** |
| ***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** |
| | | | | | |
| ***Loan commitments*** | **59 544** | **15** | **-** | - | **59 559** |
| **Credit loss allowance** | **(46)** | **-** | **-** | - | **(46)** |
| **Carrying amount** | **(46)** | **-** | **-** | - | **(46)** |
| | | | | | |
| ***Financial guarantee contracts*** | **3 787** | **500** | **15** | - | **4 302** |
| **Credit loss allowance** | **(85)** | **(40)** | **(2)** | - | **(127)** |
| **Carrying amount** | **(109)** | **(40)** | **(2)** | - | **(151)** |

As at 30 June 2019, loans to customers for which external benchmark information represents a significant input into measurement of ECL are RUB 37 035 million (31 December 2018: RUB 36 763 million).

### 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 six-month periods ended 30 June 2019 and 30 June 2018 are as follows:

| | Six-month period ended 30 June 2019 (Unaudited)* | | | | |
|---|---|---|---|---|---|
| | **Stage 1 12-month ECL** | **Stage 2 Lifetime ECL not credit-impaired** | **Stage 3 Lifetime ECL credit-impaired** | **Originated credit-impaired** | **Total** |
| ***Loans to corporate clients*** | | | | | |
| **Balance at the beginning of the period** | **10 289** | **5 937** | **9 392** | **-** | **25 618** |
| Transfer to 12-month ECL | 39 | (39) | - | - | - |
| Transfer to lifetime ECL not credit-impaired | (25) | 25 | - | - | - |
| Transfer to lifetime ECL credit-impaired | (27) | (3 307) | 3 334 | - | - |
| Net remeasurement of loss allowance | (544) | 825 | 6 098 | (7 470) | (1 091) |
| New financial assets originated or purchased | 5 502 | 253 | - | - | 5 755 |
| Financial assets that have been fully repaid | (3 240) | (41) | (19) | - | (3 300) |

* The estimated amount of ECL allowance includes ECL on loan commitments for certain corporate clients.

*(in millions of Russian Roubles unless otherwise stated)*

| | Six-month period ended 30 June 2019 (Unaudited)* | | | | |
|---|---|---|---|---|---|
| | **Stage 1 12-month ECL** | **Stage 2 Lifetime ECL not credit-impaired** | **Stage 3 Lifetime ECL credit-impaired** | **Originated credit-impaired** | **Total** |
| Financial assets that have been derecognised due to modification | (839) | - | - | - | (839) |
| Write-offs | (92) | (490) | (54) | - | (636) |
| Recoveries of amounts previously written-off | - | - | 461 | - | 461 |
| Unwinding of discount | - | - | 529 | - | 529 |
| Foreign exchange and other movements | (378) | - | (757) | - | (1 135) |
| Repayment of originated credit-impaired assets in the amount exceeding expected cash flows including ECL at origination | - | - | - | 7 851 | 7 851 |
| **Balance at the end of the period** | **10 685** | **3 163** | **18 984** | **381** | **33 213** |

During the six-month period ended 30 June 2019 the Group recognised loss on initial recognition of purchased or originated credit impaired loans in the amount of RUB 355 million.

During the six-month period ended 30 June 2019 the Group recognised loss on significant modification in the amount of RUB 2 210 million.

| | Six-month period ended 30 June 2018 (Unaudited)* | | | |
|---|---|---|---|---|
| | **Stage 1 12-month ECL** | **Stage 2 Lifetime ECL not credit-impaired** | **Stage 3 Lifetime ECL credit-impaired** | **Total** |
| ***Loans to corporate clients*** | | | | |
| **Balance at the beginning of the period** | **7 796** | **1 285** | **35 318** | **44 399** |
| Transfer to 12-month ECL | 2 | (2) | - | - |
| Transfer to lifetime ECL not credit-impaired | (30) | 30 | - | - |
| Transfer to lifetime ECL credit-impaired | (1) | (5) | 6 | - |
| Net remeasurement of loss allowance | (538) | 910 | 580 | 952 |
| New financial assets originated or purchased | 3 520 | 408 | 2 123 | 6 051 |
| Financial assets that have been fully repaid | (2 637) | (215) | (5 658) | (8 510) |
| Write-offs | - | - | (4 073) | (4 073) |
| Recoveries of amounts previously written-off | - | - | 289 | 289 |
| Unwinding of discount | - | - | 746 | 746 |
| Disposal of subsidiary | (93) | (103) | (572) | (768) |
| Foreign exchange and other movements | 207 | 19 | 29 | 255 |
| **Balance at the end of the period** | **8 226** | **2 327** | **28 788** | **39 341** |

* The estimated am ount of ECL allowance includes ECL on loan commitments for certain corporate clients.

*(in millions of Russian Roubles unless otherwise stated)*

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

Repayment of loans to corporate clients in the amount of RUB 209 499 million during six-month period ended 30 June 2019 (30 June 2018: RUB 310 475 million) resulted in decrease of ECL in the amount of RUB 3 300 million (30 June 2018: RUB 8 510 million).

Write-offs and sale of loans to corporate clients in the amount of RUB 8 763 million during six-month period ended 30 June 2019 (30 June 2018: RUB 45 325 million) resulted in decrease of ECL in the amount of RUB 636 million (30 June 2018: RUB 4 073 million).

Transfers from 12-month ECL to lifetime ECL not credit-impaired and to lifetime ECL credit-impaired in the amount of RUB 2 263 million during six-month period ended 30 June 2019 (30 June 2018: RUB 1 264 million) resulted in increase of ECL in the amount of RUB 985 million (30 June 2018: RUB 371 million).

Transfers from lifetime ECL not credit-impaired to lifetime ECL credit-impaired in the amount of RUB 10 665 million during six-month period ended 30 June 2019 (30 June 2018: RUB 36 million) resulted in increase of ECL in the amount of RUB 4 809 million (30 June 2018: RUB 4 million).

Issuance of corporate loans in the amount of RUB 229 591 million during six-month period ended 30 June 2019 (30 June 2018: RUB 283 163 million) during the year resulted in increase of ECL in the amount of RUB 5 755 million (30 June 2018: RUB 6 051 million).

### Credit quality of loans to individuals

The following tables provide information on the credit quality of loans to individuals as at 30 June 2019:

| | 30 June 2019 (Unaudited) | | | | |
|---|---|---|---|---|---|
| | **Cash loans** | **Mortgage loans** | **Credit card loans** | **Auto loans** | **Total** |
| **Loans to individuals** | | | | | |
| - Not past due | 68 368 | 22 484 | 3 333 | 57 | 94 242 |
| - Overdue less than 31 days | 1 916 | 175 | 39 | 2 | 2 132 |
| - Overdue 31-60 days | 502 | 60 | - | 1 | 563 |
| - Overdue 61-90 days | 410 | 62 | 28 | - | 500 |
| - Overdue 91-180 days | 945 | 141 | 60 | 1 | 1 147 |
| - Overdue 181-360 days | 1 385 | 193 | 90 | 3 | 1 671 |
| - Overdue more than 360 days | 587 | 260 | 37 | - | 884 |
| **Gross loans to individuals** | **74 113** | **23 375** | **3 587** | **64** | **101 139** |
| **Credit loss allowance** | **(4 950)** | **(255)** | **(280)** | **(4)** | **(5 489)** |
| **Net loans to individuals** | **69 163** | **23 120** | **3 307** | **60** | **95 650** |

*(in millions of Russian Roubles unless otherwise stated)*

| | 30 June 2019 (Unaudited) | | | |
|---|---|---|---|---|
| | **Stage 1 12-month ECL** | **Stage 2 Lifetime ECL not credit-impaired** | **Stage 3 Lifetime ECL credit-impaired** | **Total** |
| ***Loans to individuals*** | | | | |
| - Not past due | 92 013 | 2 091 | 138 | 94 242 |
| - Overdue less than 31 days | 154 | 1 977 | 1 | 2 132 |
| - Overdue 31-60 days | - | 559 | 4 | 563 |
| - Overdue 61-90 days | - | 496 | 4 | 500 |
| - Overdue 91-180 days | - | - | 1 147 | 1 147 |
| - Overdue 181-360 days | - | - | 1 671 | 1 671 |
| - Overdue more than 360 days | - | - | 884 | 884 |
| **Total** | **92 167** | **5 123** | **3 849** | **101 139** |
| **Credit loss allowance** | **(1 125)** | **(1 329)** | **(3 035)** | **(5 489)** |
| **Carrying amount** | **91 042** | **3 794** | **814** | **95 650** |

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

| | 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** |

*(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** | **Total** |
| ***Loans to individuals*** | | | | |
| - 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** |

## 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 six months ended 30 June 2019 are as follows:

| | Six-month period ended 30 June 2019 (Unaudited)* | | | |
|---|---|---|---|---|
| | **Stage 1 12-month ECL** | **Stage 2 Lifetime ECL not credit-impaired** | **Stage 3 Lifetime ECL credit-impaired** | **Total** |
| ***Cash loans*** | | | | |
| **Balance at the beginning of the period** | **1 011** | **884** | **3 032** | **4 927** |
| Transfer to 12-month ECL | 200 | (139) | (61) | - |
| Transfer to lifetime ECL not credit-impaired | (92) | 136 | (44) | - |
| Transfer to lifetime ECL credit-impaired | (50) | (344) | 394 | - |
| Net remeasurement of loss allowance | (247) | 652 | 1 390 | 1 795 |
| New financial assets originated or purchased | 277 | 81 | 23 | 381 |
| Financial assets that have been fully repaid | (85) | (48) | (105) | (238) |
| Write-offs | - | - | (2 699) | (2 699) |
| Recoveries of amounts previously written-off | 16 | 5 | 581 | 602 |
| Unwinding of discount | - | - | 190 | 190 |
| Foreign exchange and other movements | (2) | (6) | - | (8) |
| **Balance at the end of the period** | **1 028** | **1 221** | **2 701** | **4 950** |

* 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)*

| | Six-month period ended 30 June 2019 (Unaudited)* | | | |
|---|---|---|---|---|
| | **Stage 1 12-month ECL** | **Stage 2 Lifetime ECL not credit-impaired** | **Stage 3 Lifetime ECL credit-impaired** | **Total** |
| ***Mortgage loans*** | | | | |
| **Balance at the beginning of the period** | **51** | **15** | **228** | **294** |
| Transfer to 12-month ECL | 22 | (2) | (20) | - |
| Transfer to lifetime ECL not credit-impaired | (3) | 20 | (17) | - |
| Transfer to lifetime ECL credit-impaired | - | (7) | 7 | - |
| Net remeasurement of loss allowance | (37) | 10 | (32) | (59) |
| New financial assets originated or purchased | 19 | - | 11 | 30 |
| Financial assets that have been fully repaid | (2) | (2) | (23) | (27) |
| Write-offs | - | - | (163) | (163) |
| Recoveries of amounts previously written-off | - | - | 176 | 176 |
| Unwinding of discount | - | - | 6 | 6 |
| Foreign exchange and other movements | (1) | - | (1) | (2) |
| **Balance at the end of the period** | **49** | **34** | **172** | **255** |
| ***Credit card loans*** | | | | |
| **Balance at the beginning of the period** | **40** | **50** | **153** | **243** |
| Transfer to 12-month ECL | 10 | (10) | - | - |
| Transfer to lifetime ECL not credit-impaired | (5) | 6 | (1) | - |
| Transfer to lifetime ECL credit-impaired | (1) | (18) | 19 | - |
| Net remeasurement of loss allowance | 2 | 54 | 81 | 137 |
| New financial assets originated or purchased | 5 | 3 | - | 8 |
| Financial assets that have been fully repaid | (4) | (12) | (11) | (27) |
| Write-offs | - | - | (122) | (122) |
| Recoveries of amounts previously written-off | - | - | 26 | 26 |
| Unwinding of discount | - | - | 15 | 15 |
| **Balance at the end of the period** | **47** | **73** | **160** | **280** |
| ***Auto loans*** | | | | |
| **Balance at the beginning of the period** | **-** | **1** | **3** | **4** |
| Net remeasurement of loss allowance | - | - | (10) | (10) |
| Financial assets that have been fully repaid | - | - | - | - |
| Write-offs | - | - | (3) | (3) |
| Recoveries of amounts previously written-off | - | - | 13 | 13 |
| **Balance at the end of the period** | **-** | **1** | **3** | **4** |

* 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)*

| | Six-month period ended 30 June 2018 (Unaudited)* | | | |
|---|---|---|---|---|
| | **Stage 1 12-month ECL** | **Stage 2 Lifetime ECL not credit-impaired** | **Stage 3 Lifetime ECL credit-impaired** | **Total** |
| ***Cash loans*** | | | | |
| **Balance at the beginning of the period** | **1 294** | **933** | **3 880** | **6 107** |
| Transfer to 12-month ECL | 458 | (194) | (264) | - |
| Transfer to lifetime ECL not credit-impaired | (80) | 145 | (65) | - |
| Transfer to lifetime ECL credit-impaired | (102) | (491) | 593 | - |
| Net remeasurement of loss allowance | (559) | 498 | 903 | 842 |
| New financial assets originated or purchased | 256 | 68 | 48 | 372 |
| Financial assets that have been fully repaid | (145) | (82) | (118) | (345) |
| Write-offs | - | - | (1 704) | (1 704) |
| Recoveries of amounts previously written-off | - | - | 132 | 132 |
| Unwinding of discount | - | - | 321 | 321 |
| **Balance at the end of the period** | **1 122** | **877** | **3 726** | **5 725** |
| ***Mortgage loans*** | | | | |
| **Balance at the beginning of the period** | **79** | **39** | **565** | **683** |
| Transfer to 12-month ECL | 28 | (10) | (18) | - |
| Transfer to lifetime ECL not credit-impaired | (1) | 2 | (1) | - |
| Transfer to lifetime ECL credit-impaired | (1) | (23) | 24 | - |
| Net remeasurement of loss allowance | (51) | 8 | (35) | (78) |
| New financial assets originated or purchased | 23 | 1 | 15 | 39 |
| Financial assets that have been fully repaid | (4) | (5) | (34) | (43) |
| Write-offs | - | - | (194) | (194) |
| Recoveries of amounts previously written-off | - | - | 229 | 229 |
| Unwinding of discount | - | - | 12 | 12 |
| Foreign exchange and other movements | - | - | (2) | (2) |
| **Balance at the end of the period** | **73** | **12** | **561** | **646** |

* 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)*

| | Six-month period ended 30 June 2018 (Unaudited)* | | | |
|---|---|---|---|---|
| | **Stage 1 12-month ECL** | **Stage 2 Lifetime ECL not credit-impaired** | **Stage 3 Lifetime ECL credit-impaired** | **Total** |
| ***Credit card loans*** | | | | |
| **Balance at the beginning of the period** | **51** | **82** | **177** | **310** |
| Transfer to 12-month ECL | 19 | (19) | - | - |
| Transfer to lifetime ECL not credit-impaired | (5) | 5 | - | - |
| Transfer to lifetime ECL credit-impaired | (1) | (22) | 23 | - |
| Net remeasurement of loss allowance | (14) | 69 | 39 | 94 |
| New financial assets originated or purchased | 5 | 6 | 2 | 13 |
| Financial assets that have been fully repaid | (7) | (24) | (11) | (42) |
| Write-offs | - | - | (83) | (83) |
| Recoveries of amounts previously written-off | - | - | 9 | 9 |
| Unwinding of discount | - | - | 20 | 20 |
| **Balance at the end of the period** | **48** | **97** | **176** | **321** |
| ***Auto loans*** | | | | |
| **Balance at the beginning of the period** | **2** | **1** | **19** | **22** |
| Net remeasurement of loss allowance | - | - | (3) | (3) |
| Financial assets that have been fully repaid | (1) | - | (2) | (3) |
| Write-offs | - | - | (11) | (11) |
| Recoveries of amounts previously written-off | - | - | 11 | 11 |
| **Balance at the end of the period** | **1** | **1** | **14** | **16** |

* 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)*

**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:

| | 30 June 2019 (Unaudited) | 31 December 2018 |
|---|---|---|
| Loans to individuals | 101 139 | 96 602 |
| Petroleum refining / production and trading | 142 953 | 140 819 |
| Crude oil production and trading | 120 701 | 175 881 |
| Property rental | 65 810 | 50 961 |
| Residential and commercial construction and development | 55 042 | 55 230 |
| Automotive, motorcycles and spare parts | 50 035 | 51 457 |
| Equipment leasing | 34 874 | 33 360 |
| Industrial chemicals | 26 152 | 30 558 |
| Financial companies | 21 817 | 17 920 |
| Food and farm products | 21 103 | 18 567 |
| Metallurgical | 18 805 | 24 783 |
| Services | 14 388 | 13 739 |
| Industrial equipment and machinery | 7 035 | 7 023 |
| Consumer electronics, appliances and computers | 6 950 | 8 424 |
| Clothing, shoes, textiles and sporting goods | 5 848 | 5 268 |
| Consumer chemicals, perfumes and hygiene products | 3 387 | 3 485 |
| Transport infrastructure contractors | 2 302 | 1 968 |
| Telecommunications | 2 300 | 69 |
| Industrial and infrastructure construction | 2 052 | 1 271 |
| Construction and decorative materials, furniture | 1 547 | 1 492 |
| Paper, stationery and packaging products | 914 | 915 |
| Books, video, print and copy | 28 | 32 |
| Pharmaceutical and medical products | - | 35 |
| Government and municipal bodies | - | 90 |
| Products for home, gifts, jewelry and business accessories | - | 57 |
| Other | - | 125 |
| **Total gross loans to customers** | **705 182** | **740 131** |
| Credit loss allowance | (38 702) | (31 086) |
| **Net loans to customers** | **666 480** | **709 045** |

# 13 Investment financial assets

| | 30 June 2019 (Unaudited) | 31 December 2018 |
|---|---|---|
| Investment financial assets measured at fair value through other comprehensive income – debt instruments, including pledged under repurchase agreements | 183 819 | 174 960 |
| Investment financial assets measured at amortised cost, including pledged under repurchase agreements | 35 642 | 39 401 |
| Investment financial assets at fair value through profit or loss | 11 395 | 120 |

*(in millions of Russian Roubles unless otherwise stated)*

| | | |
|---|---|---|
| **Total investment financial assets** | **230 856** | **214 481** |

As at 30 June 2019, investment financial assets in the amount of RUB 179 793 million are qualified to be pledged against borrowings from the Central bank of the Russian Federation (31 December 2018: investment financial assets in the amount of RUB 166 447 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

| | 30 June 2019 (Unaudited) | 31 December 2018 |
|---|---|---|
| **Held by the Group** | | |
| Russian Government Federal bonds (OFZ) | 20 454 | 18 891 |
| Russian Government Eurobonds | 41 775 | 7 671 |
| Regional authorities and municipal bonds | 52 | 1 367 |
| Central Bank of the Russian Federation bonds | 53 546 | - |
| Corporate bonds | 33 984 | 41 825 |
| Corporate eurobonds | 3 926 | 2 525 |
| **Total held by the Group** | **153 737** | **72 279** |
| **Pledged under sale and repurchase agreements** | | |
| Russian Government Federal bonds (OFZ) | 3 297 | 5 374 |
| Russian Government Eurobonds | 734 | 61 112 |
| Corporate bonds | 24 707 | 27 103 |
| Corporate eurobonds | 1 344 | 9 092 |
| **Total pledged under sale and repurchase agreements** | **30 082** | **102 681** |
| **Total investment financial assets measured at fair value through other comprehensive income – debt instruments** | **183 819** | **174 960** |

### Investment financial assets measured at amortised cost

| | 30 June 2019 (Unaudited) | 31 December 2018 |
|---|---|---|
| **Held by the Group** | | |
| Corporate eurobonds | 16 283 | 7 885 |
| Corporate bonds | 726 | 4 337 |
| Promissory notes | 450 | 450 |
| **Total held by the Group** | **17 459** | **12 672** |
| **Pledged under sale and repurchase agreements** | | |
| Corporate eurobonds | 12 615 | 24 086 |
| Corporate bonds | 5 973 | 3 088 |
| **Total pledged under sale and repurchase agreements** | **18 588** | **27 174** |
| Credit loss allowance | (405) | (445) |
| **Investment financial assets measured at amortised cost** | **35 642** | **39 401** |

*(in millions of Russian Roubles unless otherwise stated)*

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

| | 30 June 2019 (Unaudited) | 31 December 2018 |
|---|---|---|
| Equity investments | 11 395 | 120 |
| **Total investment financial assets designated as at fair value through profit or loss** | **11 395** | **120** |

Movements in the credit loss allowance of investment financial assets measured at fair value through other comprehensive income by three ECL stages for the six-month periods ended 30 June 2019 and 30 June 2018 are as follows:

| | Six-month period ended 30 June 2019 (Unaudited) | | | |
|---|---|---|---|---|
| | 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 period** | **618** | **-** | **-** | **618** |
| Net recovery | (158) | - | - | (158) |
| **Balance at the end of the period** | **460** | **-** | **-** | **460** |

| | Six-month period ended 30 June 2018 (Unaudited) | | | |
|---|---|---|---|---|
| | 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 period** | **805** | **-** | **-** | **805** |
| Net recovery | (286) | - | - | (286) |
| **Balance at the end of the period** | **519** | **-** | **-** | **519** |

Movements in the credit loss allowance of investment financial assets measured at amortised cost by three ECL stages for the six-month periods ended 30 June 2019 and 30 June 2018 are as follows:

| | Six-month period ended 30 June 2019 (Unaudited) | | | |
|---|---|---|---|---|
| | Stage 1 12-month ECL | Stage 2 Lifetime ECL not credit-impaired | Stage 3 Lifetime ECL credit-impaired | Total |
| **Investment financial assets measured at amortized cost** | | | | |
| **Balance at the beginning of the period** | **175** | **-** | **270** | **445** |
| Net recovery | (40) | - | - | (40) |
| **Balance at the end of the period** | **135** | **-** | **270** | **405** |

*(in millions of Russian Roubles unless otherwise stated)*

| | Six-month period ended 30 June 2018 (Unaudited) | | | |
|---|---|---|---|---|
| | **Stage 1 12-month ECL** | **Stage 2 Lifetime ECL not credit-impaired** | **Stage 3 Lifetime ECL credit-impaired** | **Total** |
| **Investment financial assets measured at amortized cost** | | | | |
| **Balance at the beginning of the period** | **21** | **7** | **270** | **298** |
| Net charge (recovery) | 114 | (4) | - | 110 |
| **Balance at the end of the period** | **135** | **3** | **270** | **408** |

## Credit quality analysis

The following table sets out information about the credit quality of financial assets measured at amortised cost and FVOCI debt instruments as at 30 June 2019.

| | 30 June 2019 (Unaudited) | | | |
|---|---|---|---|---|
| | **Stage 1 12-month ECL** | **Stage 2 Lifetime ECL not credit-impaired** | **Stage 3 Lifetime ECL credit-impaired** | **Total** |
| ***Debt investment securities at amortised cost*** | | | | |
| rated from BBB+ to BBB- | 25 454 | - | - | 25 454 |
| rated from BB+ to BB- | 10 001 | - | - | 10 001 |
| rated from B+ to B- | 110 | - | - | 110 |
| not rated | 32 | - | 450 | 482 |
| **Total** | **35 597** | **-** | **450** | **36 047** |
| **Credit loss allowance** | **(135)** | **-** | **(270)** | **(405)** |
| **Carrying amount** | **35 462** | **-** | **180** | **35 642** |
| ***Debt investment securities at FVOCI*** | | | | |
| rated from BBB+ to BBB- | 154 867 | - | - | 154 867 |
| rated from BB+ to BB- | 8 931 | - | - | 8 931 |
| rated from B+ to B- | 7 088 | - | - | 7 088 |
| from CCC+ to CCC- | - | - | - | - |
| not rated | 12 933 | - | - | 12 933 |
| **Total** | **183 819** | **-** | **-** | **183 819** |
| **Credit loss allowance** | **(460)** | **-** | **-** | **(460)** |
| **Gross carrying amount** | **183 797** | **-** | **-** | **183 797** |
| **Carrying amount – fair value** | **183 819** | **-** | **-** | **183 819** |

*(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** | **Total** |
| ***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** |

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

As at 30 June 2019, included in not rated debt investment securities at amortised cost are counterparties with credit ratings equivalent to Moderate credit risk category RUB 32 million (31 December 2018: Moderate credit risk category RUB 3 516 million, Low credit risk category RUB 2 755 million).

As at 30 June 2019, 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 2 030 million (31 December 2018: RUB 2 058 million), to Moderate credit risk category RUB 10 903 million (31 December 2018: RUB 14 33 million).

As at 30 June 2019, investment financial assets balances for ECL calculation for which external benchmark information represents a significant input into measurement of ECL are RUB 119 154 million (31 December 2018: RUB 96 429 million).

*(in millions of Russian Roubles unless otherwise stated)*

# 14 Due to credit institutions

| | 30 June 2019 (Unaudited) | 31 December 2018 |
|---|---|---|
| Payables under repurchase agreements | 462 788 | 487 959 |
| Term deposits | 25 494 | 15 827 |
| Syndicated debt | 27 355 | 21 799 |
| Current accounts | 37 852 | 27 345 |
| **Total due to credit institutions** | **553 489** | **552 930** |

As at 30 June 2019, the fair value of securities that serve as collateral under sale and repurchase agreements is RUB 504 880 million (31 December 2018: RUB 551 204 million).

As at 30 June 2019, the fair value of securities received as collateral under reverse repo deals being pledged for direct repo deals is RUB 457 255 million (31 December 2018: RUB 429 174 million).

# 15 Due to customers

| | 30 June 2019 (Unaudited) | 31 December 2018 |
|---|---|---|
| **Corporate customers** | | |
| Term and demand deposits | 655 944 | 789 711 |
| Current accounts | 67 599 | 33 086 |
| Subordinated debt | 41 642 | 43 571 |
| Payables under repurchase agreements | 1 696 | 30 065 |
| Term notes | 525 | 666 |
| **Total corporate customers** | **767 406** | **897 099** |
| **Individuals** | | |
| Term and demand deposits | 387 712 | 355 277 |
| Current accounts | 49 519 | 19 799 |
| **Total individuals** | **437 231** | **375 076** |
| **Total due to customers** | **1 204 637** | **1 272 175** |

As at 30 June 2019, the fair value of securities that serve as collateral under sale and repurchase agreements is RUB 1 927 million (31 December 2018: RUB 33 838 million).

As at 30 June 2019, there are no securities received as collateral under reverse repo deals being pledged for direct repo deals (31 December 2018: RUB 23 334 million).

# 16 Debt securities issued

| | 30 June 2019 (Unaudited) | 31 December 2018 |
|---|---|---|
| Bonds | 114 439 | 61 134 |
| Subordinated bonds | 40 672 | 44 171 |
| **Total debt securities issued** | **155 111** | **105 305** |

# 17 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 30 June 2019 comprises 27 079 709 866 shares (31 December 2018: 27 079 709 866 shares) with par value of 1 RUB per share. In addition, at 30 June 2019 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 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.

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 interim condensed 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 20).

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.

During six-month period ended 30 June 2019 the Group declared and paid dividends for 2018 in the amount of RUB 2 979 million. The amount of dividends per share was RUB 0,11.

# 18 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)*

# 19 Related party transactions

The outstanding balances with related parties and related average interest rates as at 30 June 2019 and 31 December 2018 are as follows:

| | 30 June 2019 (Unaudited) | | 31 December 2018 | |
|---|---|---|---|---|
| | **Amount** | **Average effective interest rate** | **Amount** | **Average effective interest rate** |
| **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 | 530 | | 23 | |
| **Total trading financial assets** | **530** | | **23** | |
| **Loans to customers** | | | | |
| Under control of principal beneficiary | 23 359 | 12,0% | 24 314 | 12,2% |
| Management | 600 | 7,7% | 686 | 8,5% |
| **Total loans to customers** | **23 959** | | **25 000** | |
| **Investment financial assets** | | | | |
| Under control of principal beneficiary | 6 091 | 10,6% | - | |
| **Total investment financial assets** | **6 091** | | **-** | |
| **Due to credit institutions** | | | | |
| Under control of principal beneficiary | 4 851 | 0,1% | - | - |
| **Total due to credit institutions** | **4 851** | | **-** | |
| **Due to customers** | | | | |
| **Term deposits by customers** | | | | |
| Under control of principal beneficiary | 22 670 | 7,4% | 9 277 | 7,3% |
| Management | 367 | 4,1% | 388 | 5,4% |
| Principal beneficiary | 258 | 1,9% | 1 122 | 2,9% |
| Parent company | 5 | 0,0% | 9 999 | 6,7% |
| **Total term deposits by customers** | **23 300** | | **20 786** | |
| **Current accounts by customers** | | | | |
| Parent company | 8 839 | | 26 | |
| Under control of principal beneficiary | 427 | | 1 840 | |
| Management | 110 | | 42 | |
| Principal beneficiary | 1 | | 4 | |
| **Total current accounts by customers** | **9 377** | | **1 912** | |
| **Total due to customers** | **32 677** | | **22 698** | |
| **Debt securities issued** | | | | |
| Under control of principal beneficiary | 5 741 | 9,6% | 5 712 | 9,5% |
| Parent company | 1 813 | 13,2% | - | - |
| **Total debts securities issued** | **6 202** | | **5 712** | |
| **Other liabilities** | | | | |
| Under control of principal beneficiary | 140 | | 802 | |
| **Total other liabilities** | **140** | | **802** | |
| **Guarantees issued** | | | | |
| Under control of principal beneficiary | 91 | | 90 | |
| **Total guarantees issued** | **91** | | **90** | |

*(in millions of Russian Roubles unless otherwise stated)*

As at 30 June 2019, the company under control of principal beneficiary has an investment in perpetual debt issued in amount of RUB 5 693 million (31 December 2018: RUB 4 458 million). During the six-month period ended 30 June 2019 the company under control of principal beneficiary received coupon payments on perpetual debt issued from the Group in the amount of RUB 117 million (six-month period ended 30 June 2018: RUB 197 million).

As at 30 June 2019, the undrawn loan commitments under credit line agreements for principal beneficiary and for management are RUB 154 million (31 December 2018: RUB 111 million).

Amounts included in profit or loss and other comprehensive income for the six-month periods ended 30 June 2019 and 30 June 2018 in relation to transactions with related parties are as follows:

| | **Six-Month Period Ended 30 June 2019 (Unaudited)** | **Six-Month Period Ended 30 June 2018 Unaudited)** |
|---|---|---|
| **Interest income calculated using the effective interest method** | | |
| Under control of principal beneficiary | 1 814 | 1 551 |
| Management | 26 | 41 |
| Parent company | - | 10 |
| Principal beneficiary | - | 2 |
| **Total interest income calculated using the effective interest method** | **1 840** | **1 604** |
| **Interest expense** | | |
| Under control of principal beneficiary | (1 073) | (721) |
| Parent company | (205) | (21) |
| Principal beneficiary | (20) | (16) |
| Management | (12) | (7) |
| **Total interest expense** | **(1 310)** | **(765)** |
| **Commission income** | | |
| Under control of principal beneficiary | 188 | 160 |
| Parent company | 24 | 11 |
| **Total commission income** | **212** | **171** |
| **Net foreign exchange gain (loss)** | | |
| Under control of principal beneficiary | 5 676 | (4 657) |
| Parent company | (68) | - |
| **Total net foreign exchange loss** | **5 608** | **(4 657)** |

Total remuneration of the Supervisory Board and the Management Board included in employee compensation for the six-month periods ended 30 June 2019 and 30 June 2018 (refer to Note 6) is as follows:

| | **Six-Month Period Ended 30 June 2019 (Unaudited)** | **Six-Month Period Ended 30 June 2018 (Unaudited)** |
|---|---|---|
| Board Members of the Management Board | (588) | (382) |
| Members of the Supervisory Board | (49) | (38) |
| | **(637)** | **(420)** |

*(in millions of Russian Roubles unless otherwise stated)*

# 20 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 30 June 2019 and 31 December 2018, 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 30 June 2019 (unaudited) and 31 December 2018.

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 30 June 2019 and 31 December 2018 is as follows:

| | **30 June 2019 (Unaudited)** | **31 December 2018** |
|---|---|---|
| **Tier 1 capital** | | |
| Share capital and additional paid-in capital | 74 189 | 74 189 |
| Retained earnings | 72 215 | 71 637 |
| Intangible assets | (626) | (417) |
| **Core tier 1 capital** | **145 778** | **145 409** |
| ***Additional capital*** | | |
| Perpetual debt issued | 42 385 | 46 691 |
| **Total tier 1 capital** | **188 163** | **192 100** |
| **Tier 2 capital** | | |
| Revaluation surplus for buildings | 490 | 490 |
| Fair value reserve for securities | 386 | (1 834) |
| ***Subordinated debt*** | | |
| Subordinated loans | 61 154 | 63 072 |
| Subordinated bonds | 40 116 | 43 563 |
| **Total tier 2 capital** | **102 146** | **105 291** |
| **Total capital** | **290 309** | **297 391** |
| **Risk-weighted assets** | | |
| Banking book | 863 605 | 922 193 |
| Trading book | 404 408 | 322 582 |
| Operational risk | 113 602 | 113 602 |
| **Total risk weighted assets** | **1 381 615** | **1 358 377** |
| **Total core tier 1 capital expressed as a percentage of risk-weighted assets (core tier 1 capital ratio) (%)** | **10,6** | **10,7** |
| **Total tier 1 capital expressed as a percentage of risk-weighted assets (tier 1 capital ratio) (%)** | **13,6** | **14,1** |
| **Total capital expressed as a percentage of risk-weighted assets (total capital ratio) (%)** | **21,0** | **21,9** |

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.

# 21 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 2019 the Group revised its approach to allocation of assets, liabilities and financial results between reportable segments. Comparative information was revised accordingly.

*(in millions of Russian Roubles unless otherwise stated)*

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

| | 30 June 2019 (Unaudited) | 31 December 2018 |
|---|---|---|
| **ASSETS** | | |
| Corporate banking | 587 924 | 635 368 |
| Retail banking | 106 671 | 100 208 |
| Treasury | 1 391 948 | 1 386 574 |
| Cash operations | 31 688 | 23 777 |
| **Total assets** | **2 118 231** | **2 145 927** |
| **LIABILITIES** | | |
| Corporate banking | 782 124 | 909 275 |
| Retail banking | 444 452 | 377 747 |
| Treasury | 692 267 | 661 347 |
| Cash operations | 9 723 | 6 385 |
| **Total liabilities** | **1 928 566** | **1 954 754** |

Segment information for the main reportable segments for the six-month ended 30 June 2019 is set below:

| (Unaudited) | Corporate banking | Retail banking | Treasury | Cash operations | Total |
|---|---|---|---|---|---|
| External interest income | 24 315 | 7 496 | 38 678 | 60 | 70 549 |
| Fee and commission income | 2 210 | 2 623 | 154 | 2 474 | 7 461 |
| Net gain on trading financial assets | - | - | 53 | - | 53 |
| Net loss from sale and redemption of investment financial assets at FVOCI | - | - | (201) | - | (201) |
| Net realised gain on investment financial assets at amortised cost | - | - | 300 | - | 300 |
| Net foreign exchange losses | - | - | (7 851) | - | (7 851) |
| Other operating (expenses) income, net | (343) | 169 | 21 | 179 | 26 |
| Revenue (expenses) from other segments | 4 698 | 12 274 | (17 043) | 71 | - |
| **Revenue** | **30 880** | **22 562** | **14 111** | **2 784** | **70 337** |
| (Charge for) recovery of credit losses on debt financial assets and loss on modifications | (3 888) | (1 990) | 324 | (1) | (5 555) |
| Interest expense | (19 499) | (13 033) | (18 918) | (62) | (51 512) |
| Fee and commission expense | (2) | (1 491) | (359) | (13) | (1 865) |
| Net loss on loans to customers at FVTPL | (396) | - | - | - | (396) |
| Impairment (losses) recoveries on other non-financial assets, (charge for) recovery of credit losses on other financial assets and credit related commitments and other provisions | 3 465 | (153) | 132 | (41) | 3 403 |
| General administrative and other expenses | (2 816) | (5 134) | (1 611) | (2 391) | (11 952) |
| **Expense** | **(23 136)** | **(21 801)** | **(20 432)** | **(2 508)** | **(67 877)** |
| **Segment result** | **7 744** | **761** | **(6 321)** | **276** | **2 460** |

*(in millions of Russian Roubles unless otherwise stated)*

Segment information for the main reportable segments for the six-month period ended 30 June 2018 is set below:

| (Unaudited) | Corporate banking | Retail banking | Treasury | Cash operations | Total |
|---|---|---|---|---|---|
| External interest income | 28 197 | 6 826 | 32 420 | 47 | 67 490 |
| Fee and commission income | 1 947 | 2 992 | 278 | 2 045 | 7 262 |
| Net gain on trading financial assets | - | - | 13 | - | 13 |
| Net gain from sale and redemption of investment financial assets at FVOCI | - | - | 759 | - | 759 |
| Net foreign exchange gains (losses) | 709 | - | (2 017) | - | (1 308) |
| Other operating income (expenses), net | 1 080 | 50 | (146) | (8) | 976 |
| (Expenses) revenue from other segments | (7 717) | 8 348 | (1 106) | 475 | - |
| **Revenue** | **24 216** | **18 216** | **30 201** | **2 559** | **75 192** |
| Recovery of (charge for) credit loss on debt financial assets | 1 252 | (842) | (442) | 1 | (31) |
| Interest expense | (11 512) | (10 204) | (21 946) | - | (43 662) |
| Fee and commission expense | (5) | (1 403) | (135) | (6) | (1 549) |
| Net loss on loans to customers at fair value through profit or loss | (3 839) | - | - | - | (3 839) |
| Impairment (losses) recoveries on other non-financial assets, (charge for) recovery of credit losses on other financial assets and credit related commitments and other provisions | (1 406) | (6) | 2 | (35) | (1 445) |
| General administrative and other expenses | (2 239) | (4 155) | (1 224) | (2 324) | (9 942) |
| **Expense** | **(17 749)** | **(16 610)** | **(23 745)** | **(2 364)** | **(60 468)** |
| **Segment result** | **6 467** | **1 606** | **6 456** | **195** | **14 724** |

## Impact of IFRS 16

The impact of the first application of IFRS 16 as at 30 June 2019 and during the six months ended 30 June 2019:

| (Unaudited) | Corporate business | Retail banking | Treasury | Cash operations | Total |
|---|---|---|---|---|---|
| **ASSETS and LIABILITIES** | | | | | |
| Right-of-use assets | 531 | 2 318 | 66 | 84 | 2 999 |
| Lease liabilities presented in other liabilities | 516 | 2 250 | 64 | 81 | 2 911 |
| **Statement of Profit or Loss and Other Comprehensive Income** | | | | | |
| Depreciation charges | (75) | (319) | (8) | (12) | (414) |
| Interest expenses | (24) | (100) | (3) | (4) | (131) |
| **Profit before income taxes** | **(99)** | **(419)** | **(11)** | **(16)** | **(545)** |

*(in millions of Russian Roubles unless otherwise stated)*

# 22 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 30 June 2019:

| (Unaudited) | FVTPL | Amortised cost | FVOCI | Total carrying amount | Fair value |
|---|---|---|---|---|---|
| Cash and cash equivalents | - | 702 466 | - | 702 466 | 702 466 |
| Obligatory reserves with the CBR | - | 15 568 | - | 15 568 | 15 568 |
| Due from credit and other financial institutions | - | 466 782 | - | 466 782 | 466 782 |
| Trading financial assets | 17 463 | - | - | 17 463 | 17 463 |
| Loans to customers | 59 205 | 607 275 | - | 666 480 | 671 885 |
| Investment financial assets | 11 395 | 35 642 | 183 819 | 230 856 | 232 257 |
| Other financial assets | - | 1 488 | - | 1 488 | 1 488 |
| | **88 063** | **1 829 221** | **183 819** | **2 101 103** | **2 107 909** |
| Due to credit institutions | - | 553 489 | - | 553 489 | 553 489 |
| Due to customers | - | 1 204 637 | - | 1 204 637 | 1 233 956 |
| Debt securities issued | - | 155 111 | - | 155 111 | 153 705 |
| Other financial liabilities | 677 | 6 170 | - | 6 847 | 6 847 |
| | **677** | **1 919 407** | **-** | **1 920 084** | **1 947 997** |

The main assumptions used by management to estimate the fair values of financial instruments as at 30 June 2019 are:

- discount rates from 9,0% to 12,5% (roubles) and from 3,7% to 8,2% (foreign currency) are used for discounting future cash flows from corporate loans;
- discount rates from 9,7% to 26,3% (roubles) and from 5,6% to 9,7% (foreign currency) are used for discounting future cash flows from loans to individuals;
- discount rates from 7,2% to 7,4% (roubles) and from 1,9% to 2,9% (foreign currency) are used for discounting future cash flows from corporate deposits;
- discount rates from 5,0% to 7,3% (roubles) and from 1,4% to 2,2% (foreign currency) are used for discounting future cash flows from retail deposits.

*(in millions of Russian Roubles unless otherwise stated)*

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

| | 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 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 premium 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.

*(in millions of Russian Roubles unless otherwise stated)*

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 interim condensed 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 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 30 June 2019 and 31 December 2018:

| **30 June 2019 (unaudited)** | **Level 1** | **Level 2** | **Level 3** | **Total** |
|---|---|---|---|---|
| Trading financial assets | 10 699 | 6 764 | - | **17 463** |
| Loans to customers | - | - | 671 885 | **671 885** |
| Investment financial assets | 220 682 | 11 395 | 180 | **232 257** |
| Due to customers | - | 1 233 956 | - | **1 233 956** |
| Debt securities issued | 153 705 | - | - | **153 705** |

| **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** |

During the six-month period ended 30 June 2019 there was no transfer of assets between Level 1 and Level 3 (2018: RUB 180 million).

*(in millions of Russian Roubles unless otherwise stated)*

A reconciliation of movements in fair value of loans to customers at FVTPL for the six-month period ended 30 June 2019 and 30 June 2018 is as follows:

| | 30 June 2019 (Unaudited) | 30 June 2018 (Unaudited) |
|---|---|---|
| Fair value as at 1 January | 63 383 | 32 714 |
| Loan issues | 2 059 | 38 752 |
| Loan repayments | (2 021) | (8 025) |
| Interest income recognised | 1 716 | 1 535 |
| Changes in fair value measurement | (396) | (3 839) |
| Write-offs | - | (1 909) |
| Net foreign exchange (loss) gain | (5 536) | 2 238 |
| **Fair value as at 30 June** | **59 205** | **61 466** |

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 30 June 2019:

| (Unaudited) Type of instrument | Fair values | Valuation technique | Significant unobservable input | Unobservable inputs used |
|---|---|---|---|---|
| Loans to customers at FVTPL | 59 205 | Discounted cash flow from operating activities | Risk-adjusted discount rate | RUB: 7,4% - 29,1%<br>USD: 4,5% - 7,1%<br>EUR: 2,7% |

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%<br>USD: 5,2% - 7,1%<br>EUR: 3,7% |

If discount rates differ by plus/minus one percent, fair values of these instruments would be RUB 58 159 million and RUB 59 684 million respectively (31 December 2018: RUB 61 531 million – RUB 64 358 million).

# 23 Earnings per share

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

Basic earnings per share are calculated as follows:

| | Six-Month Period Ended 30 June 2019 (Unaudited) | Six-Month Period Ended 30 June 2018 (Unaudited) | Three-Month Period Ended 30 June 2019 (Unaudited) | Three-Month Period Ended 30 June 2018 (Unaudited) |
|---|---|---|---|---|
| Profit for the period | 2 161 | 11 004 | 1 923 | 8 711 |
| Interest paid on perpetual debt issue, net of tax | (1 561) | (1 496) | (775) | (779) |
| Total profit for the period | 600 | 9 508 | 1 148 | 7 932 |
| Weighted average number of ordinary shares in issue | 27 079 709 866 | 27 079 709 866 | 27 079 709 866 | 27 079 709 866 |
| **Basic and diluted earnings per share (in RUB per share)** | **0,02** | **0,35** | **0,04** | **0,29** |

# 24 Events subsequent to the reporting date

In July 2019 the Bank approved a RUB 1,2 billion charter capital increase for its subsidiary LLC "Inkahran-Servis" by way of an additional contribution to its charter capital.

In July 2019 the Bank paid out the 10th coupon in the amount of RUB 2,4 million or RUB 42.15 per bond on domestic bonds series BO-10 and fully redeemed them. 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 July 2019 the Bank paid out the 10th coupon in the amount of RUB 381,0 million or RUB 45,37 per bond on domestic bonds series BO-11 and fully redeemed them. 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 July 2019 the Bank placed in full its bond issues series BSO-P02 and BSO-P03, each issue worth RUB 300 million. The bonds were placed by public subscription and have three annual coupons, each paying 4,5% per annum for series BSO-P02 and 4% per annum for series BSO-P03. Additional payments are linked to changes in SMIDAI2 index. The nominal value of one bond is RUB 1 000.

In July 2019 the Bank paid out the 2nd 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 August 2019 the Group paid out the coupon in the amount of USD 14,9 million on perpetual subordinated Loan Participation Notes with the nominal value of USD 670 million.

In August 2019 the Group paid out the coupon in the amount of USD 13,9 million on 5-year Loan Participation Notes due 2023 with the nominal value of USD 500 million.