Independent auditor's report
on the consolidated financial statements of
Expobank LLC
and its subsidiaries
for 2018

April 2019

Independent auditor's report on the consolidated financial statements of Expobank LLC and its subsidiaries

Contents

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Independent auditor's report

To the Participants and Board of Directors of
Expobank LLC

Report on the audit of the consolidated financial statements

Opinion

We have audited the consolidated financial statements of Expobank LLC (the "Bank") and its subsidiaries (hereinafter the "Group"), which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

Basis for opinion

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

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Key audit matter	How our audit addressed the key audit matter
Expected credit losses on loans to customers and credit-related contingencies – assumptions used in credit risk assessments	
The estimation of expected credit losses on the portfolios of loans and credit-related contingencies is a key area of judgment for the Group's management. The identification of factors of a significant increase in credit risk, including the identification of any changes in the risk of default occurring over the remaining life of a financial instrument, as well as the estimation of probability of default and loss given default involve significant use of professional judgment, assumptions and analysis of various factors. Calculations of expected credit losses on significant financial assets that are credit-impaired individually require, inter alia, the analysis of the counterparty's financial position, expected future cash flows, observable market prices for collateral, as well as the analysis of how macroeconomic factors impact the probability of default. The group management's approach to assessing and managing credit risk is described in Notes 5 and 28 to the consolidated financial statements. The use of various models and assumptions may significantly affect the level of expected credit losses on the portfolios of loans and credit-related contingencies. Due to the significance of loans to customers and credit-related contingencies, and given an extensive use of professional judgment, the estimation of expected credit losses was one of the key audit matters.	Our audit procedures included the analysis of the methodology for the estimation of the allowance for expected credit losses, tests of controls over the process of estimating and making the allowance for expected credit losses on loans to customers and credit-related contingencies, including tests of controls over the accounting for overdue debts. We performed procedures to identify any impairment indicators or a significant increase in credit risk, which differ depending on the type of loan product or customer. With regard to the estimation of the allowance for expected losses on loans to customers and credit-related contingencies, we reviewed assumptions, tested input data used by the Group, and analyzed the model for assessing the probability of default and loss given default. We also reviewed the elements (representing estimates) to calculate expected credit losses, including the revaluation of the fair value of pledges, allocation of loans and credit-related contingencies by impairment stage, and the calculation of probability of default and loss given default. We reviewed the calculation of exposures at default and recalculated the allowance for expected credit losses based on the given parameters. In the course of our audit procedures, we analyzed the consistency of the group management's judgments used to assess economic factors and statistical information on losses incurred and amounts recovered. For significant defaulted loans, we analyzed the borrower's financial position, expected future cash flows, including those from the borrower's current operations and those from disposal of collateral, using our professional judgment and available market information. We also reviewed disclosures in Notes 5, 10 and 28 to the consolidated financial statements.

Key audit matter	How our audit addressed the key audit matter
Measurement of loans to customers at fair value through profit or loss (FVPL)	
Since 1 January 2018, the Group has followed IFRS 9 *Financial Instruments* and applied a new asset classification category measuring loans to customers at FVPL unless the contractual terms of a financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. Loans to customers at FVPL amounted to RUB 2,517,065 thousand as of 31 December 2018. The fair value measurement of these financial instruments was of most significance in our audit, as the Group's management extensively used expert judgments and assumptions in the course of the model assessment of the amount of the loans, including the projection of future cash flows and the analysis of probability of default and loss given default estimates.	The audit procedures we performed to review the fair value measurements of loans to customers at FVPL included the analysis of significant assumptions used by the Group to design the assessment model, as well as testing input data. We analyzed forecast cash flows and reviewed the calculation of probability of default and loss given default. We reviewed the recognition of revaluation results in the consolidated financial statements. We also reviewed disclosures in Notes 5 and 10 to the consolidated financial statements.

Other information included in the Bank's 2018 Annual Report

Other information consists of the information included in the Bank's 2018 Annual Report, other than the consolidated financial statements and our auditor's report thereon. Management is responsible for the other information. The Bank's 2018 Annual Report is expected to be made available to us after the date of this auditor's report.

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

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

Responsibilities of management and the Board of Directors for the consolidated financial statements

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

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

The Board of Directors is responsible for overseeing the Group's financial reporting process.

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

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

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

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

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

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

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

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

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

In accordance with the requirements of Article 42 of the Federal Law of the Russian Federation No. 395-1 Concerning Banks and Banking Activities of 2 December 1990 (hereinafter, the "Federal Law"), during the audit of the Group's consolidated financial statements for the year ended 31 December 2018, we determined:

1) Whether the Bank complied as at 1 January 2019 with the obligatory ratios established by the Bank of Russia;

2) Whether internal control and organization of the risk management systems of the Bank conformed to the requirements set forth by the Bank of Russia for such systems in respect of the following:

   - subordination of the risk management departments;
   - the existence of methodologies, approved by the Bank's respective authorized bodies, for detecting and managing risks that are significant to the Bank and for performing stress-testing; the existence of a reporting system at the Bank pertaining to its significant risks and capital;
   - consistency in applying and assessing the effectiveness of methodologies for managing risks that are significant to the Bank;
   - oversight performed by the Board of Directors and executive management of the Bank in respect of the Bank's compliance with risk limits and capital adequacy requirements set forth in the Bank's internal documents, and effectiveness and consistency of the application of the Bank's risk management procedures.

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

The findings from our work are provided below.

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

We found that the values of the obligatory ratios of the Bank as of 1 January 2019 were within the limits established by the Bank of Russia.

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

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

- We found that, in accordance with the legal acts and recommendations issued by the Bank of Russia, as at 31 December 2018, the Bank's internal audit division was subordinated and accountable to the Board of Directors, and the Bank's risk management departments were not subordinated or accountable to the departments that take the relevant risks.
- We found that the Bank's internal documents effective as at 31 December 2018 that establish the methodologies for detecting and managing credit, market, operational, and liquidity risks, as well as interest rate risk of the banking book, that are significant to the Bank, and stress-testing have been approved by the Bank's authorized bodies in accordance with the legal acts and recommendations issued by the Bank of Russia. We also found that, as at 31 December 2018, the Bank had a reporting system pertaining to credit, market, operational, and liquidity risks, as well as interest rate risk of the banking book, that were significant to the Bank and pertaining to its capital.
- We found that the frequency and consistency of reports prepared by the Bank's risk management departments and internal audit division during the year ended 31 December 2018 with regard to the management of the Bank's credit, market, operational, and liquidity risks, as well as interest rate risk of the banking book, complied with the Bank's internal documents, and that those reports included observations made by the Bank's risk management departments and internal audit division in respect the effectiveness of relevant risk management methodologies.
- We found that, as at 31 December 2018, the authority of the Board of Directors and executive management bodies of the Bank included control over compliance of the Bank with internally established risk limits and capital adequacy requirements. For the purpose of control over the effectiveness and consistency of the risk management procedures applied by the Bank during the year ended 31 December 2018, the Board of Directors and executive management bodies of the Bank regularly reviewed the reports prepared by the Bank's risk management departments and internal audit division.

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

The partner in charge of the audit resulting in this independent auditor's report is A.V. Sorokin.

A.V. Sorokin
Partner
Ernst & Young LLC

16 April 2019

Details of the audited entity

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

Details of the auditor

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

Expobank Group
Consolidated statement of financial position
As of 31 December 2018

(in thousands of Russian rubles)	Notes	31 December 2018	31 December 2017
Assets			
Cash and cash equivalents	7	12,892,242	9,452,890
Obligatory reserve with the CBR		666,999	494,409
Trading securities, including:	8	6,658,854	11,338,499
- non-pledged trading securities		4,405,551	11,338,499
- pledged trading securities		2,253,303	–
Amounts due from credit institutions	9	1,816,266	632,385
Loans to customers	10	40,403,823	26,018,201
Investments securities at fair value through other comprehensive income (2017: investment securities available for sale), including:	11	15,822,400	9,756,328
- non-pledged securities		12,199,710	8,020,988
- pledged securities sold under repurchase agreements		3,622,690	1,735,340
Investments securities at amortized cost (2017: investment securities held to maturity), including:	11	–	811,862
- non-pledged securities		–	811,862
Prepayment for current income tax liabilities		24,762	80,294
Intangible assets	14	45,984	29,361
Investment property	12	675,500	687,000
Property and equipment	13	1,696,261	1,698,871
Other assets	15	110,641	202,235
Total assets		**80,813,732**	**61,202,335**
Liabilities			
Amounts due to credit institutions	16	3,575,570	2,953,720
Amounts due to customers	17	59,726,260	43,288,315
Debt securities issued	19	405,012	535,411
Other liabilities	18	1,197,334	536,702
Deferred tax liabilities	26	288,734	27,752
Subordinated Eurobonds issued	20	1,398,052	1,155,215
Total liabilities		**66,590,962**	**48,497,115**
Equity			
Share capital	21	9,500,998	10,413,412
Share premium		548,256	548,256
Treasury shares	21	(128,470)	(1,220,018)
Retained earnings, including dividends paid		3,550,445	2,232,158
Unrealized gains on revaluation of investment securities at fair value through other comprehensive income (2017: of investment securities available for sale)		307,369	310,836
Revaluation reserve for property and equipment		444,172	420,576
Total equity		**14,222,770**	**12,705,220**
Total liabilities and equity		**80,813,732**	**61,202,335**

Signed on behalf of the Management Board on 16 April 2019.

A.M. Sannikov
Chairman of the Management Board

G.M. Ulanova
Chief Accountant

Expobank Group
Consolidated statement of comprehensive income
For the year ended 31 December 2018

(in thousands of Russian rubles)	Notes	2018	2017
Interest income calculated using the effective interest rate	22	5,152,500	4,467,310
Other interest income	22	1,077,032	1,083,732
Interest expense	22	(2,175,763)	(2,851,348)
Net interest income		**4,053,769**	**2,699,694**
(Increase)/decrease in allowance for credit losses on cash and cash equivalents, amounts due from credit institutions and loans to customers	7, 9, 10	(140,559)	223,683
Net interest income after decrease/(increase) in allowance for credit losses on cash and cash equivalents, amounts due from credit institutions and loans to customers		**3,913,210**	**2,923,377**
Fee and commission income	23	534,543	547,632
Fee and commission expense	23	(119,817)	(88,687)
(Losses less gains)/gains less losses on trading securities		(303,736)	231,710
Gains less losses on loans to customers at fair value through profit or loss		34,372	–
Gains less losses on derivative financial instruments		5,036	21,958
Gains less losses from dealing in foreign currencies		304,754	60,289
(Losses less gains)/gains less losses from foreign currency translation		(94,372)	180,055
Gains less losses from derecognition of investment securities at fair value through other comprehensive income (2017: gains less losses from derecognition of investment securities available for sale)		17,373	158,238
Gains from sale of Eurobonds classified as amounts due from credit institutions and loans to customers		–	46,815
Increase in allowance for credit losses on investment securities at fair value through other comprehensive income	11	(41,923)	–
Decrease in allowance for credit losses on investment securities at amortized cost	11	544	–
Other operating income	24	322,169	129,541
Other income from decrease in allowance and impairment	15, 18, 30	119,930	247,214
Administrative and other operating expenses	25	(2,688,575)	(2,315,363)
Excess of acquirees' net assets over cost of investments	34	–	240,705
Profit before tax		**2,003,508**	**2,383,484**
Income tax	26	(367,788)	(400,453)
Profit for the year		**1,635,720**	**1,983,031**

(in thousands of Russian rubles)	Notes	2018	2017
Profit for the year		**1,635,720**	**1,983,031**
Other comprehensive (loss)/income			
Other comprehensive (loss)/income to be reclassified to profit or loss in subsequent periods			
Losses less gains on debt investment securities at fair value through other comprehensive income		(103,606)	–
Gains less losses on investment securities available for sale		–	50,341
Change in allowance for expected credit losses on debt investment securities at fair value through other comprehensive income		41,923	–
Income tax effect	26	12,337	(10,068)
Other comprehensive income not to be reclassified to profit or loss in subsequent periods			
Gains less losses on equity investment securities at fair value through other comprehensive income		25,949	–
Revaluation of property and equipment	13	29,495	36,002
Income tax effect	26	(11,089)	(7,200)
Other comprehensive (loss)/income for the year		**(4,991)**	**69,075**
Total comprehensive income for the year		**1,630,729**	**2,052,106**

Signed on behalf of the Management Board on 16 April 2019.

A.M. Sannikov
Chairman of the Management Board

G.M. Ulanova
Chief Accountant

Expobank Group
Consolidated statement of changes in equity
For the year ended 31 December 2018

(in thousands of Russian rubles)	Notes	Share capital	Share premium	Treasury shares	Unrealized gains on revaluation of investment securities at fair value through other comprehensive income (2017: of investment securities available for sale)	Revaluation reserve for property and equipment	Retained earnings / (accumulated losses)	Total equity
Balance at 31 December 2016		**10,413,412**	**548,256**	**–**	**270,563**	**391,774**	**364,127**	**11,988,132**
Profit for the year		–	–	–	–	–	1,983,031	1,983,031
Other comprehensive income for the year		–	–	–	40,273	28,802	–	69,075
Total comprehensive income for the year		**–**	**–**	**–**	**40,273**	**28,802**	**1,983,031**	**2,052,106**
Purchase of treasury shares	21	–	–	(1,220,018)	–	–	–	(1,220,018)
Dividends to participants of the Group	21	–	–	–	–	–	(115,000)	(115,000)
Balance at 31 December 2017		**10,413,412**	**548,256**	**(1,220,018)**	**310,836**	**420,576**	**2,232,158**	**12,705,220**
Effect of transition to IFRS 9	5	–	–	–	25,120	–	(9,829)	15,291
Balance at 1 January 2018 restated under IFRS 9		**10,413,412**	**548,256**	**(1,220,018)**	**335,956**	**420,576**	**2,222,329**	**12,720,511**
Profit for the year		–	–	–	–	–	1,635,720	1,635,720
Other comprehensive (loss)/income for the year		–	–	–	(28,587)	23,596	–	(4,991)
Total comprehensive (loss)/income for the year		**–**	**–**	**–**	**(28,587)**	**23,596**	**1,635,720**	**1,630,729**
Redemption of treasury shares upon reorganization	21	(912,414)	–	1,220,018	–	–	(307,604)	–
Purchase of treasury shares	21	–	–	(128,470)	–	–	–	(128,470)
Balance at 31 December 2018		**9,500,998**	**548,256**	**(128,470)**	**307,369**	**444,172**	**3,550,445**	**14,222,770**

Signed on behalf of the Management Board on 16 April 2019.

A.M. Sannikov
Chairman of the Management Board

G.M. Ulanova
Chief Accountant

Expobank Group
Consolidated statement of cash flows
For the year ended 31 December 2018

(in thousands of Russian rubles)	Notes	2018	2017
Cash flows from operating activities			
Interest received		5,877,912	5,994,611
Interest paid		(2,141,738)	(2,971,817)
Fees and commissions received		625,050	592,338
Fees and commissions paid		(119,817)	(88,687)
(Losses)/gains on trading securities		(24,419)	233,965
Gains from dealing in foreign currencies		304,754	60,289
Other operating income received		132,555	176,356
Administrative and other operating expenses paid		(2,552,807)	(2,208,181)
Income tax paid		(53,849)	(578,732)
Cash flows from operating activities before changes in operating assets and liabilities		**2,047,641**	**1,210,142**
Net (increase)/decrease in operating assets			
Obligatory reserve with the CBR		(172,590)	63,201
Trading securities		4,390,661	(1,116,439)
Amounts due from credit institutions		(970,055)	3,740,313
Loans to customers		(12,472,636)	(6,662,967)
Other assets		199,765	(74,841)
Net (decrease)/increase in operating liabilities			
Amounts due to credit institutions		(100,927)	(884,989)
Amounts due to customers		13,502,050	(6,773,362)
Debt securities issued		(109,290)	(411,386)
Other liabilities		555,277	(168,351)
Net cash from / (used in) operating activities		**6,869,896**	**(11,078,679)**
Cash flows from investing activities			
Acquisition of subsidiaries, net of cash acquired	34	–	(2,923,517)
Acquisition of investment securities at fair value through other comprehensive income (2017: of investment securities available for sale)		(13,819,019)	(5,639,801)
Proceeds from sale and redemption of investment securities at fair value through other comprehensive income (2017: of investment securities available for sale)		9,577,791	8,991,163
Dividends from investment securities at FVOCI		186,166	–
Proceeds from redemption of investment securities at amortized cost (2017: of investment securities held to maturity)		754,264	1,448,186
Purchase of property and equipment	13	(27,054)	(8,840)
Proceeds from sale of property and equipment		9,202	5,235
Purchase of intangible assets	14	(23,955)	(1,811)
Net cash (used in) / from investing activities		**(3,342,605)**	**1,870,615**
Cash flows from financing activities			
Participant's interest purchased	21	(128,470)	(1,220,018)
Dividends paid to participants	21	–	(115,000)
Bonds issued that were purchased by the Group for subsequent resale	38	–	(542)
Net cash used in financing activities		**(128,470)**	**(1,335,560)**
Effect of exchange rate changes on cash and cash equivalents		41,585	94,976
Effect of changes in allowance for ECL on cash and cash equivalents		(1,054)	–
Net increase/(decrease) in cash and cash equivalents		**3,439,352**	**(10,448,648)**
Cash and cash equivalents, beginning	7	9,452,890	19,901,538
Cash and cash equivalents, ending	7	**12,892,242**	**9,452,890**

Signed on behalf of the Management Board on 16 April 2019.

A.M. Sannikov
Chairman of the Management Board

G.M. Ulanova
Chief Accountant

1 Principal activities

These consolidated financial statements of Expobank Limited Liability Company (the "Bank"), Expo Capital Designated Activity Company, its structural entity, engaged in placement of the Bank's debt securities on the Vienna Stock Exchange, and EXPOINVEST LLC, its subsidiary, collectively referred to as the "Group," have been prepared in accordance with International Financial Reporting Standards (IFRS) for the year ended 31 December 2018.

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

The Bank is a commercial bank which is owned by participants whose responsibility is limited with their shares. The Bank was set up and operates in accordance with Russian regulations. As of 31 December 2018 and 31 December 2017, the Bank's shares were owned by:

Participant	2018 %	2017 %
Igor Vladimirovich Kim	75.5	68.9
German Alekseevich Tsoy	19.3	17.6
Kirill Vladimirovich Nifontov	2.0	2.7
MORELAM LLC	2.0	1.8
Other	0.3	0.2
Treasury shares	0.9	8.8
Total	**100.0**	**100.0**

As of 31 December 2018, members of the Board of Directors and the Management Board controlled 96.9% of shares in the Bank (2017: 89.2%).

Principal activities

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

On 1 December 2017, Expobank LLC purchased 100% of ordinary shares in JSCB Yapi Kredi Bank Moscow (JSC) from Yapi ve Kredi Bankasi A.S. In December 2017, the Bank obtained control over financing and operating activities of the subsidiary. In January 2018, JSCB Yapi Kredi Bank Moscow (JSC) was re-registered as Bank na Goncharnoy (JSC). On 26 March 2018, Expobank LLC was reorganized by merging with Bank na Goncharnoy (JSC).

In April 2018, EXPOINVEST LLC was established and included in the Group. Its sole participant is Expobank LLC.

The Bank's main office is in Moscow. As of 31 December 2018, the Bank had 5 branches (2017: 5 branches). All branches are located in the Russian Federation. The Bank's legal address is building 2, ulitsa Kalanchevskaya 29, Moscow, Russia 107078.

The Bank also operates through its additional offices and operating outlets in the Russian Federation. As of 31 December 2018, the Bank had 12 offices (2017: 11 offices).

As of 31 December 2018, the Bank employed 715 people (2017: 619 people).

The Bank is rated by major rating agencies. In March 2019, the national rating agency ACRA confirmed the national credit rating of the Bank at BBB+(RU) and upgraded the outlook from stable to positive. In September 2018, Fitch Ratings confirmed the international rating of the Bank at B+ and upgraded the outlook from stable to positive.

2 Basis of preparation

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

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

The consolidated financial statements have been prepared under the historical cost convention except as disclosed in the accounting policies below. For example, trading securities, investment securities at fair value through other comprehensive income (2017: investment securities available for sale), derivative financial instruments, investment property, land and buildings have been measured at fair value.

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

As of 31 December 2018, the official rate of exchange used to translate foreign currency balances was USD 1 = RUB 69.4706 (31 December 2017: USD 1 = RUB 57.6002) and EUR 1 = RUB 79.4605 (31 December 2017: EUR 1 = RUB 68.8668).

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

3 Summary of accounting policies

Basis of consolidation

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

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

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

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

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

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

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

3 Summary of accounting policies (continued)

Business combinations

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

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

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

Any contingent consideration to be transferred by the acquirer is recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability, will be recognized in accordance with IFRS 9 *Financial Instruments* either in profit or loss or as change to other comprehensive income. If the contingent consideration is classified as equity, it shall not be remeasured until it is finally settled within equity.

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

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

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

Acquisition of subsidiaries from parties under common control

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

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

Financial instruments – key measurement approaches

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

Fair value

The Group measures financial instruments carried at fair value through profit or loss (FVPL) and at fair value through other comprehensive income (FVOCI), as well as non-financial assets such as land, buildings and investment property, at fair value at each reporting date. Fair values of financial instruments measured at amortized cost are disclosed in Note 32.

3 Summary of accounting policies (continued)

Financial instruments – key measurement approaches (continued)

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

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

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

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

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

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

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

Initial recognition of financial instruments

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

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial instrument. An incremental cost is one that would not have been incurred if the transaction had not taken place. Transaction costs include fees and commissions paid to agents (including employees acting as selling agents), advisors, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs.

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

3 Summary of accounting policies (continued)

Financial instruments – key measurement approaches (continued)

Measurement categories of financial assets and liabilities

The classification of financial instruments at initial recognition depends on their contractual terms and the business model for managing the instruments. From 1 January 2018, the Group classifies all of its financial assets based on the business model for managing the assets and the asset's contractual terms, measured at either:

- Amortized cost;
- FVOCI;
- FVPL.

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

Before 1 January 2018, the Group classified its financial assets as:

- Loans and receivables (measured at amortized cost);
- Financial assets at FVPL;
- Financial assets available for sale (measured at fair value through other comprehensive income);
- Investment securities held to maturity (measured at amortized cost).

Financial liabilities are measured at FVPL, if they are trading or derivative instruments, or designated as at fair value at the entity's discretion. All other financial assets, except loan commitments and financial guarantees, are measured at amortized cost.

Amounts due from credit institutions, loans to customers, investments securities at amortized cost

Before 1 January 2018, amounts due from credit institutions and loans to customers included non-derivative financial assets with fixed or determinable payments that were not quoted in an active market, other than those:

- That the Group intended to sell immediately or in the near term;
- That the Group, upon initial recognition, designated as at FVPL or as available for sale.

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

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

Business model assessment

The Group determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective.

The Group's business model is not assessed on an instrument-by-instrument basis, but at a higher level of aggregated portfolios and is based on observable factors such as:

- How the performance of the business model and the financial assets held within that business model are evaluated and reported to the entity's key management personnel;
- The risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way those risks are managed;
- How managers of the business are compensated (for example, whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected);
- The expected frequency, value and timing of sales are also important aspects of the Group's assessment.

3 Summary of accounting policies (continued)

Financial instruments – key measurement approaches (continued)

The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account. If cash flows after initial recognition are realized in a way that is different from the Group's original expectations, the Group does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

"Solely payments of principal and interest on the principal amount outstanding" test (SPPI test)

As a second step of its classification process, the Group assesses the contractual terms of financial asset to identify whether they meet the SPPI test.

'Principal' for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset (for example, if there are repayments of principal or amortization of the premium/discount).

The most significant elements of interest within a lending arrangement are typically the consideration for the time value of money and credit risk. To make the SPPI assessment, the Group applies judgment and considers relevant factors such as the currency in which the financial asset is denominated, and the period for which the interest rate is set.

In contrast, contractual terms that introduce a more than de minimis exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement do not give rise to contractual cash flows that are solely payments of principal and interest on the amount outstanding. In such cases, the financial asset is classified as at FVPL.

Debt instruments at FVOCI

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

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

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

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

Equity instruments at FVOCI

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

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

3 Summary of accounting policies (continued)

Financial instruments – key measurement approaches (continued)

Financial guarantees, letters of credit and loan commitments

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

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

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

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

Trading securities

Before and after 1 January 2018, the Group classified its securities as trading securities provided they were either acquired to generate profit from short-term price fluctuations or included in a portfolio actually used for short-term profit taking, and the Group intended to sell them within a short term after their recognition. Trading securities were carried at fair value, with fair value gains and losses taken to profit or loss. Interest revenue on trading securities was recorded using the contractual interest rate within other interest revenue in the consolidated statement of comprehensive income. Dividends were included in dividend income within other operating income when the Group's right to receive the dividend payment was established and it was probable that the dividends would be collected. All other elements of the changes in the fair value and gains or losses on derecognition were recorded in profit or loss for the year as gains less losses on trading securities in the period in which they arose.

Loans and receivables

Before 1 January 2018, loans and receivables were non-derivative financial assets with fixed or determinable payments that were not quoted in an active market. They were not entered into with the intention of immediate or short-term resale and were not classified as trading securities or investment securities available for sale. Such assets were carried at amortized cost using the effective interest rate method. Gains and losses were recognized in profit or loss when the loans and receivables were derecognized or impaired, as well as through the amortization process.

Investments held to maturity

Before 1 January 2018, non-derivative financial assets with fixed or determinable payments and fixed maturities were classified as held to maturity when the Group had the intention and ability to hold them to maturity. Investments intended to be held for an undefined period were not included in this category. Investments held to maturity were subsequently measured at amortized cost. Gains and losses were recognized in profit or loss when the investments were impaired, as well as through the amortization process.

Financial assets available for sale

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

3 Summary of accounting policies (continued)

Reclassification of financial assets and liabilities

From 1 January 2018, the Group does not reclassify its financial assets subsequent to their initial recognition, apart from the exceptional circumstances in which the Group changes the business model for managing financial assets. Financial liabilities are never reclassified. The Group did not reclassify its financial assets or liabilities in 2017.

Cash and cash equivalents

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

Obligatory reserve with the CBR

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

Repurchase and reverse repurchase agreements and securities lending

Sale and repurchase agreements ("repos") are treated as secured financing transactions. Securities sold under sale and repurchase agreements are retained in the consolidated statement of financial position and, in case the transferee has the right by contract or custom to sell or repledge them, reclassified as securities pledged under sale and repurchase agreements. The corresponding liability is presented within amounts due to credit institutions or customers. Securities purchased under agreements to resell ("reverse repos") are recorded as cash and cash equivalents, amounts due from credit institutions or loans to customers depending on their term or counterparty. The difference between the sale price and the repurchase price is treated as interest revenue and accrued over the life of repo agreements using the effective interest rate method.

Securities lent to counterparties are retained in the consolidated statement of financial position. Securities borrowed are not recorded in the consolidated statement of financial position unless these are sold to third parties, in which case the purchase and the sale are recorded within gains less losses on trading securities in the consolidated statement of comprehensive income. The obligation to return them is recorded at fair value within other liabilities.

Derivative financial instruments

In the normal course of business, the Group enters into various derivative financial instruments including futures, forwards, swaps and options in the foreign exchange and capital markets. Such financial instruments are held for trading and are initially recorded at fair value. The fair values are estimated based on quoted market prices or pricing models that take into account the current market and contractual prices of the underlying instruments and other factors. Derivatives are carried as assets when their fair value is positive and as liabilities when it is negative. Gains and losses resulting from these instruments are included in the consolidated statement of comprehensive income as gains less losses on derivative financial instruments.

Promissory notes purchased

Promissory notes purchased are included in the statement of financial position within trading securities, investment securities, amounts due from credit institutions or loans to customers, depending on their economic substance, and are recorded, subsequently remeasured and accounted for in accordance with the accounting policies for these categories of assets.

3 Summary of accounting policies (continued)

Borrowings

Issued financial instruments or their components are classified as liabilities, where the contractual arrangement results in the Group having an obligation either to deliver cash or other financial assets to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or other financial assets for a fixed number of own equity instruments. Such instruments include amounts due to credit institutions, amounts due to customers, debt securities issued and subordinated Eurobonds issued. After initial recognition, borrowings are subsequently measured at amortized cost using the effective interest rate method (before 1 January 2018: at amortized cost using the effective interest rate method). Gains and losses arising during the amortization and derecognition processes are recognized in profit or loss for the year.

If the Group purchases its own debt, it is removed from the statement of financial position and the difference between the carrying amount of the liability and the consideration paid is recognized in profit or loss for the year.

Impairment of financial assets

Before 1 January 2018, the Group recorded impairment of financial assets in accordance with IAS 39. Impairment losses were recognized in profit or loss for the year when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of the financial asset and which have an impact on the amount or timing of the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. If the Group determines that no objective evidence of impairment existed for an individually assessed financial asset (whether significant or not), it included the asset in a group of financial assets with similar credit risk characteristics and collectively assessed them for impairment. The primary factors that the Group considered in determining whether a financial asset was impaired were its overdue status and realizability of related collateral, if any.

The following principal criteria were used to determine that there was objective evidence that an impairment loss had occurred:

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

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

Future cash flows in a group of financial assets that were collectively evaluated for impairment were estimated on the basis of the contractual cash flows of the assets and the experience of management in respect of the extent to which amounts had become overdue as a result of past loss events and the success of recovery of overdue amounts. To estimate the allowance on a specified date, past experience was adjusted on the basis of data observable on that date to reflect the effects of conditions existing on that date that did not affect past periods and to remove the effects of past conditions that did not exist on the date of estimation.

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

Impairment losses were always recognized through an allowance account to write down the asset's carrying amount at the estimation date to the value of expected cash flows (which excluded future credit losses that had not yet been incurred on the estimation date) discounted at the original effective interest rate of the asset. The calculation of the discounted value of estimated cash flows of a collateralized financial asset reflected the cash flows that could result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure was probable.

3 Summary of accounting policies (continued)

Impairment of financial assets (continued)

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

Uncollectible assets were written off against the related impairment loss allowance after all the necessary procedures to recover the asset fully or partially had been completed and the amount of the loss had been determined. Subsequent recoveries of amounts previously written off were credited to profit or loss for the year.

From 1 January 2018, the Group records impairment of financial assets in accordance with IFRS 9. Information on impairment assessment under IFRS 9 is presented in Note 5.

Renegotiated loans

Where possible, the Group seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and agreeing new loan conditions.

From 1 January 2018, the Group derecognizes a financial asset, such as a loan to a customer, when the terms and conditions have been renegotiated to the extent that, substantially, it becomes a new loan, with the difference recognized as a derecognition gain or loss, to the extent that an impairment loss has not already been recorded. The newly recognized loans are classified as Stage 1 for ECL measurement purposes, unless the new loan is deemed to be POCI. When assessing whether or not to derecognize a loan to a customer, amongst others, the Group considers the following factors:

- A change in the currency of a loan;
- A change in the counterparty;
- Whether the modification is such that the instrument no longer meets the SPPI test.

If the modification does not result in cash flows that are substantially different, the modification does not result in derecognition. Based on the change in cash flows discounted at the original effective interest rate, the Group records a modification gain or loss presented within interest revenue calculated using the effective interest rate in the consolidated statement of comprehensive income, to the extent that an impairment loss has not already been recorded.

For modifications not resulting in derecognition, the Group also reassesses whether there has been a significant increase in credit risk or whether the assets should be classified as credit-impaired. Once an asset has been classified as credit-impaired as a result of a modification, it will remain in Stage 3 for a minimum 6-month probation period. In order for the restructured loan to be reclassified out of Stage 3, regular payments of more than an insignificant amount of principal or interest should be made during at least half of the probation period in accordance with the modified payment schedule.

Derecognition of financial assets and liabilities

Financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognized in the statement of financial position where:

- The rights to receive cash flows from the asset have expired.
- The Group has transferred the right to receive cash flows from the asset, or has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; and
- The Group either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

3 Summary of accounting policies (continued)

Derecognition of financial assets and liabilities (continued)

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

From 1 January 2018, financial assets are written off either partially or in their entirety only when the Group has stopped pursuing the recovery. If the amount to be written off is greater than the accumulated loss allowance, the difference is first treated as an addition to the allowance that is then applied to the gross carrying amount. Any subsequent recoveries are credited to credit loss expense. A write-off constitutes a derecognition event.

Financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged or canceled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in profit or loss for the year.

Repossessed collateral

Repossessed collateral represents financial and non-financial assets acquired by the Group in settlement of overdue loans. The assets are initially recognized at fair value and included in property and equipment, other non-financial assets or assets classified as available for sale, depending on their nature and the Group's intention in respect of recovery of these assets, and are subsequently remeasured and accounted for in accordance with the accounting policies for these categories of assets.

Investment property

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

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

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

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

3 Summary of accounting policies (continued)

Goodwill

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

Property and equipment

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

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

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

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

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

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

3 Summary of accounting policies (continued)

Depreciation

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

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

The residual value of an asset is the estimated amount that the Group would currently obtain from disposal of the asset less the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting year (Note 13).

Intangible assets

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

Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and bring to use the specific software. Development costs that are directly associated with identifiable and unique software controlled by the Group are recorded as intangible assets if the inflow of incremental economic benefits exceeding costs is expected. Capitalized costs include expenses related to activities of the software programming team and the respective part of overhead expenses. All other costs associated with computer software (e.g., its maintenance) are expensed when incurred. Capitalized computer software is amortized on a straight-line basis over the expected useful life of three years (Note 14).

Operating lease – Group as lessee

Leases of assets under which the risks and rewards of ownership are effectively retained by the lessor are classified as operating leases. Lease payments under an operating lease are recognized as expenses on a straight-line basis over the lease term and included in administrative and other operating expenses.

Operating lease – Group as lessor

The Group presents assets subject to operating leases in the consolidated statement of financial position according to the nature of the asset. Lease income from operating leases is recognized on a straight-line basis in profit or loss within other operating expenses over the lease term. Initial direct costs incurred under an operating lease are added to the carrying amount of the leased asset.

Taxation

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

3 Summary of accounting policies (continued)

Taxation (continued)

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

Deferred income tax is determined using the balance sheet liability method for deferred tax losses and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for consolidated financial reporting purposes. Deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability in a transaction other than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit.

Deferred tax assets and liabilities are measured at tax rates enacted or substantively enacted at the end of the reporting period which are expected to apply to the period when the temporary differences will reverse or deferred tax losses will be realized.

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

Uncertain tax positions

The Group's uncertain tax positions are assessed by management at the end of each reporting period. Tax liabilities are recorded when management believes that additional tax liabilities may arise, if the tax position of the Group is challenged by the tax authorities. The assessment is based on the interpretation of tax laws that have been enacted or substantively enacted at the end of the reporting period and any known court or other rulings on such issues. Liabilities for penalties, interest and taxes other than on income are recognized based on management's best estimate of the expenditure required to settle the obligations at the end of the reporting period.

Provisions

Provisions are recognized when the Group has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources embodying future economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made.

Assets classified as held for sale

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

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

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

3 Summary of accounting policies (continued)

Recognition of income and expenses

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

Interest and similar revenue and expense

From 1 January 2018, the Group calculates interest revenue on debt financial assets measured at amortized cost or at FVOCI by applying the effective interest rate to the gross carrying amount of financial assets other than credit-impaired financial assets (before 1 January 2018: by applying the effective interest rate to the amortized cost of financial assets). The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but not future credit losses. The carrying amount of the financial asset or financial liability is adjusted if the Group revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective interest rate and the change in the carrying amount is recorded as interest revenue or expense.

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

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

Interest revenue on all financial assets at FVPL is recognized using the contractual interest rate in “Other interest revenue” in the consolidated statement of comprehensive income.

Fee and commission income

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

Fee and commission income earned from services that are provided over a certain period of time

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

Fee and commission income from providing transaction services

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

Dividend income

Revenue is recognized when the Group’s right to receive the payment is established.

3 Summary of accounting policies (continued)

Foreign currency translation

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

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

Fiduciary assets

Assets held by the Group in its own name, but on the account of third parties, are not reported in the consolidated statement of financial position. Commissions received from such transactions are shown in fee and commission income.

Offsetting of financial assets

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

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

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

Staff costs and related contributions

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

Segment reporting

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

Contingencies

Contingent liabilities are not recognized in the consolidated statement of financial position but are disclosed unless the possibility of any outflow in settlement is remote. Contingent assets are not recognized in the consolidated statement of financial position but disclosed when an inflow of economic benefits is probable.

3 Summary of accounting policies (continued)

Changes in presentation of the consolidated financial statements

Comparative data for the year ended 31 December 2017 have been adjusted to conform to the format of presentation for the reporting period, as follows:

- The "Interest income" line is broken into two separate lines, "Interest income calculated using the effective interest rate" an "Other interest income," within the consolidated statement of comprehensive income.

	As previously reported as of 31 December 2017	Adjustments	After adjustment as of 31 December 2017
Consolidated statement of comprehensive income			
Interest income	5,551,042	(5,551,042)	–
Interest income calculated using the effective interest rate	–	4,467,310	4,467,310
Other interest income	–	1,083,732	1,083,732

The adjustments had no impact on the information disclosed in other consolidated reporting forms and the notes.

4 Significant accounting estimates and judgments in applying accounting policies

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

Expected credit losses/impairment losses on financial assets

The measurement of impairment losses both under IFRS 9 and IAS 39 across all categories of financial assets requires judgment, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining ECL/impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances. The Group's ECL calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of ECL calculation models that are considered accounting judgments and estimates include:

- The Group's internal credit grading model, which assigns PDs to individual grades;
- The Group's criteria for assessing if there has been a significant increase in credit risk, so allowances for impairment of financial assets should be measured on the lifetime ECL basis, and qualitative assessment;
- Segmentation of financial assets when their ECL are assessed on a collective basis;
- Development of ECL models, including various formulae and the choice of inputs;
- Determination of associations between macroeconomic scenarios and economic inputs, as well as the effect on probability of default (PD);
- Selection of forward-looking macroeconomic scenarios and their probability weightings to derive economic inputs for ECL calculation models.

A 10% increase or decrease in the actual losses compared to estimated expected credit losses would result in an increase or decrease in expected credit losses on the loan portfolio of RUB 107,464 thousand (2017: RUB 99,437 thousand), respectively. Expected credit losses on individually significant loans are determined based on the estimated amounts of discounted future cash flows on these loans considering loan maturities and sales of assets collateralized under the relevant loans. A 10% increase or decrease in actual credit losses compared to estimated expected credit losses, which could arise from differences in amounts and timing of the cash flows would result in an increase or decrease in expected credit losses on the loan portfolio of RUB 80,594 thousand (2017: RUB 87,247 thousand), respectively.

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

Initial recognition of transactions with related parties

In the normal course of business, the Group enters into transactions with related parties. IFRS 9 requires initial recognition of financial instruments based on their fair values. Judgment is applied in determining if transactions are priced at market or non-market interest rates, where there is no active market for such transactions. The basis for judgment is pricing for similar types of transactions with unrelated parties and effective interest rate analysis. Terms and conditions of related party transactions are disclosed in Note 33.

Valuation of the Group's own land and buildings

The Group's land and buildings are recorded at fair value which is determined based on the valuation report prepared by an independent appraiser. The valuation is performed by an independent appraiser engaged in valuation of similar assets in a similar region and of the same category. The market value of property and equipment is determined based on the market approach, because information about offers to sell similar assets is available in the market (Note 13). If, based on the valuation, the fair value of the Group's premises increases or decreases by 10%, the carrying amount of these items of property and equipment will change by RUB 160,603 thousand (before deferred tax recognition) as of 31 December 2018 (2017: RUB 160,560 thousand).

Fair values of financial instruments

Where the fair values of financial assets and financial liabilities recorded in the consolidated statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. Additional details are provided in Note 32.

5 Adoption of new or revised standards and interpretations

The Group applied IFRS 15 and IFRS 9 for the first time. The nature and effect of changes resulting from the adoption of these new accounting standards are described below.

IFRS 9 Financial Instruments

IFRS 9 replaces IAS 39 *Financial Instruments: Recognition and Measurement* and is effective for annual periods beginning on or after 1 January 2018. The Group did not recalculate 2017 comparative data on financial instruments in the scope of IFRS 9. Therefore, the 2017 comparative data are presented in accordance with IAS 39 and are not comparable to the 2018 data. Differences arising from the adoption of IFRS 9 have been recognized directly in equity as of 1 January 2018 and are disclosed below.

(a) Classification and measurement

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

- Instruments that are managed on a "hold to collect" basis are measured at amortized cost.
- Instruments that are managed on a "hold to collect and for sale" basis are classified as at fair value through other comprehensive income (FVOCI).
- Instruments that are managed on other basis are classified as at FVPL.

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

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

The classification and measurement of financial liabilities remain largely unchanged from the current IAS 39 requirements.

Derivatives will continue to be measured at FVPL. Embedded derivatives are no longer separated from the host financial asset.

(b) Impairment

The application of IFRS 9 fundamentally changes the Group's accounting for impairment losses on debt financial instruments, loan commitments and financial guarantee contracts by replacing the IAS 39 incurred loss approach with the forward-looking expected credit loss (ECL) approach. From 1 January 2018, the Group recognizes the ECL allowance for all loans to customers and other debt financial instruments not measured at FVPL, together with loan commitments and financial guarantee contracts, which are collectively referred to as financial instruments in this section. Equity instruments are not subject to impairment requirements under IFRS 9.

The allowance for ECL is based on credit losses expected to arise over the life of the financial instrument ("lifetime ECL"), if there has been a significant increase in credit risk since the date of initial recognition. Otherwise, the allowance for ECL is based on expected credit losses for 12 months (12-month ECL). The 12-month ECL are a part of lifetime ECL and represent ECL arising from defaults on a financial instrument expected to occur within 12 months after the reporting date. Both lifetime ECL and 12-month ECL are calculated on either an individual basis or a collective basis, depending on the nature of the underlying portfolio of financial instruments.

The Group has established a policy to perform an assessment, at the end of each reporting period, of whether there has been a significant increase in a financial instrument's credit risk since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument. Based on the above process, the Group classifies financial instruments as follows:

Stage 1	At initial recognition of a financial instrument, the Group recognizes an impairment allowance in the amount equal to 12-month ECL. Stage 1 also includes financial instruments whose credit risk decreased to the extent they have been transferred from Stage 2.
Stage 2	If there has been a significant increase in credit risk for the financial instrument since its initial recognition, the Group recognizes an impairment allowance in the amount equal to lifetime ECL. Stage 2 also includes financial instruments whose credit risk decreased to the extent they have been transferred from Stage 3.
Stage 3	Credit-impaired financial instruments. The Group recognizes an impairment allowance in the amount equal to lifetime ECL.
POCI	Purchased or originated credit-impaired (POCI) financial assets are assets that are credit-impaired on initial recognition. POCI financial assets are recorded at fair value at initial recognition, with the related interest income subsequently recognized based on the credit-adjusted effective interest rate (EIR). The allowance for ECL is only recognized or derecognized to the extent that there is a change in expected credit losses.

If the Group does not have reasonable expectations regarding recoverability of a financial asset in full or in part, the gross carrying amount of the financial asset should be decreased. Such a decrease is considered (partial) derecognition of the financial asset.

The Group calculates ECL on the basis of three probability-weighted scenarios to assess expected cash shortfalls which are discounted using the EIR or its approximate value. A cash shortfall is the difference between the cash flows that are due in accordance with the contract and the cash flows that an entity expects to receive. The mechanics of ECL calculations are outlined below and the key elements are as follows:

Probability of default (PD)	Probability of default is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period if the financial instrument has not been previously derecognized and is still in the portfolio.
Loss given default (LGD)	Loss given default is an estimate of losses arising on default. This estimate is expressed as a percentage.

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

When assessing ECL, the Group considers three scenarios: basic, positive and negative. Each of these scenarios uses its own macroeconomic forecasts. The Group uses a wide range of forecast information as economic inputs for its ECL assessment models. Impairment losses and their reversal are accounted for and disclosed separately from gain or loss from modification recognized as an adjustment to the gross carrying amount of financial instruments.

The Group believes that credit risk on an individually assessed financial instrument has increased significantly since the date of its initial recognition if at least one of the following conditions is met:

- Loans to corporate counterparties, project companies, credit institutions and insurance companies, for which the internal credit rating has decreased by 2 or more grades (for loans with the original internal credit rating of 5 or lower) and by 3 or more grades (for loans with the original internal credit rating of 5+ or higher) since the date of initial recognition
- Loans to SME counterparties, for which the internal credit rating has decreased by 2 or more grades (for loans with the original internal credit rating of SME5 or lower) and by 3 or more grades (for loans with the original internal credit rating of SME5+ or higher) since the date of initial recognition
- Loans to individuals, for which the internal credit rating has decreased by 2 or more grades since the date of initial recognition
- Loans rated 7/SME7 (pre-default rating), if the internal credit rating is higher than 7/SME7 on initial recognition
- Loans 30 to 90 days overdue
- Restructured loans that are not subject to clause 3.10 of Regulation No. 590-P of the Bank of Russia *On the Procedure for Making Provisions by Credit Institutions for Possible Losses on Loans and Similar Debt* dated 28 June 2017
- Loans designated as non-performing and not classified to Stage 3.

The Group believes that credit risk on a collectively assessed financial instrument has increased significantly since the date of its initial recognition if at least one of the following conditions is met:

- Loans 30 to 90 days overdue
- Loans with certain indicators of a significant increase in credit risk.

For ECL calculation purposes, the Group considers a financial instrument defaulted and therefore Stage 3 (credit-impaired financial instruments) if any of the following criteria relating to significant loans to the counterparty is met:

- The Group has grounds to believe that the counterparty is unlikely to settle its liabilities to the Group in full unless it takes special measures, for example, sells collateral (if any).
- The counterparty's debt to the Group has been over 90 calendar days overdue.

A loan is deemed significant when the principal is at least 3% of the counterparty's total principal to the Group.

Therefore, if any of the above criteria relating to the Group's significant loans to the counterparty is met, the Group acknowledges that the counterparty and all loans to such counterparty are defaulted, except for certain loans secured by guarantees or sureties. If the above criteria are met for insignificant loans to the counterparty, only such loans are considered defaulted.

For retail loans, the counterparty's default is recognized at the level of individual loans: the fulfillment of default criteria in respect of loans to the counterparty does not entail the mandatory recognition of default on all the other loans of the Group to the counterparty.

The Group individually assesses ECL on loans for which risks are measured on an individual basis (the individual internal credit rating is assigned). The Group collectively assesses ECL on loans for which risks are measured at the portfolio level (by lending program).

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

(c) Effect of transition to IFRS 9

The following describes the impact of adopting IFRS 9 on the statement of financial position and retained earnings, including the effect of replacing the IAS 39 incurred credit loss model with the IFRS 9 ECL model.

A reconciliation of the carrying amounts under IAS 39 and the balances reported under IFRS 9 as of 1 January 2018 is as follows:

		IAS 39 measurement		Reclas-	Remeasurement		IFRS 9 measurement	
Financial assets	**Notes**	**Category**	**Amount**	**sification**	**ECL**	**Other**	**Amount**	**Category**
- Cash and cash equivalents		L&R	9,452,890	−	(139)	−	9,452,751	Amortized cost
- Trading securities		FVPL	11,338,499	−	−	−	11,338,499	FVPL
- Amounts due from credit institutions		L&R	632,385	−	(3,023)	−	629,362	Amortized cost
- Loans to customers – amortized cost	A	L&R	26,018,201	(187,064)	70,578	−	25,901,715	Amortized cost
- Loans to customers – FVPL	A		−	187,064	−	(9,823)	177,241	FVPL
- Investment securities − amortized cost		HTM	811,862	−	(544)	−	811,318	Amortized cost
- Investment securities, including pledged investment securities sold under repurchase agreements − debt securities at FVOCI		AFS	8,663,843	−	−	−	8,663,843	FVOCI (debt instruments)
- Investment securities − equity securities at FVOCI	B	AFS	1,092,485	−	−	−	1,092,485	FVOCI (equity instruments)
- Other financial assets – amortized cost		L&R	122,589	−	(54)	−	122,535	Amortized cost
- Other financial assets – FVPL		FVPL	5,775	−	−	−	5,775	FVPL
Total assets			**58,138,529**	**−**	**66,818**	**(9,823)**	**58,195,524**	
Non-financial liabilities								
- Deferred tax liabilities			(27,752)	−	−	(3,823)	(31,575)	
- Provisions			(245,031)	−	(37,881)	−	(282,912)	
Total liabilities			**(272,783)**	**−**	**(37,881)**	**(3,823)**	**(314,487)**	

Categories:

- L&R – loans and receivables
- HTM – held to maturity
- AFS – available for sale.

Notes:

A The Group's analysis indicated that as of 1 January 2018 certain loans to customers did not meet the SPPI criteria. Therefore, the Group reclassified such loans previously measured at amortized cost to financial assets at FVPL.

B The Group made an irrevocable election to reclassify certain investments in equity instruments previously classified as available for sale to investments in equity instruments at FVOCI.

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

The effect of transition to IFRS 9 on reserves and retained earnings is as follows:

(in thousands of Russian rubles)	**Reserves and retained earnings**
Fair value reserve	
Closing balance under IAS 39 (31 December 2017)	**310,836**
Recognition of ECL on debt financial assets at FVOCI under IFRS 9	31,400
Related deferred tax	(6,280)
Opening balance under IFRS 9 (1 January 2018)	**335,956**
Retained earnings	
Closing balance under IAS 39 (31 December 2017)	**2,232,158**
Remeasurement impact of reclassifying financial assets measured at amortized cost to financial assets measured at FVPL	(9,823)
Recognition of IFRS 9 ECL including those on instruments measured at FVOCI	(2,463)
Related deferred tax	2,457
Opening balance under IFRS 9 (1 January 2018)	**2,222,329**
Total change in equity due to the adoption of IFRS 9	**15,291**

The following table reconciles the aggregate opening allowances for impairment of debt financial instruments measured under IAS 39 and provisions for loan commitments and financial guarantee contracts measured under IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* to ECL under IFRS 9.

(in thousands of Russian rubles)	**Allowance for impairment under IAS 39 / provisions under IAS 37 at 31 December 2017**	**Remeasurement**	**ECL under IFRS 9 at 1 January 2018**
Cash and cash equivalents, amounts due from credit institutions, loans to customers, other financial assets measured at amortized cost	1,003,819	(67,362)	936,457
Debt investment securities held to maturity under IAS 39 / investment securities measured at amortized cost under IFRS 9	–	544	544
Debt investment securities available for sale under IAS 39 / debt financial assets at FVOCI under IFRS 9	–	31,400	31,400
Unused limits on loan agreements	–	42,585	42,585
Guarantees issued and unsecured letters of credit issued	245,031	(4,704)	240,327

IFRS 15 Revenue from Contracts with Customers

IFRS 15, issued in May 2014, and amended in April 2016, establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The standard, however, does not apply to income related to financial instruments or leases and, therefore, does not impact most of the Group's income, including interest income, net gains/(losses) on investment securities, lease income regulated by IFRS 9 and IAS 17 *Leases*. As a result, a significant portion of the Group's income is not impacted by the adoption of this standard.

Prior to the adoption of IFRS 15, variable consideration was assessed based on historical information. In accordance with IFRS 15, revenue can only be recognized to the extent that it is highly probable that a significant reversal will not occur when the uncertainty associated with the variable consideration is subsequently resolved. The Group applied the above requirement when assessing the variable consideration and concluded that its effect on the interim condensed consolidated financial statements is insignificant.

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

The Group applied for the first time certain amendments to the standards, which are effective for annual periods beginning on or after 1 January 2018. The Group has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective. The nature and the impact of each amendment is described below:

IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration

The interpretation clarifies that, in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognizes the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, the entity shall determine a date of the transaction for each payment or receipt of the advance consideration. This interpretation had no impact on the Group's consolidated financial statements.

Amendments to IAS 40 Transfers of Investment Property

The amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. The amendments had no impact on the Group's consolidated financial statements.

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

The amendments clarify that an entity that is a venture capital organization, or other qualifying entity, may elect, at initial recognition on an investment-by-investment basis, to measure its investments in associates and joint ventures at fair value through profit or loss. If an entity, that is not itself an investment entity, has an interest in an associate or joint venture that is an investment entity, the entity may, when applying the equity method, elect to retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries. This election is made separately for each investment entity associate or joint venture, at the later of the date on which: (a) the investment entity associate or joint venture is initially recognized; (b) the associate or joint venture becomes an investment entity; and (c) the investment entity associate or joint venture first becomes a parent. The amendments had no impact on the Group's consolidated financial statements.

6 New accounting pronouncements

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

IFRS 16 Leases

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

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

6 New accounting pronouncements (continued)

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

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

The Group plans to apply IFRS 16 prospectively. The Group will apply the standard to agreements that were previously identified as leases applying IAS 17 and IFRIC 4. The Group will therefore not apply the standard to agreements that were not previously identified as containing a lease applying IAS 17 and IFRIC 4.

The Group will use exemptions specified in the standard with regard to lease agreements that expire within 12 months from the date of initial application, as well as with regard to leases of low-value underlying assets.

Currently, the Group is analyzing the effect of adopting IFRS 16 on its consolidated statement of financial position.

IFRS 17 Insurance Contracts

In May 2017, the IASB issued IFRS 17 *Insurance Contracts*, a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, IFRS 17 will replace IFRS 4 *Insurance Contracts* that was issued in 2005. IFRS 17 applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply. The overall objective of IFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in IFRS 4, which are largely based on grandfathering previous local accounting policies, IFRS 17 provides a comprehensive model for insurance contracts covering all relevant accounting aspects. The core of IFRS 17 is the general model supplemented by:

- Certain modifications for insurance contracts with direct participation features (the variable fee approach);
- A simplified approach (the premium allocation approach) mainly for short-duration contracts.

IFRS 17 is effective for reporting periods beginning on or after 1 January 2021, with comparative figures required. Early application is permitted, provided the entity also applies IFRS 9 and IFRS 15 on or before the date it first applies IFRS 17. This standard is not applicable to the Group.

IFRIC Interpretation 23 Uncertainty over Income Tax Treatment

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

- Whether an entity considers uncertain tax treatments separately;
- The assumptions an entity makes about the examination of tax treatments by tax authorities;
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates;
- How an entity considers changes in facts and circumstances.

An entity must determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty should be followed. The interpretation is effective for annual reporting periods beginning on or after 1 January 2019. The Group will apply the interpretation from its effective date. Since the Group operates in a complex tax environment, applying the interpretation may affect its consolidated financial statements. In addition, the Group may need to establish processes and procedures to obtain information that is necessary to apply the interpretation on a timely basis.

6 New accounting pronouncements (continued)

Amendments to IFRS 9: Prepayment Features with Negative Compensation

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

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

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

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

Amendments to IAS 19: Plan Amendment, Curtailment or Settlement

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

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

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

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

Amendments to IAS 28: Long-Term Interests in Associates and Joint Ventures

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

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

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

6 New accounting pronouncements (continued)

Annual improvements 2015-2017 cycle (issued in December 2017)

These improvements include:

IFRS 3 Business Combinations

The amendments clarify that, when an entity obtains control of a business that is a joint operation, it applies the requirements for a business combination achieved in stages, including remeasuring previously held interests in the assets and liabilities of the joint operation at fair value. In doing so, the acquirer remeasures its entire previously held interest in the joint operation.

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

IFRS 11 Joint Arrangements

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

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

IAS 12 Income Taxes

The amendments clarify that the income tax consequences of dividends are linked more directly to past transactions or events that generated distributable profits than to distributions to owners. Therefore, an entity should recognize the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognized those past transactions or events.

An entity should apply those amendments to annual reporting periods beginning on or after 1 January 2019, with early application permitted. When an entity first applies those amendments, it should apply them to the income tax consequences of dividends recognized on or after the beginning of the earliest comparative period. Since the Group's current practice is in line with these amendments, the Group does not expect any effect on its consolidated financial statements.

IAS 23 Borrowing Costs

The amendments clarify that an entity treats as part of general borrowings any borrowing originally made to develop a qualifying asset when substantially all of the activities necessary to prepare that asset for its intended use or sale are complete.

An entity should apply those amendments to borrowing costs incurred on or after the beginning of the annual reporting period in which the entity first applies those amendments. An entity should apply those amendments to annual reporting periods beginning on or after 1 January 2019, with early application permitted. Since the Group's current practice is in line with the amendments, the Group does not expect any effect on its consolidated financial statements.

7 Cash and cash equivalents

(in thousands of Russian rubles)	**2018**	**2017**
Cash on hand	652,589	695,557
Cash balances with the CBR (other than obligatory reserve)	2,241,240	2,481,127
Correspondent accounts and overnight deposits with credit institutions	5,124,998	710,068
Settlement accounts with financial institutions	233,839	79,809
Reverse repurchase agreements with credit institutions up to 90 days	3,080,312	3,264,696
Loans issued to credit institutions with original maturities of less than three months	1,560,318	220,149
Deposits placed with the CBR with original maturities of less than three months	–	2,001,484
Total cash and cash equivalents	**12,893,296**	**9,452,890**
Less allowance for ECL	(1,054)	–
Total amounts due from credit institutions	**12,892,242**	**9,452,890**

Correspondent accounts and overnight deposits with credit institutions as of 31 December 2018 and 31 December 2017 are represented by placements with Russian and foreign credit institutions.

As of 31 December 2018, settlement accounts with financial institutions are represented by brokerage accounts with financial institutions in the amount of RUB 111,874 thousand, settlements with the National Clearing Center in the amount of RUB 99,914 thousand and settlements with payment systems in the amount of RUB 22,051 thousand (2017: settlements with the National Clearing Center in the amount of RUB 65,770 thousand and settlements with payment systems in the amount of RUB 14,039 thousand).

As of 31 December 2018, loans issued to credit institutions with original maturities of less than three months include loans issued to a large Russian bank and foreign banks (2017: a large foreign bank) with contractual interest rates ranging from 2.25% p.a. to 7.65% p.a. (2017: 8.25% p.a.), maturing from January 2019 to March 2019 (2017: in January 2018).

As of 31 December 2018 and 31 December 2017, reverse repurchase agreements with credit institutions for up to 90 days are represented by deposits placed with a Russian credit institution for 11 to 15 days (2017: 11 to 30 days) and bearing contractual interest rates ranging from 7.5% p.a. to 7.95% p.a. (2017: from 0.50% p.a. to 8.10% p.a.). These agreements are collateralized by Russian federal loan bonds and bonds of large Russian companies with a fair value of RUB 3,368,415 thousand (2017: Russian federal loan bonds, shares of a large Russian company, bonds of large Russian banks and companies with a fair value of RUB 3,523,089 thousand).

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

The table below provides an analysis of cash and cash equivalents, except for cash on hand, by credit quality as of 31 December 2018:

(in thousands of Russian rubles)	**Cash balances with the CBR other than obligatory reserve**	**Corres-pondent accounts and overnight deposits with credit institutions**	**Settlement accounts with financial institutions**	**Reverse repurchase agreements with credit institutions up to 90 days**	**Loans issued to credit institutions with original maturities of less than three months**	**Total cash and cash equivalents, excluding cash on hand**
Neither past due nor impaired						
- CBR	2,241,240	–	–	–	–	2,241,240
- A- to A+ rated	–	527,335	3,593	–	–	530,928
- BBB- to BBB+ rated	–	3,582,210	211,742	3,080,312	–	6,874,264
- B- to BB+ rated	–	464,497	18,504	–	1,182,353	1,665,354
- unrated	–	550,956	–	–	377,965	928,921
Total cash and cash equivalents, excluding cash on hand	**2,241,240**	**5,124,998**	**233,839**	**3,080,312**	**1,560,318**	**12,240,707**

7 Cash and cash equivalents (continued)

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

(in thousands of Russian rubles)	Cash balances with the CBR other than obligatory reserve	Correspondent accounts and overnight deposits with credit institutions	Settlement accounts with financial institutions	Reverse repurchase agreements with credit institutions up to 90 days	Loans issued to credit institutions with original maturities of less than three months	Deposits placed with the CBR with original maturities of less than three months	Total cash and cash equivalents, excluding cash on hand
Neither past due nor impaired							
- CBR	2,481,127	–	–	–	–	2,001,484	4,482,611
- A- to A+ rated	–	293,005	–	–	–	–	293,005
- BBB- to BBB+ rated	–	9,083	65,770	3,264,696	–	–	3,339,549
- B- to BB+ rated	–	366,866	14,039	–	–	–	380,905
- unrated	–	41,114	–	–	220,149	–	261,263
Total cash and cash equivalents, excluding cash on hand	**2,481,127**	**710,068**	**79,809**	**3,264,696**	**220,149**	**2,001,484**	**8,757,333**

As of 31 December 2018, cash and cash equivalents for 4 largest counterparties amounted to RUB 8,450,593 thousand (2017: RUB 4,050,935 thousand) or 65.5% (2017: 45.2%) of the total amount.

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

Movements in allowances for ECL for 2018 are analyzed in the table below:

(in thousands of Russian rubles)	Stage 1 (unaudited)
Allowance for ECL at 1 January	**139**
New purchased or originated assets	1,890
Assets derecognized or redeemed	(975)
Allowance for ECL at 31 December	**1,054**

As of 31 December 2018 and 31 December 2017, cash and cash equivalents are current and not impaired.

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

8 Trading securities

(in thousands of Russian rubles)	2018	2017
Corporate bonds	2,951,480	6,537,068
Bonds of the CBR	1,009,670	3,046,230
Shares of banks	311,314	–
Investment units	84,414	–
Corporate shares	46,516	–
Russian federal loan bonds	2,157	–
Bonds of banks	–	1,651,634
Bonds of state corporations	–	103,567
Total non-pledged trading securities	**4,405,551**	**11,338,499**
Russian federal loan bonds	2,253,303	–
Total pledged trading securities	**2,253,303**	**–**
Total trading securities	**6,658,854**	**11,338,499**

8 Trading securities (continued)

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

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

Shares of banks are represented by RUB-denominated equity securities issued by a large Russian bank and traded in the Russian market.

Corporate shares are represented by RUB-denominated equity securities issued by large Russian companies and traded in the Russian market.

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

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

As of 31 December 2018, trading securities with a fair value of RUB 438,769 thousand were restricted for use according to the General Loan Agreement with the CBR with an overdraft limit of RUB 3,500,000 thousand (2017: none) (see Note 35).

The analysis of trading debt securities as of 31 December 2018 is as follows:

	Maturity		**Annual coupon rate, %**	
	from	**to**	**from**	**to**
Corporate bonds	April 2019	January 2028	9.25	13.50
Bonds of the CBR	February 2019	February 2019	7.75	7.75
Russian federal loan bonds	January 2025	January 2025	8.25	8.25

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

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

The analysis of trading debt securities by credit quality as of 31 December 2018 is as follows:

(in thousands of Russian rubles)	**BBB- to BBB+ rated**	**B- to BB+ rated**	**Not rated**	**Total**
Corporate bonds	–	2,145,447	806,033	2,951,480
Bonds of the CBR	1,009,670	–	–	1,009,670
Russian federal loan bonds	2,255,460	–	–	2,255,460
Total trading debt securities	**3,265,130**	**2,145,447**	**806,033**	**6,216,610**

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

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

8 Trading securities (continued)

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

In 2018, dividend income from trading equity securities at FVPL in the amount of RUB 22,852 thousand (2017: RUB 6,143 thousand) was recorded in other operating income of the Group.

Trading securities are unsecured.

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

9 Amounts due from credit institutions

(in thousands of Russian rubles)	**2018**	**2017**
Loans issued to credit institutions	1,831,303	573,588
Eurobonds of banks	–	58,868
Total amounts due from credit institutions before allowance for ECL	**1,831,303**	**632,456**
Less allowance for ECL	(15,037)	(71)
Total amounts due from credit institutions	**1,816,266**	**632,385**

As of 31 December 2018, loans issued to credit institutions include loans to a large Russian bank and foreign banks (2017: loan to a large Russian bank) of RUB 1,831,303 thousand (2017: RUB 573,588 thousand) maturing from March 2018 to September 2018 (2017: in March 2018) and bearing contractual interest rates of 2.6% p.a. to 4.88% p.a. (2017: 3.5% p.a.).

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

Movements in allowances for ECL for 2018 are analyzed in the table below:

(in thousands of Russian rubles)	**Stage 1**
Allowance for ECL at 1 January	**3,094**
New purchased or originated assets	21,167
Assets derecognized or redeemed	(3,031)
Net remeasurement of loss allowance	(9,039)
Translation differences	2,846
Allowance for ECL at 31 December	**15,037**

Movements in the allowance for impairment of amounts due from credit institutions for 2017 are analyzed below:

	2017
Allowance for impairment at 1 January	**4,716**
Decrease in allowance for impairment during the year	(4,645)
Allowance for impairment of amounts due from credit institutions at 31 December	**71**

Amounts due from credit institutions are not secured.

9 Amounts due from credit institutions (continued)

The analysis of amounts due from credit institutions by credit quality as of 31 December 2018 and 31 December 2017 is as follows:

(in thousands of Russian rubles)	**2018**	**2017**
Neither past due nor impaired		
- B- to BB+ rated	703,654	632,456
- unrated	1,127,649	–
Total amounts due from credit institutions	**1,831,303**	**632,456**

As of 31 December 2018 and 31 December 2017, amounts due from credit institutions are current and not impaired.

Estimated fair values of each category of amounts due from credit institutions are shown in Note 32. The analysis of amounts due from credit institutions by maturity is provided in Note 28. Information on related party transactions is disclosed in Note 33.

10 Loans to customers

(in thousands of Russian rubles)	**2018**	**2017**
Large businesses	14,802,706	14,576,895
Medium businesses	6,666,310	5,878,389
Small businesses	2,257,395	3,610,200
Loans to individuals	15,234,985	2,950,154
Total loans to customers at amortized cost before allowance for ECL	**38,961,396**	**27,015,638**
Less allowance for ECL	(1,074,638)	(997,437)
Total loans to customers at amortized cost	**37,886,758**	**26,018,201**
Loans to legal entities at FVPL	2,517,065	–
Total loans to customers at FVPL	**2,517,065**	**–**
Total loans to customers	**40,403,823**	**26,018,201**

Loans issued by the Group are subdivided into:

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

As of 31 December 2017, loans to individuals comprise receivables under reverse repurchase agreements, which represent claims for repayment of funds under reverse repurchase agreements in the amount of RUB 19,032 thousand. The allowance for impairment of receivables under reverse repurchase agreements amounted to RUB 244 thousand.

10 Loans to customers (continued)

Movements in allowances for ECL on loans issued to large businesses, and their carrying amounts for 2018 are presented in the table below:

	Allowance for ECL			Gross carrying amount		
(in thousands of Russian rubles)	**Stage 1**	**Stage 2**	**Total**	**Stage 1**	**Stage 2**	**Total**
Large businesses						
As of 1 January	**253,576**	**5,190**	**258,766**	**14,012,574**	**564,321**	**14,576,895**
New purchased or originated assets and effect of other upward movements in gross carrying amount	85,090	5,266	90,356	11,712,494	18,243	11,730,737
Assets derecognized or redeemed (excluding write-offs) and effect of other downward movements in gross carrying amount	(96,070)	(9,081)	(105,151)	(12,229,606)	(440,121)	(12,669,727)
Transfers to Stage 1	–	–	–	125,460	(125,460)	–
Transfers to Stage 2	(83,101)	83,101	–	(2,084,027)	2,084,027	–
Changes in contractual cash flows due to modification not resulting in derecognition	(238)	–	(238)	(24,306)	–	(24,306)
Net remeasurement of loss allowance	(86,672)	21,740	(64,932)	7,752	–	7,752
Translation differences	20,525	4,588	25,113	1,066,286	115,069	1,181,355
As of 31 December	**93,110**	**110,804**	**203,914**	**12,586,627**	**2,216,079**	**14,802,706**

Movements in allowances for ECL on loans issued to medium businesses, and their carrying amounts for 2018 are presented in the table below:

(in thousands of Russian rubles)	Allowance for ECL				Gross carrying amount			
	Stage 1	**Stage 2**	**Stage 3**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Medium businesses								
As of 1 January	**43,806**	**22,930**	**40,594**	**107,330**	**4,332,224**	**1,045,668**	**500,497**	**5,878,389**
New purchased or originated assets and effect of other upward movements in gross carrying amount	87,650	6	10,454	98,110	5,320,497	3,767	16,899	5,341,163
Assets derecognized or redeemed (excluding write-offs) and effect of other downward movements in gross carrying amount	(70,833)	(19,811)	(19,757)	(110,401)	(4,876,756)	(559,312)	(262,041)	(5,698,109)
Transfers to Stage 1	3,590	(3,590)	–	–	476,213	(476,213)	–	–
Transfers to Stage 2	–	–	–	–	(164,128)	164,128	–	–
Changes in contractual cash flows due to modification not resulting in derecognition	(105)	–	–	(105)	(11,430)	(431)	–	(11,861)
Net remeasurement of loss allowance	(17,262)	316	(9,580)	(26,526)	896,203	68,942	–	965,145
Allowance for impairment of loans assigned during the period	–	–	(10,813)	(10,813)	–	–	(244,457)	(244,457)
Amounts written off	–	–	(852)	(852)	–	–	(852)	(852)
Translation differences	3,500	458	629	4,587	411,516	24,747	629	436,892
As of 31 December	**50,346**	**309**	**10,675**	**61,330**	**6,384,339**	**271,296**	**10,675**	**6,666,310**

10 Loans to customers (continued)

Movements in allowances for ECL on loans issued to small businesses, and their carrying amounts for 2018 are presented in the table below:

(in thousands of Russian rubles)	Allowance for ECL				Gross carrying amount			
	Stage 1	**Stage 2**	**Stage 3**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Small businesses								
As of 1 January	**96,869**	**–**	**397,207**	**494,076**	**2,868,615**	**67,977**	**486,544**	**3,423,136**
New purchased or originated assets and effect of other upward movements in gross carrying amount	15,640	366	1,932	17,938	1,095,507	8,800	12,493	1,116,800
Assets derecognized or redeemed (excluding write-offs) and effect of other downward movements in gross carrying amount	(34,664)	(2,621)	(19,864)	(57,149)	(1,178,108)	(123,652)	(7,970)	(1,309,730)
Transfers to Stage 2	(12,484)	12,484	–	–	(603,095)	603,095	–	–
Unwinding of discount (recorded in interest income)	–	–	105,758	105,758	–	–	105,758	105,758
Changes in contractual cash flows due to modification not resulting in derecognition	–	(420)	–	(420)	–	(10,301)	–	(10,301)
Net remeasurement of loss allowance	(50,218)	9,654	93,933	53,369	(919,214)	(68,942)	416	(987,740)
Allowance for impairment of loans assigned during the period	–	–	(80,528)	(80,528)	–	–	(80,528)	(80,528)
As of 31 December	**15,143**	**19,463**	**498,438**	**533,044**	**1,263,705**	**476,977**	**516,713**	**2,257,395**

Movements in allowances for ECL on loans issued to individuals, and their carrying amounts for 2018 are presented in the table below:

(in thousands of Russian rubles)	Allowance for ECL				Gross carrying amount			
	Stage 1	**Stage 2**	**Stage 3**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Individuals								
As of 1 January	**15,790**	**4,454**	**46,444**	**66,688**	**2,877,663**	**10,954**	**61,537**	**2,950,154**
New purchased or originated assets and effect of other upward movements in gross carrying amount	110,719	4,231	3,192	118,142	15,644,574	11,654	11,747	15,667,975
Assets derecognized or redeemed (excluding write-offs) and effect of other downward movements in gross carrying amount	(26,205)	(2,636)	(10,576)	(39,417)	(3,319,570)	(7,720)	(6,509)	(3,333,799)
Transfers to Stage 1	6,319	(5,656)	(663)	–	22,081	(21,180)	(901)	–
Transfers to Stage 2	(1,544)	2,256	(712)	–	(98,809)	100,086	(1,277)	–
Transfers to Stage 3	(2,947)	(19,725)	22,672	–	(32,106)	(41,385)	73,491	–
Unwinding of discount (recorded in interest income)	–	–	14,699	14,699	–	–	14,699	14,699
Net remeasurement of loss allowance	29,107	48,094	45,905	123,106	298	1,809	–	2,107
Allowance for ECL on loans assigned during the period	(544)	–	(7,643)	(8,187)	(60,612)	–	(11,455)	(72,067)
Translation differences	39	–	1280	1,319	4,626	–	1,290	5,916
As of 31 December	**130,734**	**31,018**	**114,598**	**276,350**	**15,038,145**	**54,218**	**142,622**	**15,234,985**

10 Loans to customers (continued)

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

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

In 2018, the Group sold outstanding loans at amortized cost payable by individuals with a nominal value of RUB 72,067 thousand and an allowance for impairment of RUB 8,187 thousand for RUB 63,902 thousand (2017: RUB 2,485,450 thousand and an allowance for impairment of RUB 42,398 thousand for RUB 2,669,122 thousand) to a party that was not under common control. The Group is not exposed to non-payment risk as it provided no guarantee for the payment of interest and principal.

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

	2018		2017	
(in thousands of Russian rubles)	Amount	%	Amount	%
Individuals	15,234,985	36.7	2,950,154	10.9
Finance and insurance	5,622,139	13.6	3,646,435	13.5
Wholesale	3,230,569	7.8	3,337,426	12.4
Mining	2,280,217	5.5	396,895	1.5
Property development	1,883,910	4.5	1,766,513	6.5
Retail	1,839,487	4.4	1,069,123	4.0
Other production	1,726,844	4.2	1,943,325	7.2
Residential construction	1,602,383	3.9	4,940,901	18.3
Metallurgy	1,512,257	3.7	1,272,004	4.7
Construction	1,110,833	2.7	96,855	0.4
Information and telecommunication	1,087,697	2.6	1,005,924	3.7
Production and repair of vehicles and equipment	810,370	2.0	645,268	2.4
Oil and gas	799,995	1.9	250,000	0.9
Infrastructure construction	588,547	1.4	1,098,384	4.1
Energy	206,500	0.5	1,328,347	4.9
Transportation and storage	51,157	0.1	300,077	1.1
Other	1,890,571	4.5	968,007	3.5
Total loans and advances to customers (before allowance for loan impairment)	**41,478,461**	**100.0**	**27,015,638**	**100.0**

10 Loans to customers (continued)

As of 31 December 2018, loans issued to 30 major borrowers amounted to RUB 22,318,853 thousand before deduction of allowance for loan impairment (2017: RUB 20,453,478 thousand), or 54% (2017: 76%) of the total amount of loans to customers.

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

The main types of collateral obtained are as follows:

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

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

Information on the loan portfolio by type of collateral as of 31 December 2018 is presented below:

(in thousands of Russian rubles)	**Large businesses**	**Medium businesses**	**Small businesses**	**Loans to individuals**	**Total**
Unsecured loans	10,860,838	2,110,354	758,001	2,049,886	15,779,079
Loans secured by:					
- items of movable property	226,357	364,555	322,319	12,688,455	13,601,686
- items of immovable property	1,688,317	1,742,367	950,172	464,292	4,845,148
- bank guarantees and sureties	1,497,694	1,420,342	–	849	2,918,885
- securities and interests in share capital	1,335,056	17,317	115	–	1,352,488
- cash deposits	147,544	765,968	93,864	2,019	1,009,395
- receivables under credit facility (lease) agreements or loan agreements	1,022,711	–	–	1,296	1,024,007
- the Group's own promissory notes	300,000	23,071	2,000	–	325,071
- receivables under investment contracts	–	60,000	27,184	–	87,184
- other property rights (receivables)	122,419	281,171	103,740	28,188	535,518
Total loans and advances to customers	**17,200,936**	**6,785,145**	**2,257,395**	**15,234,985**	**41,478,461**

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

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

10 Loans to customers (continued)

The disclosures above as of 31 December 2018 and 31 December 2017 show the lower of the carrying amount of the loan and collateral received; the remaining information is disclosed as unsecured loans. The carrying amount of loans was allocated based on the liquidity of assets received as collateral.

The credit quality of loans to large businesses at amortized cost as of 31 December 2018 is as follows:

(in thousands of Russian rubles)	Stage 1	Stage 2	Stage 3	Total
Large businesses				
Neither past due nor impaired				
- Standard portfolio	12,586,627	2,216,079	–	14,802,706
Total neither past due nor impaired	**12,586,627**	**2,216,079**	**–**	**14,802,706**
Total loans and advances to large businesses (before allowance for ECL)	**12,586,627**	**2,216,079**	**–**	**14,802,706**
Less allowance for ECL	(93,110)	(110,804)	–	(203,914)
Total loans and advances to large businesses	**12,493,517**	**2,105,275**	**–**	**14,598,792**

The credit quality of loans to medium businesses at amortized cost as of 31 December 2018 is as follows:

(in thousands of Russian rubles)	Stage 1	Stage 2	Stage 3	Total
Medium businesses				
Neither past due nor impaired				
- Loans renegotiated in 2018	18,170	103,971	–	122,141
- Standard portfolio	6,366,169	167,325	–	6,533,494
Total neither past due nor impaired	**6,384,339**	**271,296**	**–**	**6,655,635**
Individually impaired loans				
- More than 90 days past due	–	–	10,675	10,675
Total individually impaired loans	**–**	**–**	**10,675**	**10,675**
Total loans and advances to medium businesses (before allowance for ECL)	**6,384,339**	**271,296**	**10,675**	**6,666,310**
Less allowance for ECL	(50,346)	(309)	(10,675)	(61,330)
Total loans and advances to medium businesses	**6,333,993**	**270,987**	**–**	**6,604,980**

10 Loans to customers (continued)

The credit quality of loans to small businesses at amortized cost as of 31 December 2018 is as follows:

(in thousands of Russian rubles)	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Small businesses				
Neither past due nor impaired				
- Standard portfolio	1,263,705	476,977	–	1,740,682
Total neither past due nor impaired	**1,263,705**	**476,977**	**–**	**1,740,682**
Individually impaired loans				
- More than 90 days past due	–	–	516,713	516,713
Total individually impaired loans	**–**	**–**	**516,713**	**516,713**
Total loans and advances to small businesses (before allowance for ECL)	**1,263,705**	**476,977**	**516,713**	**2,257,395**
Less allowance for ECL	(15,143)	(19,463)	(498,438)	(533,044)
Total loans and advances to small businesses	**1,248,562**	**457,514**	**18,275**	**1,724,351**

The credit quality of loans to individuals at amortized cost as of 31 December 2018 is as follows:

(in thousands of Russian rubles)	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Loans to individuals				
Neither past due nor impaired				
- Loans renegotiated in 2018	3,943	1,960	–	5,903
- Standard portfolio	14,911,427	–	–	14,911,427
Total neither past due nor impaired	**14,915,370**	**1,960**	**–**	**14,917,330**
Past due but not impaired				
- Less than 30 days past due	122,775	–	–	122,775
- 31 to 90 days past due	–	52,258	–	52,258
Total past due but not impaired	**122,775**	**52,258**	**–**	**175,033**
Individually impaired loans				
- More than 90 days past due	–	–	142,622	142,622
Total individually impaired loans	**–**	**–**	**142,622**	**142,622**
Total loans and advances to individuals (before allowance for ECL)	**15,038,145**	**54,218**	**142,622**	**15,234,985**
Less allowance for ECL	(130,734)	(31,018)	(114,598)	(276,350)
Total loans and advances to individuals	**14,907,411**	**23,200**	**28,024**	**14,958,635**

10 Loans to customers (continued)

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

(in thousands of Russian rubles)	Large businesses	Medium businesses	Small businesses	Loans to individuals	Total
Neither past due nor impaired					
- Loans renegotiated in 2017	–	–	–	10,700	10,700
- Loans renegotiated in previous reporting periods	–	286,062	–	–	286,062
- Standard portfolio	14,576,895	5,091,830	3,123,656	2,845,042	25,637,423
Total neither past due nor impaired	**14,576,895**	**5,377,892**	**3,123,656**	**2,855,742**	**25,934,185**
Past due but not impaired					
- Less than 30 days past due	–	–	–	21,918	21,918
- 31 to 90 days past due	–	–	–	12,218	12,218
Total past due but not impaired	**–**	**–**	**–**	**34,136**	**34,136**
Individually impaired loans					
- Not past due	–	500,497	–	–	500,497
- More than 90 days past due	–	–	486,544	60,276	546,820
Total individually impaired loans	**–**	**500,497**	**486,544**	**60,276**	**1,047,317**
Total loans and advances to customers (before allowance for loan impairment)	**14,576,895**	**5,878,389**	**3,610,200**	**2,950,154**	**27,015,638**
Less allowance for impairment	(298,710)	(119,117)	(506,695)	(72,915)	(997,437)
Total loans and advances to customers	**14,278,185**	**5,759,272**	**3,103,505**	**2,877,239**	**26,018,201**

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

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

The Group derecognizes a financial asset, such as a loan to a customer, when the terms and conditions have been renegotiated to the extent that, substantially, it becomes a new loan, with the difference recognized as a derecognition gain or loss, to the extent that an impairment loss has not already been recorded. The newly recognized loans are classified as Stage 1 for ECL measurement purposes, unless the new loan is deemed to be POCI.

If the modification does not result in cash flows that are substantially different, the modification does not result in derecognition. Based on the change in cash flows discounted at the original EIR, the Group records a modification gain or loss before impairment loss is recognized.

10 Loans to customers (continued)

The table below shows Stage 2 assets that were modified during the period and, as a result, recorded as renegotiated loans, with the modification loss incurred by the Group.

(in thousands of Russian rubles)	**31 December 2018**
Loans to customers modified during the period	
Amortized cost before modification	917,627
Net modification loss	(10,523)

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

11 Investment securities

Investments securities at FVOCI (2017: investment securities available for sale) comprise the following:

(in thousands of Russian rubles)	**2018**	**2017**
Corporate bonds	5,894,714	3,566,762
Shares of banks	2,181,112	1,092,485
Bonds of banks	1,965,870	1,717,127
Russian federal loan bonds	850,593	–
Bonds of state corporations	717,384	1,644,614
Eurobonds of the Russian Federation	310,563	–
Corporate shares	279,474	–
Total non-pledged investment securities at FVOCI (2017: total non-pledged investment securities available for sale)	**12,199,710**	**8,020,988**
Russian federal loan bonds	1,333,300	–
Bonds of banks	1,012,406	621,980
Corporate bonds	684,092	1,113,360
Eurobonds of the Russian Federation	592,892	–
Total pledged investment securities at FVOCI sold under repurchase agreements (2017: total pledged investment securities available for sale sold under repurchase agreements)	**3,622,690**	**1,735,340**
Total investment securities at FVOCI (2017: total investment securities available for sale)	**15,822,400**	**9,756,328**

11 Investment securities (continued)

The analysis of debt securities by credit quality as of 31 December 2018 is as follows:

(in thousands of Russian rubles)	Corporate bonds	Bonds of banks	Russian federal loan bonds	Bonds of state corporations	Eurobonds of the Russian Federation	Total
Neither past due nor impaired						
- BBB- to BBB+ rated	1,279,949	106,255	2,183,893	717,384	903,455	5,190,936
- B- to BB+ rated	4,317,574	2,872,021	–	–	–	7,189,595
- Unrated	981,283	–	–	–	–	981,283
Total debt investment securities at FVOCI	**6,578,806**	**2,978,276**	**2,183,893**	**717,384**	**903,455**	**13,361,814**

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

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

The fair value of investment securities at FVOCI (2017: investment securities available for sale) is determined based on the current market price as of the end of operations on 31 December. Where quoted market prices are not available, the Group uses valuation techniques (see Note 32).

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

As of 31 December 2018, investment securities at FVOCI are represented by Russian federal loan bonds, Eurobonds of the Russian Federation, bonds of Russian issuers, shares of foreign and Russian issuers with a fair value of RUB 15,822,400 thousand (see Note 32).

As of 31 December 2018, shares of banks with a carrying amount of RUB 2,181,112 thousand are represented by equity securities issued by a foreign and a Russian bank; corporate shares with a carrying amount of RUB 279,474 thousand are represented by equity securities issued by a foreign entity and Russian companies. The Group made an irrevocable election to classify these shares as investment securities at FVOCI, as they are not held for trading. In 2018, dividend income from equity investment securities at FVOCI in the amount of RUB 186,166 thousand was recorded in other operating income of the Group.

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

11 Investment securities (continued)

The analysis by maturity and annual coupon rate as of 31 December 2018 is presented in the table below:

	Maturity		Annual coupon rate, %	
	from	**to**	**from**	**to**
Corporate bonds	April 2020	August 2038	5.25	12.00
Bonds of banks	May 2019	June 2021	2.63	9.84
Russian federal loan bonds	January 2020	January 2025	8.02	8.25
Bonds of state corporations	July 2020	July 2022	6.03	6.90
Eurobonds of the Russian Federation	January 2019	January 2019	3.50	3.50

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

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

Movements in allowances for ECL on investment securities at FVOCI for 2018 are presented in the table below:

(in thousands of Russian rubles)	**Stage 1**	**Stage 2**	**Total**
Allowance for ECL at 1 January	**31,400**	**–**	**31,400**
New purchased or originated assets	57,514	–	57,514
Assets derecognized or redeemed (excluding write-offs)	(14,391)	–	(14,391)
Transfers to Stage 1	22,794	(22,794)	–
Transfers to Stage 2	(3,301)	3,301	–
Net remeasurement of loss allowance	(28,837)	17,498	(11,339)
Translation differences	8,144	1,995	10,139
Allowance for ECL as of 31 December	**73,323**	**–**	**73,323**

The analysis of investment securities at FVOCI (2017: investment securities available for sale) by structure of currencies and by maturity, and the analysis of interest rates are presented in Note 28. Information on related party transactions is disclosed in Note 33.

Reclassifications

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

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

11 Investment securities (continued)

Reclassifications (continued)

Investment securities held to maturity comprise:

	2017
Russian federal loan bonds	811,862
Total investment securities held to maturity before allowance	**811,862**
Less allowance for impairment	–
Total investment securities held to maturity	**811,862**

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

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

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

As of 31 December 2017, securities held to maturity represented by Russian federal loan bonds with a fair value of RUB 424,716 thousand were restricted for use according to the General Loan Agreement with the CBR with an overdraft limit of RUB 3,500,000 thousand (see Note 35).

In 2018, Russian federal loan bonds within the portfolio of investment securities at amortized cost of RUB 815,052 thousand were sold within less than three months before maturity, which is in line with the objective to hold financial assets in order to collect contractual cash flows, as the sales occurred close to maturity and the related proceeds approximated the remaining cash flows due under the terms and conditions of issue.

In 2017, Russian federal loan bonds within the portfolio of investment securities held to maturity in the amount of RUB 1,448,186 thousand were sold to a third party within less than three months before maturity.

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

	Maturity		Annual coupon rate, %	
	from	to	from	to
Russian federal loan bonds	March 2018	February 2019	5.00	7.50

Movements in allowances for ECL on investment securities at amortized cost for 2018 are presented in the table below:

(in thousands of Russian rubles)	Stage 1 (unaudited)
Allowance for ECL at 1 January	**544**
Assets derecognized or redeemed	(361)
Net remeasurement of loss allowance	(183)
Allowance for ECL at 31 December	**–**

11 Investment securities (continued)

Reclassifications (continued)

As of 31 December 2017, the primary factor that the Group considered in determining whether debt securities were impaired was their past due status. As of 31 December 2017, the Group had no past due debt investment securities.

The analysis of investment securities held to maturity by structure of currencies and by maturity, and the analysis of interest rates are presented in Note 28. Estimated fair values of investment securities at FVOCI (2017: investment securities available for sale) are shown in Note 32. Information on related party transactions is disclosed in Note 33.

12 Investment property

Movements in investment property were as follows:

(in thousands of Russian rubles)	**Notes**	**2018**	**2017**
Balance at 1 January		**687,000**	**698,000**
Additions		–	–
Transfers from property and equipment	13	240,404	–
Transfers to property and equipment	13	(240,404)	–
Disposals		–	–
Devaluation recognized in profit or loss		(11,500)	(11,000)
Balance at 31 December		**675,500**	**687,000**

As of 31 December 2018 and 31 December 2017, fair values of investment property are based on the results of a valuation performed by an independent certified appraiser.

(in thousands of Russian rubles)	**2018**	**2017**
Rental income from investment property	24,422	36,004
Direct operating expenses (including repairs and maintenance) arising from investment property that generated rental income	–	(515)
Direct operating expenses (including repairs and maintenance) arising from investment property that did not generate rental income	(1,649)	(297)
Total gains less losses arising from investment property	**22,773**	**35,192**

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

13 Property and equipment

(in thousands of Russian rubles)	Notes	Land and buildings	Office and computer equipment	Furniture	Motor vehicles	Leasehold improve-ments	Equipment not put into operation	Total property and equipment
Cost or valuation at 1 January 2017		**1,355,100**	**452,975**	**83,768**	**41,489**	**29,487**	**49**	**1,962,868**
Accumulated depreciation		–	(451,567)	(51,506)	(14,932)	(4,510)	–	(522,515)
Carrying amount at 1 January 2017		**1,355,100**	**1,408**	**32,262**	**26,557**	**24,977**	**49**	**1,440,353**
Acquisition of a subsidiary bank		241,999	12,091	2,853	6,271	–	–	263,214
Additions		–	2,965	883	4,011	981	–	8,840
Disposals		–	(3,078)	(340)	(1,902)	(8,805)	–	(14,125)
Reclassifications		–	49	–	–	–	(49)	–
Depreciation	25	(27,505)	(1,213)	(11,476)	(2,552)	(430)	–	(43,176)
Accumulated depreciation of disposed property and equipment		–	3,017	319	1,893	2,534	–	7,763
Recognition of revaluation through revaluation reserve		36,002	–	–	–	–	–	36,002
Carrying amount at 31 December 2017		**1,605,596**	**15,239**	**24,501**	**34,278**	**19,257**	**–**	**1,698,871**
Cost or valuation at 31 December 2017		**1,605,999**	**465,002**	**87,164**	**49,869**	**21,663**	**–**	**2,229,697**
Accumulated depreciation		(403)	(449,763)	(62,663)	(15,591)	(2,406)	–	(530,826)
Carrying amount at 31 December 2017		**1,605,596**	**15,239**	**24,501**	**34,278**	**19,257**	**–**	**1,698,871**
Additions		93	4,004	3,749	18,870	338	–	27,054
Disposals		–	(19,530)	(2,046)	(16,886)	(4,562)	–	(43,024)
Depreciation	25	(29,158)	(3,938)	(5,915)	(4,757)	(300)	–	(44,068)
Accumulated depreciation of disposed property and equipment		–	19,483	1,369	6,729	352	–	27,933
Transfers to investment property		(241,999)	–	–	–	–	–	(241,999)
Transfers from investment property		240,404	–	–	–	–	–	240,404
Accumulated depreciation of transferred assets		1,595	–	–	–	–	–	1,595
Recognition of revaluation through revaluation reserve		29,495	–	–	–	–	–	29,495
Carrying amount at 31 December 2018		**1,606,026**	**15,258**	**21,658**	**38,234**	**15,085**	**–**	**1,696,261**
Cost or valuation at 31 December 2018		**1,606,026**	**449,476**	**88,867**	**51,853**	**17,439**	**–**	**2,213,661**
Accumulated depreciation		–	(434,218)	(67,209)	(13,619)	(2,354)	–	(517,400)
Carrying amount at 31 December 2018		**1,606,026**	**15,258**	**21,658**	**38,234**	**15,085**	**–**	**1,696,261**

Equipment not put into operation as of 1 January 2017 comprises office equipment and computers purchased, which require additional costs to be prepared for operation. Upon completion of the works, this asset was transferred to the respective category.

The Group is not subject to any restrictions on its ownership rights to property and equipment. Property and equipment were not pledged as collateral to secure the Group's obligations.

Land and buildings were revalued to market value as of 31 December 2018 and 31 December 2017 by an independent firm of professional appraisers who have a recognized qualification and experience in valuation of similar property in terms of its location and category.

13 Property and equipment (continued)

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

The carrying amount of land and buildings as of 31 December 2018 includes the amount of RUB 555,215 thousand (2017: RUB 525,720 thousand), which represents the surplus from revaluation of the Group's buildings. Had the assets been carried at cost less depreciation, the carrying amount of land and buildings as of 31 December 2017 would have been RUB 1,050,811 thousand (2017: RUB 1,079,876 thousand).

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

(in thousands of Russian rubles)	**31 December 2018**	**31 December 2017**
Land and buildings at revalued amount in the consolidated statement of financial position	1,606,026	1,605,596
Revaluation reserve presented within equity, before tax	(555,215)	(525,720)
Land and buildings at cost net of accumulated depreciation	**1,050,811**	**1,079,876**

14 Intangible assets

(in thousands of Russian rubles)	**Notes**	**Software and licenses**
Carrying amount at 1 January 2017		**35,631**
Cost		
Balance at the beginning of the period		187,109
Additions		1,811
Disposals		(8,042)
Balance at the end of the period		**180,878**
Accumulated amortization		
Balance at the beginning of the period		151,478
Amortization charges	25	8,081
Disposals		(8,042)
Balance at the end of the period		**151,517**
Carrying amount at 31 December 2017		**29,361**
Cost		
Balance at the beginning of the period		180,878
Additions		23,955
Disposals		(145,498)
Balance at the end of the period		**59,335**
Accumulated amortization		
Balance at the beginning of the period		151,517
Amortization charges	25	7,332
Disposals		(145,498)
Balance at the end of the period		**13,351**
Carrying amount at 31 December 2018		**45,984**

Additions of intangible assets mainly represent the software and licenses purchased by the Group during 2018 to ensure compliance with the new procedures implemented by the Group. During 2018, intangible assets in the amount of RUB 23,955 thousand were purchased for cash (2017: RUB 1,811 thousand).

15 Other assets

Other financial assets comprise:

(in thousands of Russian rubles)	Notes	2018	2017
Credit and debit card receivables		5,668	88,587
Receivables under commemorative coins acquired and sold		942	957
Derivative financial instruments	31	896	5,775
Guarantee deposits		–	30,000
Other		220	9,355
Total other financial assets		**7,726**	**134,674**
Less allowance for ECL		(10)	(6,310)
Total other financial assets less allowance for ECL		**7,716**	**128,364**

Movements in allowances for ECL on other financial assets for 2018 are presented in the table below:

(in thousands of Russian rubles)	Stage 1	Stage 2	Total
Allowance for ECL at 1 January	**23**	**4,725**	**4,748**
New purchased or originated assets	18	–	18
Allowance for ECL on debts assigned during the period	–	(5,833)	(5,833)
Assets derecognized or redeemed (excluding write-offs)	(27)	–	(27)
Net remeasurement of loss allowance	(4)	1,108	1,104
Allowance for ECL at 31 December	**10**	**–**	**10**

Movements in the allowance for impairment of other financial assets for 2017 are as follows:

(in thousands of Russian rubles)	2017
Allowance for impairment at 1 January	**9,488**
Decrease in allowance for impairment during the year	(2,836)
Write-off against allowance on sale of lease receivables	(342)
Allowance for impairment of other financial assets at 31 December	**6,310**

In 2018, the Group sold other receivables with a nominal value of RUB 7,340 thousand and allowance for ECL of RUB 5,833 thousand for RUB 9,500 thousand (2017: other financial assets with a nominal value of RUB 342 thousand and allowance for impairment of RUB 342 thousand for RUB 2 thousand).

As of 31 December 2018, credit and debit card receivables include a security deposit for settlements with Credit Union Payment Center Ltd. in the amount of RUB 5,668 thousand (2017: security deposits for settlements with Master Card International in the amount of RUB 86,400 thousand and security deposits for settlements with Credit Union Payment Center Ltd. in the amount of RUB 2,187 thousand).

15 Other assets (continued)

The analysis of other financial assets by credit quality as of 31 December 2018 is as follows:

(in thousands of Russian rubles)	Derivative financial instruments	Credit and debit card receivables	Receivables under commemorative coins acquired and sold	Other	Total
Neither past due nor impaired					
- BBB- to BBB+ rated	508	–	–	–	508
- B- to BB+ rated	–	5,668	–	–	5,668
- unrated	388	–	942	220	1,550
Total other financial assets	**896**	**5,668**	**942**	**220**	**7,726**

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

(in thousands of Russian rubles)	Derivative financial instruments	Credit and debit card receivables	Trade receivables	Receivables under commemorative coins acquired and sold	Other	Total
Neither past due nor impaired						
- BBB- to BBB+ rated	–	–	30,000	–	–	30,000
- B- to BB+ rated	–	88,587	–	–	–	88,587
- unrated	5,775	–	–	957	9,355	16,087
Total other financial assets	**5,775**	**88,587**	**30,000**	**957**	**9,355**	**134,674**

As of 31 December 2018, other financial assets at amortized cost are current and not impaired.

As of 31 December 2017, the primary factors that the Group considered in determining whether other financial assets were impaired were their overdue status and realizability of related collateral, if any. As of 31 December 2017, other financial assets included past due and impaired other financial assets of RUB 1,616 thousand.

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

Other non-financial assets comprise:

(in thousands of Russian rubles)	2018	2017
Settlements with suppliers and contractors	96,577	35,008
Taxes and social contributions prepaid	14,428	10,080
Uncollectible receivables	6,181	6,194
State duty receivable	5,851	4,624
Repossessed collateral	2,565	19,766
Other	2,670	9,370
Less allowance for impairment of uncollectible receivables	(25,347)	(11,171)
Total other non-financial assets	**102,925**	**73,871**

In 2018, the Group received collateral of RUB 14,215 thousand as a result of non-payments (2017: following the purchase of Bank na Goncharnoy (JSC), obtained assets of RUB 10,834 thousand and received collateral of RUB 6,206 thousand as a result of non-payments). In 2018, the Group sold collateral with a carrying amount of RUB 15,896 thousand repossessed as a result of non-payments (2017: RUB 32,235 thousand).

15 Other assets (continued)

Movements in the allowance for impairment of other non-financial assets for 2018 and 2017 are as follows:

(in thousands of Russian rubles)	**2018**	**2017**
Allowance for impairment at 1 January	**11,171**	**22,883**
(Decrease)/increase in allowance for impairment during the year	15,088	(10,519)
Other non-financial assets written off against allowance for impairment during the year	(912)	(1,193)
Allowance for impairment at 31 December	**25,347**	**11,171**

16 Amounts due to credit institutions

(in thousands of Russian rubles)	**2018**	**2017**
Repurchase agreements with credit institutions	1,909,209	1,549,571
Deposits of credit institutions	959,818	1,258,113
Correspondent accounts and overnight deposits of credit institutions	706,543	146,036
Total amounts due to credit institutions	**3,575,570**	**2,953,720**

Repurchase agreements with credit institutions include deposits from a Russian credit institution (31 December 2017: from Russian credit institutions) maturing in January 2019 (31 December 2017: in January 2018) and bearing contractual interest rates ranging from 0.2% p.a. to 7.95% p.a. (31 December 2017: 0.4% p.a.). The information on securities pledged under repurchase agreements with credit institutions is disclosed in Notes 8 and 11.

Deposits of credit institutions include deposits of a large Russian bank and foreign banks (2017: deposits of Russian and foreign banks) maturing in January 2019 (2017: in January 2018) and bearing contractual interest rates ranging from 1.81% p.a. to 6% p.a. (2017: from 0.58% p.a. to 6.95% p.a.).

The analysis of amounts due to credit institutions by maturity is provided in Note 28. Information on the fair value of amounts due to credit institutions is disclosed in Note 32. Information on related party transactions is disclosed in Note 33.

17 Amounts due to customers

(in thousands of Russian rubles)	**2018**	**2017**
State and public organizations		
- Current/settlement accounts	2,481	1,122
- Term deposits	3,475,135	57,688
Legal entities		
- Current/settlement accounts	8,608,419	6,560,831
- Term deposits	13,269,155	6,444,864
Individuals		
- Current accounts/demand accounts	1,961,192	1,938,632
- Term deposits	32,409,878	28,285,178
Total amounts due to customers	**59,726,260**	**43,288,315**

17 Amounts due to customers (continued)

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

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

	2018		2017	
(in thousands of Russian rubles)	**Amount**	**%**	**Amount**	**%**
Individuals	34,371,070	57.5	30,223,810	69.8
Oil and gas	6,599,981	11.1	312,182	0.7
Construction	4,167,734	7.0	3,250,483	7.5
Trade	3,969,271	6.7	2,841,598	6.6
State and public organizations	3,477,616	5.8	58,810	0.1
Financial services	1,263,320	2.1	513,764	1.2
Information and telecommunication	1,009,620	1.7	87,145	0.2
Consulting services	896,889	1.5	924,212	2.1
Manufacturing	711,960	1.2	617,054	1.4
Transport and logistics	668,766	1.1	624,069	1.5
Real estate	693,864	1.2	879,529	2.0
Non-for-profit organizations	366,679	0.6	541,055	1.3
Services	295,391	0.5	372,431	0.9
Advertising and mass media	240,676	0.4	234,037	0.5
Mining industry	207,824	0.3	9,081	–
Telecommunications	109,461	0.2	86,549	0.2
Food industry	122,797	0.3	1,148,047	2.7
Other	553,341	1.0	564,459	1.3
Total amounts due to customers	**59,726,260**	**100.0**	**43,288,315**	**100.0**

As of 31 December 2018, amounts due to customers include the amount of RUB 35,550 thousand (2017: RUB 155,004 thousand), which is collateral for irrevocable obligations under letters of credit (see Note 30).

As of 31 December 2018, amounts due to 10 largest customers was RUB 17,079,687 thousand (2017: RUB 8,119,864 thousand) or 29% (2017: 19%) of the total amounts due to customers.

As of 31 December 2018, balances of customer accounts in the amount of RUB 1,718,335 thousand (31 December 2017: RUB 1,269,297 thousand) represented collateral under loans granted by the Group amounting to RUB 6,103,697 thousand (31 December 2017: RUB 6,053,135 thousand).

As of 31 December 2018, balances of customer accounts in the amount of RUB 310,982 thousand (31 December 2017: RUB 107,731 thousand) represented collateral under guarantees provided by the Group in the amount of RUB 375,931 thousand (31 December 2017: RUB 226,246 thousand) (Note 30).

As of 31 December 2018, term deposits of state and public organizations included customer deposits raised under repurchase agreements in the amount of RUB 3,405,651 thousand (31 December 2017: none). The information on securities pledged under repurchase agreements with customers is disclosed in Notes 8 and 11.

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

18 Other liabilities

Other financial liabilities comprise:

(in thousands of Russian rubles)	Notes	2018	2017
Liabilities to return securities received under reverse repurchase agreement		516,181	–
Deferred commission income on guarantees issued		135,213	44,706
Settlements on broker operations		94,615	–
Loan commitments		15,663	–
Derivative financial instruments	31	14,812	70
Funds in settlement		171	219
Debit and credit card payables		79	75
Total other financial liabilities		**776,734**	**45,070**

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

Other non-financial liabilities comprise:

(in thousands of Russian rubles)	2018	2017
Provision for credit-related commitments	146,799	245,031
Accrued employee benefit costs	130,575	124,512
Settlements with suppliers and contractors	102,006	75,846
Taxes payable other than income tax	18,743	18,224
Other	22,477	28,019
Total other non-financial liabilities	**420,600**	**491,632**

Movements in provisions for credit-related commitments for 2018 and 2017 are analyzed in Note 30.

19 Debt securities issued

(in thousands of Russian rubles)	2018	2017
Promissory notes	381,573	119,710
Savings certificates	22,515	414,777
Domestic bonds issued	924	924
Total debt securities issued	**405,012**	**535,411**

As of 31 December 2018, debt securities issued comprised RUB-denominated bonds in the amount of RUB 924 thousand (2017: RUB 924 thousand). The nominal value of bonds issued was RUB 924 thousand (2017: RUB 924 thousand). These bonds mature on 12 July 2019 (2017: 12 July 2019) and bear a coupon rate of 8.0% p.a. (2017: 8.0% p.a.).

19 Debt securities issued (continued)

As of 31 December 2018, the Group issued promissory notes with an aggregate nominal value of RUB 394,242 thousand (2017: RUB 113,620 thousand) maturing from January 2019 to December 2019 (2017: from December 2015 to August 2022) and bearing interest rates ranging from 0% p.a. to 7% p.a. (2017: from 0% p.a. to 8% p.a.).

As of 31 December 2018, the Group issued savings certificates with an aggregate nominal value of RUB 20,918 thousand (2017: RUB 403,226 thousand) maturing from January 2019 to February 2019 (2017: from January 2018 to February 2019) and bearing interest rates ranging from 7% p.a. to 11% p.a. (2017: from 6% p.a. to 11% p.a.).

20 Subordinated Eurobonds issued

In October 2015, the Group placed subordinated Eurobonds with a nominal value of USD 20,000 thousand bearing an interest rate of 8.0% p.a. and maturing in April 2021. These subordinated Eurobonds were issued by Expo Capital Limited registered in Ireland. As of 31 December 2018, the amortized value of subordinated Eurobonds was RUB 1,398,052 thousand (2017: RUB 1,155,215 thousand).

21 Share capital

As of 31 December 2018, the authorized, issued and fully paid share capital amounted to RUB 9,500,998 thousand (2017: RUB 10,413,412 thousand).

In 2018, the Group did not distribute its profit between the participants. At the participants' meeting held in December 2017, the Bank made a decision to distribute its profit for the nine months ended 30 September 2017 totaling RUB 115,000 thousand between the participants.

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

On 15 November 2018, the Bank signed an agreement for the purchase of a 0.9084% interest in the Bank's share capital from one of its participants for RUB 128,470 thousand; the interest will be transferred to the Bank as soon as the related entry is made in the State Register of Legal Entities.

On 30 November 2017, the Bank purchased an 8.7619% interest from one of its participants for RUB 1,220,018 thousand.

On 30 January 2018, the general meeting of the Bank's participants decided to reorganize the Bank through its merger with Bank na Goncharnoy (JSC). Pursuant to paragraph 3.1.4 of Article 53 of Federal Law No. 14-FZ *Concerning Limited Liability Companies* dated 8 February 1998, in case of a merger, interests in the merged entity held by the company that merges with that entity shall be redeemed. Therefore, the general meeting of the Bank's participants also decided to change the amount of the share capital. On 26 March 2018, changes No. 1 were registered to the Bank's charter, including the change in the amount of the share capital.

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

22 Interest income and expense

(in thousands of Russian rubles)	**2018**	**2017**
Interest income calculated using the effective interest rate		
Loans to customers	4,291,194	3,122,413
Investment securities at FVOCI (2017: investment securities available for sale)	525,441	311,904
Amounts due from credit institutions	298,483	893,754
Investments securities at amortized cost (2017: investment securities held to maturity)	37,382	139,239
Total interest income calculated using the effective interest rate	**5,152,500**	**4,467,310**
Other interest income		
Trading securities	865,930	1,083,732
Loans to large businesses at FVPL	198,055	–
Loans to individuals at FVPL	11,336	–
Loans to medium businesses at FVPL	1,711	–
Total other interest income	**1,077,032**	**1,083,732**
Total interest income	**6,229,532**	**5,551,042**
Interest expense		
Term deposits of individuals	1,441,854	2,305,744
Term deposits of legal entities	610,422	426,939
Term deposits of credit institutions	77,141	41,908
Debt securities issued	32,852	58,642
Current/settlement accounts	13,494	18,115
Total interest expense	**2,175,763**	**2,851,348**
Net interest income	**4,053,769**	**2,699,694**

Interest income for 2018 comprises interest income in the amount of RUB 114,585 thousand (2017: RUB 26,809 thousand) recognized for impaired loans to customers.

23 Fee and commission income and expense

(in thousands of Russian rubles)	**2018**	**2017**
Fee and commission income		
- Settlement operations	255,942	246,173
- Guarantees issued	143,221	141,494
- Online banking services	45,087	40,454
- Plastic cards operations	44,580	74,580
- Cash operations	23,898	17,323
- Other	21,815	27,608
Total fee and commission income	**534,543**	**547,632**
Fee and commission expense		
- Plastic cards operations	47,310	51,391
- Settlement operations	45,871	26,644
- Guarantees received	13,123	–
- Cash operations	5,240	4,111
- Other	8,273	6,541
Total fee and commission expense	**119,817**	**88,687**
Net fee and commission income	**414,726**	**458,945**

24 Other operating income

(in thousands of Russian rubles)	2018	2017
Dividends received	209,018	6,143
Income from operating leases	43,501	47,638
Gain from sale of loans to customers	33,809	36,509
Reimbursement of interest expense on loans using government grants	8,846	
Income from consulting and information services	6,001	12,026
Gain from write-off of liabilities and unclaimed payables	3,959	16,442
Penalties for breach of agreements	1,013	628
Other	16,022	10,155
Total other operating income	**322,169**	**129,541**

25 Administrative and other operating expenses

(in thousands of Russian rubles)	Notes	2018	2017
Staff costs		1,686,928	1,473,319
Contributions to the state deposit insurance system		176,381	155,651
Telecommunication and information services		162,122	107,764
Taxes other than income tax		97,810	87,093
Rent expenses		88,583	87,310
Professional services		75,439	87,937
Other expenses related to property and equipment		62,557	59,014
Loss from disposal of property and write-off of low-value assets		56,644	75,469
Depreciation of property and equipment and write-off of leasehold improvements	13	44,068	43,176
Business travel and related expenses		43,220	50,384
Effect from modification of loans		46,468	–
Expenses related to security services		15,613	18,919
Advertising and marketing services		15,305	5,210
Impairment of investment property and other non-financial assets		14,487	1,860
Amortization of software and other intangible assets	14	7,332	8,081
Insurance		6,117	6,639
Other		89,501	47,537
Total administrative and other operating expenses		**2,688,575**	**2,315,363**

Staff costs include insurance contributions in the amount of RUB 298,688 thousand (2017: RUB 250,899 thousand), of which RUB 211,480 thousand (2017: RUB 175,243 thousand) represent contributions to the pension fund.

Information on related party transactions is disclosed in Note 33.

26 Income tax

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

(in thousands of Russian rubles)	2018	2017
Current income tax expense	109,381	160,505
Deferred income tax expense/(benefit)	258,407	239,948
Income tax expense for the year	**367,788**	**400,453**

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

(in thousands of Russian rubles)	2018	2017
Revaluation of buildings	5,899	10,068
Net (losses)/gains on investment securities at FVOCI (2017: investment securities available for sale)	(7,147)	7,200
Deferred income tax expense/(benefit) recognized in other comprehensive income	**(1,248)**	**17,268**

26 Income tax (continued)

The current income tax rate applicable to the majority of the Group's 2018 income is 20% (2017: 20%). A reconciliation of theoretical tax expense with actual is as follows:

(in thousands of Russian rubles)	**2018**	**2017**
Profit before tax	**2,003,508**	**2,383,484**
Theoretical income tax expense at statutory rate (20%)	**400,702**	**476,697**
Tax effect of income or expenses which are not deductible for taxation purposes:		
- Non-deductible expenses	23,573	13,198
- Income on government securities taxable at different rates	(30,121)	(33,550)
- Income taxable at different rates	(16,058)	–
- Other permanent differences	(10,308)	(7,751)
- Other differences	–	–
- Gain from excess of acquired subsidiaries' net assets over cost of investments, net of financial result from disposal of subsidiaries	–	(48,141)
Income tax expense for the year	**367,788**	**400,453**

As of 31 December 2018, the Bank's tax losses to be carried forward to future tax periods amount to RUB 27,135 thousand (2017: RUB 27,135 thousand) and have no expiry dates in accordance with the applicable tax legislation of the Russian Federation. As of 31 December 2018, benefit of RUB 5,427 thousand (2017: RUB 5,427 thousand) related to the tax loss in the amount of RUB 27,135 thousand (2017: RUB 27,135 thousand) was recorded to decrease deferred tax liabilities of the Group.

Differences between IFRS and Russian tax legislation give rise to temporary differences between the carrying amount of assets and liabilities for consolidated financial reporting purposes and for the purpose of income tax assessment. Detailed below are the tax effects of the movements in these temporary differences which are recorded at the rate of 20% (2017: 20%), except for income on government securities taxable at the rate of 15% (2017: 15%) and income on dividends taxable at the rate of 13%.

(in thousands of Russian rubles)	**31 December 2017**	**Effect of transition to IFRS 9**	**Reversed/ (charged) to profit or loss**	**Reversed/ (charged) directly to equity**	**31 December 2018**
Tax effect of temporary differences decreasing/(increasing) the tax base and tax losses carried forward					
Property and equipment	(330,200)	–	1,689	(5,899)	(334,410)
Intangible assets	6,033	–	734	–	6,767
Other financial and non-financial liabilities	78,679	7,575	11,699	–	97,953
Loans and advances to customers	149,321	(11,546)	(81,476)	–	56,299
Finance lease receivables	(6)	–	6	–	–
Amounts due from other banks	956	–	2,815	–	3,771
Investment securities held to maturity	(23,437)	–	23,437	–	–
Fair value of trading securities	74,121	–	(50,194)	–	23,927
Investment securities available for sale	(115,750)	109	(127,388)	7,147	(235,882)
Securities issued	–	–	–	–	–
Amounts due to other banks	–	–	(161)	–	(161)
Amounts due to customers	–	–	–	–	–
Subordinated loans	(2,891)	–	358	–	(2,533)
Other financial and non-financial assets	129,995	39	(39,926)	–	90,108
Tax losses carried forward	5,427	–	–	–	5,427
Net deferred tax asset/(liability)	**(27,752)**	**(3,823)**	**(258,407)**	**1,248**	**(288,734)**
Recognized deferred tax asset/(liability)	(27,752)	(3,823)	(258,407)	1,248	(288,734)
Total deferred tax	**(27,752)**	**(3,823)**	**(258,407)**	**1,248**	**(288,734)**

The above net deferred tax liabilities were recognized by the Group in 2018.

26 Income tax (continued)

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

(in thousands of Russian rubles)	31 December 2016	Reversed/ (charged) to profit or loss	Reversed/ (charged) directly to equity	Business combinations	31 December 2017
Tax effect of temporary differences decreasing/(increasing) the tax base and tax losses carried forward					
Property and equipment	(276,038)	1,681	(7,200)	(48,643)	(330,200)
Intangible assets	6,322	(289)	–	–	6,033
Other financial and non-financial liabilities	123,706	(45,751)	–	724	78,679
Loans to customers	105,126	26,559	–	17,636	149,321
Finance lease receivables	(678)	672	–	–	(6)
Amounts due from credit institutions	20,655	(19,699)	–	–	956
Investment securities held to maturity	(47,476)	24,039	–	–	(23,437)
Fair value of trading securities	42,329	31,792	–	–	74,121
Investment securities available for sale	173,387	(280,853)	(10,068)	1,784	(115,750)
Securities issued	(314)	314	–	–	–
Subordinated Eurobonds issued	(3,777)	886	–	–	(2,891)
Other financial and non-financial assets	109,884	16,697	–	3,414	129,995
Tax losses carried forward	1,423	4,004	–	–	5,427
Net deferred tax asset/(liability)	**254,549**	**(239,948)**	**(17,268)**	**(25,085)**	**(27,752)**
Recognized deferred tax asset/(liability)	254,549	(239,948)	(17,268)	(25,085)	(27,752)
Total deferred tax	**254,549**	**(239,948)**	**(17,268)**	**(25,085)**	**(27,752)**

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

27 Segment analysis

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

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

The Group is organized into the following main business segments:

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

27 Segment analysis (continued)

(b) Factors used by management to identify operating segments

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

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

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

(i) ECL on financial assets are recognized on the basis of management's professional judgment and available information rather than on the basis of the incurred loss model stipulated by IFRS 9.

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

(iii) Income taxes are not allocated to segments.

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

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

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

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

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

Segment information on reporting segments for the year ended 31 December 2018 is presented in the table below:

(in thousands of Russian rubles)	**Corporate banking**	**Retail banking**	**Treasury**	**Total**
External income				
- Interest income	2,697,512	1,674,329	1,720,657	6,092,498
- Fee and commission income	581,716	27,954	15,210	624,880
Income from other segments				
- Interest income	(1,352,563)	1,799,325	(446,762)	–
Total income	**1,926,665**	**3,501,608**	**1,289,105**	**6,717,378**
Interest expense	(498,291)	(1,494,517)	(216,864)	(2,209,672)
Allowance for loan impairment	183,066	(178,429)	–	4,637
Depreciation and amortization	(29,060)	(34,124)	(7,745)	(70,929)
Fee and commission expense	(71,176)	(73,738)	–	(144,914)
Gains less losses on securities	–	–	(259,720)	(259,720)
Gains less losses from dealing in foreign currencies	–	–	306,516	306,516
Gains less losses from foreign currency translation	–	–	43,118	43,118
Gain from interests in other legal entities	–	–	209,018	209,018
Administrative and other operating expenses	(1,028,240)	(1,300,930)	(320,673)	(2,649,843)
Segment results	**482,964**	**419,870**	**1,042,755**	**1,945,589**

(in thousands of Russian rubles)	**Corporate banking**	**Retail banking**	**Treasury**	**Total**
Total segment assets	26,690,959	16,199,498	37,834,264	80,724,721
Total segment liabilities	23,719,304	34,383,973	8,237,013	66,340,290

As of 31 December 2018, the Group had no contractual capital expenditure commitments for reconstruction of buildings and purchase of equipment.

27 Segment analysis (continued)

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

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

(in thousands of Russian rubles)	**Corporate banking**	**Retail banking**	**Treasury**	**Total**
External income				
- Interest income	2,706,879	390,217	2,380,964	5,478,060
- Fee and commission income	464,255	112,622	2,235	579,112
Income from other segments				
- Interest income	(1,133,502)	3,030,172	(1,896,670)	–
Total income	**2,037,632**	**3,533,011**	**486,529**	**6,057,172**
Interest expense	(464,956)	(2,348,458)	(52,434)	(2,865,848)
Allowance for loan impairment	105,960	83,384	(10,627)	178,717
Depreciation and amortization	(34,946)	(40,922)	(9,812)	(85,680)
Fee and commission expense	(8,780)	(73,546)	(3,127)	(85,453)
Gains less losses on securities	–	–	490,984	490,984
Gains less losses from dealing in foreign currencies	–	–	225,185	225,185
Gains less losses from foreign currency translation	–	–	304,690	304,690
Gain from interests in other legal entities	–	–	6,143	6,143
Administrative and other operating expenses	(901,059)	(926,787)	(115,895)	(1,943,741)
Segment results	**733,851**	**226,682**	**1,321,636**	**2,282,169**

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

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

27 Segment analysis (continued)

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

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

(in thousands of Russian rubles)	**2018**	**2017**
Segment profit	**1,945,589**	**2,282,169**
Excess of acquiree's net assets over the cost of investments	–	240,705
Reversal of RAL provisions and accrual of IFRS provisions	56,942	198,307
Adjustment of loans to customers and amounts due from credit institutions to their amortized cost	211,481	31,747
Fair value remeasurement of loans to customers	34,372	–
Adjustment of investment securities at amortized cost (2017: investment securities held to maturity) to their amortized cost	(10,710)	(30,137)
Foreign currency revaluation of shares classified as at FVOCI (2017: shares classified as available for sale) from RAL to IFRS	(143,619)	(120,270)
Decrease in depreciation of property and equipment in accordance with IFRS depreciation rates	18,971	41,472
Amortization of fee and commission income on guarantees issued	(90,507)	(44,706)
Write-offs of other assets	138,670	(118,484)
Reclassification of other taxes to administrative and other operating expenses	(110,871)	(85,885)
Effect from modification of loans to customers	(46,468)	–
Other	(342)	(20,189)
Allocation of consolidated subsidiaries	–	8,755
Profit before tax	**2,003,508**	**2,383,484**

(e) Analysis of income from products and services

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

(f) Geographical information

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

28 Risk management

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

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

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

Risk management system

Board of Directors

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

28 Risk management (continued)

Risk management system (continued)

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

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

Risk Management Function

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

The risk management function is accountable to the Chairman of the Group's Management Board.

Business units

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

Internal Audit Function

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

Credit risk

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

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

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

1. Risk identification

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

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

2. Risk assessment

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

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

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

Starting 1 January 2019, the Group calculates the allowance for ECL based on credit losses under IFRS 9. The procedure for impairment assessment is described in Note 5.

28 Risk management (continued)

Credit risk (continued)

3. Forward-looking information and multiple economic scenarios

In its ECL models, the Group relies on a broad range of forward-looking information as economic inputs, such as:

- GDP growth;
- Unemployment rates;
- Central Bank base rates;
- Foreign exchange rates.

The inputs and models used to calculate ECL may not always capture all characteristics of the market at the date of the financial statements. To reflect this, qualitative adjustments are made.

The Group obtains the forward-looking information from third party sources (external rating agencies, governmental bodies e.g. central banks, and international financial institutions). Employees of the risk management department perform the regression analysis to determine the effect of macroeconomic factors on ECL (PD). The historic downside/upside conditions (5% upper/lower quantiles) of economic variables are used as scenarios. The table below describes the effect of the key forward-looking economic variables/assumptions for individuals and legal entities on forecast ECL (PD).

Segment	ECL scenario	Year 1	Year 2	Year 3	Year 4	Year 5	Subsequent years
Legal entities (except express warranties)	Upside	0.875	0.866	0.866	0.866	0.866	0.866
	Base case	0.990	0.981	0.967	0.963	0.962	0.962
	Downside	1.130	1.158	1.158	1.158	1.158	1.158
Legal entities (express warranties)	Upside	0.901	0.891	0.891	0.891	0.891	0.891
	Base case	1.019	1.010	0.996	0.991	0.991	0.990
	Downside	1.164	1.192	1.192	1.192	1.192	1.192
Individuals (assessed collectively)	Upside	0.876	0.876	0.876	0.876	0.876	0.876
	Base case	1.079	1.061	1.035	1.032	1.030	1.030
	Downside	1.280	1.280	1.280	1.280	1.280	1.280
Individuals (assessed individually)	Upside	0.805	0.805	0.805	0.805	0.805	0.805
	Base case	0.991	0.975	0.951	0.949	0.947	0.946
	Downside	1.176	1.176	1.176	1.176	1.176	1.176

4. Risk control

The Group uses the following instruments to control credit risk:

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

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

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

28 Risk management (continued)

Credit risk (continued)

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

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

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

The information on individually assessed loans by credit rating as of 31 December 2018 is presented below:

(in thousands of Russian rubles)	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Cash and cash equivalents except for cash on hand and amounts due from the Bank of Russia				
Rating 1 counterparties	532,663	–	–	532,663
Rating 2 counterparties	8,340,704	–	–	8,340,704
Rating 3 counterparties	72,463	–	–	72,463
Rating 4 counterparties	1,053,580	–	–	1,053,580
Rating 5 counterparties	57	–	–	57
Total cash and cash equivalents except for cash on hand and amounts due from the Bank of Russia before allowance for ECL	**9,999,467**	**–**	**–**	**9,999,467**
Less allowance for ECL	(1,054)	–	–	(1,054)
Total cash and cash equivalents except for cash on hand and amounts due from the Bank of Russia	**9,998,413**	–	–	**9,998,413**
Amounts due from credit institutions				
Rating 4 counterparties	1,127,649	–	–	1,127,649
Rating 5 counterparties	703,654	–	–	703,654
Total amounts due from credit institutions before allowance for ECL	**1,831,303**	**–**	**–**	**1,831,303**
Less allowance for ECL	(15,037)	–	–	(15,037)
Total amounts due from credit institutions	**1,816,266**	**–**	**–**	**1,816,266**
Large businesses				
Rating 4 counterparties	10,387,955	–	–	10,387,955
Rating 5 counterparties	1,028,764	–	–	1,028,764
Rating 6 counterparties	1,169,908	2,216,079	–	3,385,987
Total loans to large businesses at amortized cost before allowance for ECL	**12,586,627**	**2,216,079**	**–**	**14,802,706**
Less allowance for ECL	(93,110)	(110,804)	–	(203,914)
Total loans to large businesses at amortized cost	**12,493,517**	**2,105,275**	**–**	**14,598,792**
Medium businesses				
Rating 4 counterparties	314,480	–	–	314,480
Rating 5 counterparties	3,728,294	117,424	–	3,845,718
Rating 6 counterparties	2,341,565	153,872	–	2,495,437
Rating 8, 9, 10 counterparties (default)	–	–	10,675	10,675
Total loans to medium businesses at amortized cost before allowance for ECL	**6,384,339**	**271,296**	**10,675**	**6,666,310**
Less allowance for ECL	(50,346)	(309)	(10,675)	(61,330)
Total loans to medium businesses at amortized cost	**6,333,993**	**270,987**	**–**	**6,604,980**

28 Risk management (continued)

Credit risk (continued)

(in thousands of Russian rubles)	Stage 1	Stage 2	Stage 3	Total
Small businesses				
Rating 5 counterparties	762,681	–	–	762,681
Rating 6 counterparties	501,024	476,977	–	978,001
Rating 8, 9, 10 counterparties (default)	–	–	516,713	516,713
Total loans to small businesses at amortized cost before allowance for ECL	**1,263,705**	**476,977**	**516,713**	**2,257,395**
Less allowance for ECL	(15,143)	(19,463)	(498,438)	(533,044)
Total loans to small businesses at amortized cost	**1,248,562**	**457,514**	**18,275**	**1,724,351**
Loans to individuals				
Rating 4 counterparties	181,456	–	–	181,456
Rating 5 counterparties	137,500	–	–	137,500
Total loans to individuals at amortized cost before allowance for ECL	**318,956**	**–**	**–**	**318,956**
Less allowance for ECL	(7,648)	–	–	(7,648)
Total loans to individuals at amortized cost	**311,308**	**–**	**–**	**311,308**
Investment securities at FVOCI				
Rating 2 counterparties	4,299,922	–	–	4,299,922
Rating 3 counterparties	2,116,585	–	–	2,116,585
Rating 4 counterparties	6,160,832	–	–	6,160,832
Rating 5 counterparties	784,475	–	–	784,475
Total debt investment securities at FVOCI	**13,361,814**	**–**	**–**	**13,361,814**
Other financial assets				
Rating 4 counterparties	6,830	–	–	6,830
Total other financial assets at amortized cost before allowance for ECL	**6,830**	**–**	**–**	**6,830**
Less allowance for ECL	(10)	–	–	(10)
Total other financial assets at amortized value	**6,820**	**–**	**–**	**6,820**
Unused credit lines at amortized cost				
Rating 4 counterparties	3,012,291	–	–	3,012,291
Rating 5 counterparties	520,401	–	–	520,401
Rating 6 counterparties	42,062	–	–	42,062
Total unused credit lines at amortized cost before provision for ECL	**3,574,754**	**–**	**–**	**3,574,754**
Less provision for ECL	(3,461)	–	–	(3,461)
Total unused credit lines at amortized cost	**3,571,293**	**–**	**–**	**3,571,293**

(in thousands of Russian rubles)	Stage 1	Stage 2	Stage 3	Total
Guarantees and unsecured letters of credit issued				
Rating 3 counterparties	8,603	–	–	8,603
Rating 4 counterparties	3,046,594	–	–	3,046,594
Rating 5 counterparties	1,067,616	–	–	1,067,616
Rating 6 counterparties	412,501	46,000	–	458,501
Rating 8, 9, 10 counterparties (default)	–	–	120,972	120,972
Total individually assessed guarantees and unsecured letters of credit issued before provision for ECL	**4,535,314**	**46,000**	**120,972**	**4,702,286**
Less provision for ECL	(20,551)	(1,642)	(120,972)	(143,165)
Total individually assessed guarantees and unsecured letters of credit issued	**4,514,763**	**44,358**	**–**	**4,559,121**

The credit quality of financial assets and contingent liabilities, for which ECL is assessed collectively, is disclosed in Notes 10 and 30.

28 Risk management (continued)

Credit risk (continued)

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

(in thousands of Russian rubles)	**2017**
Cash and cash equivalents except for cash on hand and amounts due from the Bank of Russia	
Rating 1 counterparties	21,398
Rating 2 counterparties	3,859,697
Rating 3 counterparties	6,429
Rating 4 counterparties	387,198
Total cash and cash equivalents except for cash on hand and amounts due from the Bank of Russia before allowance for impairment	**4,274,722**
Less allowance for impairment	–
Total cash and cash equivalents except for cash on hand and amounts due from the Bank of Russia	**4,274,722**
Amounts due from credit institutions	
Rating 2 counterparties	58,868
Rating 5 counterparties	573,588
Total amounts due from credit institutions before allowance for impairment	**632,456**
Less allowance for impairment	(71)
Total amounts due from credit institutions	**632,385**
Large businesses	
Rating 3 counterparties	250,000
Rating 4 counterparties	3,927,467
Rating 5 counterparties	7,131,936
Rating 6 counterparties	3,267,492
Rating 8, 9, 10 counterparties (default)	–
Total loans and advances to large businesses before allowance for impairment	**14,576,895**
Less allowance for impairment	(298,710)
Total loans and advances to large businesses	**14,278,185**
Medium businesses	
Rating 4 counterparties	69,662
Rating 5 counterparties	2,692,407
Rating 6 counterparties	2,615,823
Rating 8, 9, 10 counterparties (default)	500,497
Total loans and advances to medium businesses before allowance for impairment	**5,878,389**
Less allowance for impairment	(119,117)
Total loans and advances to medium businesses	**5,759,272**
Small businesses	
Rating 4 counterparties	139,875
Rating 5 counterparties	538,416
Rating 6 counterparties	2,445,365
Rating 8, 9, 10 counterparties (default)	486,544
Total loans and advances to small businesses before allowance for impairment	**3,610,200**
Less allowance for impairment	(506,695)
Total loans and advances to small businesses	**3,103,505**
Other financial assets	
Rating 2 counterparties	116,400
Rating 4 counterparties	3,543
Rating 8, 9, 10 counterparties (default)	8,956
Total other financial assets before allowance for impairment	**128,899**
Less allowance for impairment	(6,310)
Total other financial assets before allowance for impairment	**122,589**
Unused credit lines	
Rating 3 counterparties	500,000
Rating 4 counterparties	650,100
Rating 5 counterparties	1,647,420
Rating 6 counterparties	583,515
Rating 8, 9, 10 counterparties (default)	36
Total unused credit lines before allowance for ECL	**3,381,071**
Less: allowance	–
Total unused credit lines	**3,381,071**
Guarantees issued	
Rating 4 counterparties	2,535,003
Rating 5 counterparties	3,280,256
Rating 6 counterparties	417,623
Rating 8, 9, 10 counterparties (default)	120,972
Total individually assessed guarantees issued before allowance	**6,353,854**
Less: allowance	(245,031)
Total individually assessed guarantees issued	**6,108,823**

28 Risk management (continued)

Credit risk (continued)

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

Rating 1

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

Rating 2

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

Rating 3

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

Rating 4

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

Rating 5

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

Rating 6

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

Rating 7

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

Ratings 8, 9, 10

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

Market risk

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

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

28 Risk management (continued)

Market risk (continued)

The Group manages market risk centrally:

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

The Group opens positions in financial markets to develop customer business and manage liquidity.

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

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

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

Equity risk

Equity risk is the risk that the Group will incur financial losses due to changes in market prices of securities and derivative financial instruments sensitive to the change in the fair value of equity securities.

The Group manages equity risk using the following instruments:

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

As of 31 December 2018, VaR for the equity securities portfolio amounted to RUB 38,338 thousand (2017: RUB 0).

Currency risk

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

The Group manages currency risk using the following instruments:

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

28 Risk management (continued)

Currency risk (continued)

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

	31 December 2018		31 December 2017	
(in thousands of Russian rubles)	**Effect on profit or loss**	**Effect on equity**	**Effect on profit or loss**	**Effect on equity**
USD strengthening by 20.00% (2017: strengthening by 20.00%)	(77,963)	(77,963)	115,207	115,207
USD weakening by 20.00% (2017: weakening by 20.00%)	77,963	77,963	(115,207)	(115,207)
EUR strengthening by 20.00% (2017: strengthening by 20.00%)	(31,656)	(31,656)	(6,165)	(6,165)
EUR weakening by 20.00% (2017: weakening by 20.00%)	31,656	31,656	6,165	6,165
CZK strengthening by 20.00% (2017: strengthening by 20.00%)	189,606	189,606	23,581	23,581
CZK weakening by 20.00% (2017: weakening by 20.00%)	(189,606)	(189,606)	(23,581)	(23,581)

Trade portfolio interest risk

Trade portfolio interest risk is the risk that the Group will incur financial losses due to changes in prices of securities and derivative financial instruments sensitive to changes in interest rates.

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

The Group manages trade portfolio interest risk using the following instruments:

- Trade portfolio interest risk assessment;
- Limitation of types of financial instruments, for which opening of positions is possible;
- Setting limits and control over compliance with limits;
- Portfolio diversification.

As of 31 December 2018, VaR for the debt securities portfolio amounted to RUB 1,245,905 thousand (2017: RUB 1,614,325 thousand).

Liquidity risk

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

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

The Group manages liquidity risk centrally:

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

The Group uses the following liquidity risk management methods:

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

In order to control liquidity risk, the Group also calculates liquidity ratios on a daily basis in accordance with requirements of the CBR. The Group complied with all liquidity ratios requirements as of 31 December 2018.

28 Risk management (continued)

Liquidity risk (continued)

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

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

The Group entered into a General Loan Agreement with the CBR to provide loans in the form of overdrafts with a limit of RUB 3,500,000 thousand secured by the collateral of securities (2017: RUB 3,500,000 thousand). As of 31 December 2018, in accordance with the agreement, trading securities and investment securities at FVOCI in the amount of RUB 438,769 thousand and RUB 699,213 thousand, respectively, were blocked (2017: investment securities held to maturity in the amount of RUB 424,716 thousand). As of 31 December 2018 and 31 December 2017, the overdraft was not used by the Group. See Notes 8, 11, 35.

The tables below show liabilities as of 31 December 2018 and 31 December 2017 by their remaining contractual maturities. The amounts disclosed in the maturity tables are the contractual undiscounted cash flows, including total loan commitments and financial guarantees. Such undiscounted cash flows differ from the amounts included in the statement of financial position since these amounts are based on discounted cash flows.

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

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

The table below presents maturity analysis of financial instruments as of 31 December 2018:

(in thousands of Russian rubles)	**On demand and less than 1 month**	**1 to 6 months**	**6 to 12 months**	**More than 12 months**	**Total**
Liabilities					
Amounts due to credit institutions	3,576,445	–	–	–	3,576,445
Amounts due to customers	22,005,914	17,481,987	19,727,261	1,811,393	61,026,555
Debt securities issued	19,563	36,607	365,543	–	421,713
Other financial liabilities	632,620	20,504	24,124	99,486	776,734
Subordinated Eurobonds issued	27,788	27,788	55,576	1,556,141	1,667,293
Guarantees and unsecured letters of credit issued	400,669	2,551,081	1,641,384	3,340,933	7,934,067
Total potential future payments for financial liabilities	**26,662,999**	**20,117,967**	**21,813,888**	**6,807,953**	**75,402,807**

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

(in thousands of Russian rubles)	**On demand and less than 1 month**	**1 to 6 months**	**6 to 12 months**	**More than 12 months**	**Total**
Liabilities					
Amounts due to credit institutions	2,953,845	–	–	–	2,953,845
Amounts due to customers	18,360,266	15,265,914	6,736,255	3,858,387	44,220,822
Debt securities issued	59,919	10,207	434,567	50,719	555,412
Other financial liabilities	850	1,788	30,567	11,865	45,070
Subordinated Eurobonds issued	23,040	23,040	46,080	1,382,405	1,474,565
Guarantees and unsecured letters of credit issued	201,695	2,035,032	1,165,267	2,706,829	6,108,823
Total potential future payments for financial liabilities	**21,599,615**	**17,335,981**	**8,412,736**	**8,010,205**	**55,358,537**

28 Risk management (continued)

Liquidity risk (continued)

As of 31 December 2018 and 31 December 2017, all credit-related contingencies are included in "On demand and less than 1 month" category.

Amounts due to customers are classified in the above analysis by contractual maturities. However, in accordance with the Russian Civil Code, individuals have a right to withdraw their deposits prior to maturity if they forfeit their right to accrued interest.

The Group does not use the above non-discounted maturity analysis to manage liquidity. Instead of this, as of 31 December 2018, the Group controls expected maturities and expected liquidity gap, which are reflected in the table below:

(in thousands of Russian rubles)	**On demand and less than 1 month**	**1 to 6 months**	**6 to 12 months**	**12 months to 5 years**	**More than 5 years**	**Total**
Assets						
Cash and cash equivalents	12,574,861	317,381	–	–	–	12,892,242
Obligatory reserve with the CBR	666,999	–	–	–	–	666,999
Trading securities	6,658,854	–	–	–	–	6,658,854
Amounts due from credit institutions	–	700,705	343,594	771,967	–	1,816,266
Loans and advances to customers	1,564,791	9,295,714	9,614,148	18,307,522	1,621,648	40,403,823
Investment securities at FVOCI	13,641,288	–	–	–	2,181,112	15,822,400
Other financial assets	7,716	–	–	–	–	7,716
Total financial assets	**35,114,509**	**10,313,800**	**9,957,742**	**19,079,489**	**3,802,760**	**78,268,300**
Liabilities						
Amounts due to credit institutions	3,575,570	–	–	–	–	3,575,570
Amounts due to customers	9,337,924	16,809,633	19,315,287	14,263,416	–	59,726,260
Debt securities issued	19,484	36,075	349,453	–	–	405,012
Other financial liabilities	632,620	20,504	24,124	99,486	–	776,734
Subordinated loan	–	–	–	1,398,052	–	1,398,052
Total financial liabilities	**13,565,598**	**16,866,212**	**19,688,864**	**15,760,954**	**–**	**65,881,628**
Net liquidity gap as of 31 December 2018	**21,548,911**	**(6,552,412)**	**(9,731,122)**	**3,318,535**	**3,802,760**	**12,386,672**
Cumulative liquidity gap at 31 December 2018	**21,548,911**	**14,996,499**	**5,265,377**	**8,583,912**	**12,386,672**	

28 Risk management (continued)

Liquidity risk (continued)

As of 31 December 2017, the analysis by the expected maturities is as follows:

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

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

In 2018, loans to customers are allocated by their expected maturities with due regard to the prepayment statistics based on actual prepayments.

In 2018 and 2017, the portion of the Group’s securities portfolio is classified as “On demand and less than 1 month,” as these securities are trading by their nature, and the management is convinced that this classification reflects the liquidity of securities correctly.

As of 31 December 2018, securities purchased by the Group in the amount of RUB 11,621,494 thousand (2017: RUB 13,667,682 thousand) were included in the CBR’s lombard list.

In 2018, part of amounts due to customers on demand and less than 1 month was classified as “12 months to 5 years,” as these amounts are in fact held on accounts over an extended period of time despite their contractual maturities. These amounts are calculated as an average minimal aggregate balance of amounts due to customers on demand and less than 1 months over 12 months preceding the reporting date.

28 Risk management (continued)

Liquidity risk (continued)

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

Management assumes the matching or controlled mismatching of the maturities of assets and liabilities is fundamental to the management of the Group's business. It is unusual for banks ever to be completely matched since business transacted is often of an uncertain term and of different types. An unmatched position potentially enhances profitability of activities, but can also increase the risk of losses.

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

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

Interest rate risk

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

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

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

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

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

Operational risk

Operational risk is the risk that the Group will incur losses arising from unreliability of and deficiency in internal management procedures, failure of information and other systems, or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications or lead to financial loss. The Group cannot expect to eliminate all operational risks, but through a control framework and monitoring and by responding to potential risks the Group is able to manage such risks. Controls include risk monitoring, development and taking of preventive and corrective measures, staff education and assessment processes, including the use of internal audit.

Compliance risk

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

29 Capital management

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

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

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

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

CBR capital adequacy ratio

The CBR requires banks to maintain a capital adequacy ratio of 8% of risk-weighted assets, computed based on RAL. Capital adequacy ratios are calculated in accordance with RAL as ratios of core capital (N1.1), main capital (N1.2) and equity (capital) of a bank (N1.0) to risk-weighted assets. As of 31 December 2018 and 31, the Bank's capital adequacy ratio on this basis was as follows:

	2018	2017
Core capital	10,767,985	6,754,736
Main capital	10,767,985	6,754,736
Additional capital	3,000,652	3,344,943
Total equity	**13,768,637**	**10,099,679**
Risk weighted assets	**96,795,546**	**77,262,033**
N1.1, %	11.3	8.9
N1.2, %	11.3	8.9
N1.0, %	14.2	13.1

30 Commitments and contingencies

Operating environment

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

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

Legal proceedings

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

30 Commitments and contingencies (continued)

Taxation

Major part of the Group's business activity is carried out in the Russian Federation. The Russian tax, currency and customs legislation as currently in effect is vaguely drafted and is subject to varying interpretations, selective and inconsistent application and changes, which can occur frequently and at short notice and may apply retrospectively.

The existing Russian transfer pricing legislation allows the Russian tax authorities to apply tax base adjustments and impose additional income tax and value added tax liabilities in respect of all "controlled" transactions if the transaction price differs from the market price and unless the Group is able to demonstrate the use of market prices with respect to the controlled transactions, and there has been proper reporting to the Russian tax authorities, supported by appropriate available transfer pricing documentation. During the year ended 31 December 2018, the Group determined its tax liabilities arising from the "controlled" transactions using the actual transaction prices.

Interpretation of provisions of the Russian tax legislation and the latest trends in judicial practice suggest that the tax authorities and courts may be taking a more assertive position in their interpretation and application of this legislation and reviewing tax liabilities. It is therefore possible that tax authorities may challenge transactions and accounting methods they have not challenged in the past. As a result, significant additional taxes, penalties and interest may be assessed to the taxpayers.

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

As of 31 December 2018, management of the Group believes that its interpretation of the relevant legislation is appropriate and that the Group's tax, currency and customs positions should be supported by tax and judicial authorities.

Capital expenditure commitments

As of 31 December 2018 and 31 December 2017, the Group had no contractual capital expenditure commitments for reconstruction of buildings and purchase of equipment.

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

Operating lease commitments

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

(in thousands of Russian rubles)	**2018**	**2017**
Less than 1 year	86,309	82,680
From 1 to 5 years	120,376	96,584
More than 5 years	209,307	215,484
Total operating lease commitments	**415,992**	**394,748**

Credit-related commitments

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and letters of credit, which represent irrevocable assurances that the Group will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans.

Commitments to extend credit represent unused portions of authorizations to extend credit in the form of loans, guarantees or letters of credit. With respect to undrawn loan commitments, the Group is potentially exposed to loss in an amount equal to the total unused commitments if unused amounts should have been used. However, the likely amount of losses is less than the total amount of unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Group monitors the term to maturity of credit-related commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments. As of 31 December 2018, unused limits on guarantees amounted to RUB 4,413,716 thousand (2017: RUB 2,094,590 thousand), and unused credit lines amounted to RUB 4,020,412 thousand (2017: RUB 3,448,274 thousand).

30 Commitments and contingencies (continued)

Credit-related commitments (continued)

The information on guarantees issued and unsecured letters of credit issued as of 31 December 2018 and 31 December 2017 is presented below:

(in thousands of Russian rubles)	Notes	2018	2017
Guarantees issued		8,038,878	6,353,854
Letters of credit issued		38,354	–
Less provision for ECL	18	(143,165)	(245,031)
Total		**7,934,067**	**6,108,823**

As of 31 December 2018, irrevocable secured letters of credit amounted to RUB 35,550 thousand (31 December 2017: RUB 155,004 thousand) and were collateralized by term deposits in the amount of RUB 35,550 thousand (31 December 2017: RUB 155,004 thousand) (See Note 17).

As of 31 December 2018, balances of customer accounts in the amount of RUB 310,982 thousand (31 December 2017: RUB 107,731 thousand) represent collateral under guarantees provided by the Group in the amount of RUB 375,931 thousand (31 December 2017: RUB 226,246 thousand) (See Note 17).

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

Movements in guarantees and unsecured letters of credit issued by the Group for 2018 are presented in the table below:

(in thousands of Russian rubles)	Stage 1	Stage 2	Stage 3	Total
Guarantees and unsecured letters of credit issued				
Guarantees and unsecured letters of credit at 1 January 2018	**6,226,683**	**6,199**	**120,972**	**6,353,854**
New guarantees issued and unsecured letters of credit and effect of other upward movements	9,905,727	12,122	–	9,917,849
Guarantees and unsecured letters of credit derecognized and effect of other downward movements	(8,212,238)	(18,321)	–	(8,230,559)
Transfers to Stage 2	(46,000)	46,000	–	–
Translation differences	36,088	–	–	36,088
Guarantees and unsecured letters of credit at 31 December 2018	**7,910,260**	**46,000**	**120,972**	**8,077,232**

Movements in ECL on guarantees and unsecured letters of credit issued by the Group for 2018 are presented in the table below:

(in thousands of Russian rubles)	Stage 1	Stage 2	Stage 3	Total
Guarantees and unsecured letters of credit issued				
ECL at 1 January 2018	**118,298**	**1,057**	**120,972**	**240,327**
New guarantees issued and unsecured letters of credit and effect of other upward movements	81,674	1,642	–	83,316
Guarantees and unsecured letters of credit derecognized and effect of other downward movements	(83,274)	(871)	–	(84,145)
Transfers to Stage 2	(538)	538	–	–
Net remeasurement of loss provision	(95,837)	(724)	–	(96,561)
Translation differences	228	–	–	228
ECL at 31 December 2018	**20,551**	**1,642**	**120,972**	**143,165**

30 Commitments and contingencies (continued)

Credit-related commitments (continued)

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

(in thousands of Russian rubles)	**2017**
Provision for credit-related commitments at 1 January	**478,890**
Decrease in provision for impairment during the year	(233,859)
Provision for credit-related commitments at 31 December	**245,031**

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

(in thousands of Russian rubles)	**2018**	**2017**
RUB	7,854,396	5,868,734
USD	75,081	218,776
EUR	4,590	21,313
Total	**7,934,067**	**6,108,823**

Movements in unused limits on loan agreements with customers for 2018 are presented in the table below:

(in thousands of Russian rubles)	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Unused limits on loan agreements				
Unused limits on loan agreements at 1 January 2018	**2,837,237**	**610,954**	**83**	**3,448,274**
New limits on loan agreements and effect of other upward movements	7,746,715	–	–	7,746,715
Issue of loans and effect of other downward movements	(7,542,298)	(58,954)	(36)	(7,601,288)
Transfers to Stage 1	552,000	(552,000)	–	–
Translation differences	14,693	–	–	14,693
Unused limits on loan agreements at 31 December 2018	**3,608,347**	**–**	**47**	**3,608,394**

Movements in provisions for unused limits on loan agreements with customers for 2018 are presented in the table below:

(in thousands of Russian rubles)	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Unused limits on loan agreements				
ECL at 1 January 2018	**30,412**	**12,126**	**47**	**42,585**
New limits on loan agreements and effect of other upward movements	37,411	–	–	37,411
Issue of loans and effect of other downward movements	(65,195)	(183)	–	(65,378)
Transfers to Stage 1	11,943	(11,943)	–	–
Net remeasurement of loss provision	(11,105)	–	–	(11,105)
Translation differences	121	–	–	121
ECL at 31 December 2018	**3,587**	**–**	**47**	**3,634**

31 Derivative financial instruments

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

	2018			2017		
(in thousands of Russian rubles)	**Notional or contractual amount**	**Contracts with positive fair value**	**Contracts with negative fair value**	**Notional or contractual amount**	**Contracts with positive fair value**	**Contracts with negative fair value**
Forwards:						
- purchase of USD against CZK	598,837	–	(5,232)	–	–	–
- sale of CZK against RUB	206,919	–	(3,209)	–	–	–
- sale of USD against RUB	176,455	337	(12)	–	–	–
- sale of RUB against USD	133,521	388	(6,356)	–	–	–
- sale of EUR against RUB	115,297	162	(3)	–	–	–
- purchase of USD against RUB	6,947	6	–	120,982	–	(22)
- purchase of CNY against RUB	1,515	3	–			
- sale of corporate bonds denominated in rubles	–	–	–	143,121	5,697	–
- purchase of RUB against USD	–	–	–	109,482	64	–
- purchase of EUR against RUB	–	–	–	17,255	–	(48)
- purchase of RUB against EUR	–	–	–	13,787	14	–
Futures:						
- to purchase USD	120,903	–	–	–	–	–
- to sell securities	52,597	–	–	–	–	–
- to purchase RUONIA rate	178,721	–	–	–	–	–
- to sell RTS index	104,375	–	–	–	–	–
Options:						
- to sell securities	307,823	–	–	–	–	–
- to purchase securities	336,785	–	–	–	–	–
- to purchase RTS index	30,134	–	–	–	–	–
- to sell index	74,811	–	–	–	–	–
- to purchase USD	136,000	–	–	–	–	–
- to sell USD	218,844	–	–	–	–	–
Total derivative financial instruments	**2,800,484**	**896**	**(14,812)**	**404,627**	**5,775**	**(70)**

As of 31 December 2018, the Group does not expect to settle these forward contracts in cash on a net basis and therefore recognizes them in the consolidated statement of financial position as an asset at net fair value in the amount of RUB 896 thousand (2017: RUB 5,775 thousand) and a liability in the amount of RUB 14,812 thousand (2017: RUB 70 thousand). (See notes 15 and 18).

32 Fair values of financial instruments

Fair value measurement procedures

Fair value measurement policies and procedures are determined for both recurring fair value measurement, such as unquoted trading securities and investment securities measured at FVOCI, unquoted derivatives, investment property, land and buildings, and for non-recurring fair value measurement, such as assets held for sale.

External appraisers may be engaged for the valuation of significant assets, such as real estate, trading securities and investment securities measured at FVOCI, and derivatives. Selection criteria include market knowledge, reputation, independence and compliance with professional standards. After discussions with the external appraisers, the Group decides which valuation techniques and inputs to use in each case.

At each reporting date, the Group measures the fair values of assets and liabilities which are required to be re-valued or re-assessed as per the Group's accounting policies. For measurement purposes, key inputs are reviewed and compared with inputs used during the previous measurement. The results of the fair value measurement (including estimates of external appraisers) are provided to the Internal Audit Function and independent auditors of the Group on a regular basis. This includes a discussion of key assumptions used during the measurement.

Methods and assumptions applied in fair value measurement

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

Fair value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

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

For the purpose of fair value disclosures, the Group determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy.

32 Fair values of financial instruments (continued)

Fair value hierarchy (continued)

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

	2018			2017		
(in thousands of Russian rubles)	**Quoted price in an active market (Level 1)**	**Valuation technique with inputs observable in markets (Level 2)**	**Significant unobser-vable inputs (Level 3)**	**Quoted price in an active market (Level 1)**	**Valuation technique with inputs observable in markets (Level 2)**	**Significant unobser-vable inputs (Level 3)**
Financial assets measured at fair value						
Trading securities	**5,724,115**	**934,739**	**–**	**1,016,405**	**10,322,094**	**–**
- Russian State bonds	2,255,460	–	–	–	–	–
- Corporate bonds	2,016,741	934,739	–	962,961	5,574,107	–
- Bonds of the CBR	1,009,670	–	–	–	3,046,230	–
- Shares of banks	311,314	–	–	–	–	–
- Corporate shares	46,516	–	–	–	–	–
- Investment units	84,414	–	–	–	–	–
- Bonds of banks	–	–	–	–	1,651,634	–
- Bonds of state corporations	–	–	–	53,444	50,123	–
Loans to customers	**–**	**–**	**2,517,065**	**–**	**–**	**–**
- Loans to customers at FVPL	–	–	2,517,065	–	–	–
Investment securities at FVOCI (2017: investment securities available for sale)	**12,001,846**	**1,418,514**	**2,402,040**	**8,663,843**	**–**	**1,092,485**
- Corporate bonds	6,357,878	–	220,928	4,680,122	–	–
- Bonds of banks	1,559,762	1,418,514	–	2,339,107	–	–
- Russian State bonds	2,183,893	–	–	–	–	–
- Shares of banks	–	–	2,181,112	–	–	–
- Eurobonds of the Russian Federation	903,455	–	–	–	–	–
- Bonds of state corporations	717,384	–	–	1,644,614	–	–
- Corporate shares	279,474	–	–	–	–	1,092,485
Other financial assets	**–**	**896**	**–**	**–**	**5,775**	**–**
- Derivative financial instruments	–	896	–	–	5,775	–
Total financial assets measured at fair value	**17,725,961**	**2,354,149**	**4,919,105**	**9,680,248**	**10,327,869**	**1,092,485**
Financial assets for which fair values are disclosed						
Cash and cash equivalents	–	–	12,898,544	–	–	9,449,977
Obligatory reserve with the CBR	–	–	666,999	–	–	494,409
Amounts due from credit institutions	–	–	1,806,222	–	–	636,548
Loans to customers	–	–	38,579,620	–	–	26,953,946
Investments securities at amortized cost (2017: investment securities held to maturity)	–	–	–	–	833,641	–
Other financial assets	–	–	6,820	–	–	122,589
Total financial assets for which fair values are disclosed	**–**	**–**	**53,958,205**	**–**	**833,641**	**37,657,469**

32 Fair values of financial instruments (continued)

Fair value hierarchy (continued)

	2018			2017		
(in thousands of Russian rubles)	**Quoted price in an active market (Level 1)**	**Valuation technique with inputs observable in markets (Level 2)**	**Significant unobser-vable inputs (Level 3)**	**Quoted price in an active market (Level 1)**	**Valuation technique with inputs observable in markets (Level 2)**	**Significant unobser-vable inputs (Level 3)**
Financial liabilities measured at fair value						
Other financial liabilities	**516,181**	**109,427**	**–**	**–**	**70**	**–**
- Liabilities to return securities received under reverse repurchase agreement	516,181	–	–	–	–	–
- Settlements on broker operations	–	94,615	–	–	–	–
- Derivative financial instruments	–	14,812	–	–	70	–
Total financial liabilities measured at fair value	**516,181**	**109,427**	**–**	**–**	**70**	**–**
Financial liabilities for which fair values are disclosed						
Amounts due to credit institutions	–	–	3,576,138	–	–	2,953,870
Amounts due to customers	–	–	60,633,717	–	–	43,611,185
Debt securities issued	–	–	401,241	–	–	535,601
Subordinated Eurobonds issued	–	1,398,052	–	–	1,155,215	–
Other financial liabilities	–	–	151,126	–	–	45,000
Total financial liabilities for which fair values are disclosed	**–**	**1,398,052**	**64,762,222**	**–**	**1,155,215**	**47,145,656**

32 Fair values of financial instruments (continued)

Fair value hierarchy (continued)

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

	2018			2017		
(in thousands of Russian rubles)	**Carrying amount**	**Fair value**	**Unrecognized gain/(loss)**	**Carrying amount**	**Fair value**	**Unrecognized gain/(loss)**
Financial assets						
Cash and cash equivalents	**12,892,242**	**12,898,544**	**6,302**	**9,452,890**	**9,449,977**	**(2,913)**
- Cash on hand	652,589	652,589	–	695,557	695,557	–
- Cash balances with the CBR	2,241,240	2,241,240	–	2,482,611	2,482,611	–
- Correspondent accounts and overnight deposits	5,124,977	5,124,977	–	710,068	710,068	–
- Settlement accounts with financial institutions	233,553	233,553	–	79,809	79,809	–
- Reverse repurchase agreements with credit institutions up to 90 days	3,080,210	3,083,882	3,672	3,264,696	3,261,886	(2,810)
- Loans issued to the CBR with original maturities of less than three months	–	–	–	2,000,000	2,000,041	41
- Deposits with credit institutions with original maturities of less than three months	1,559,673	1,562,303	2,630	220,149	220,005	(144)
Obligatory reserve with the CBR	**666,999**	**666,999**	**–**	**494,409**	**494,409**	**–**
Amounts due from credit institutions	**1,816,266**	**1,806,222**	**(10,044)**	**632,385**	**636,548**	**4,163**
- Eurobonds	–	–	–	58,797	59,190	393
- Deposits with credit institutions with original maturities of more than three months	1,816,266	1,806,222	(10,044)	573,588	577,358	3,770
Loans and advances to customers	**37,886,758**	**38,579,620**	**692,862**	**26,018,201**	**26,953,946**	**935,745**
- Large businesses	14,598,792	14,618,072	19,280	14,278,185	14,381,064	102,879
- Medium businesses	6,604,980	6,783,901	178,921	5,759,272	6,092,297	333,025
- Small businesses	1,724,351	1,647,545	(76,806)	3,103,505	3,241,428	137,923
- Retail customers	14,958,635	15,530,102	571,467	2,877,239	3,239,157	361,918
Investments securities at amortized cost (2017: investment securities held to maturity)	**–**	**–**	**–**	**811,862**	**833,641**	**21,779**
- Russian State bonds	–	–	–	811,862	833,641	21,779
Other financial assets	**6,820**	**6,820**	**–**	**122,589**	**122,589**	**–**
- Credit and debit card receivables	5,660	5,660	–	88,587	88,587	–
- Trade receivables	–	–	–	30,000	30,000	–
- Finance lease receivables	–	–	–	31	31	–
- Receivables under commemorative coins acquired and sold	940	940	–	–	–	–
- Other	220	220	–	3,971	3,971	–
Total financial assets carried at amortized cost	**53,269,085**	**53,958,205**	**689,120**	**37,532,336**	**38,491,110**	**958,774**

32 Fair values of financial instruments (continued)

Fair value hierarchy (continued)

	2018			2017		
(in thousands of Russian rubles)	Carrying amount	Fair value	Unrecognized gain/(loss)	Carrying amount	Fair value	Unrecognized gain/(loss)
Financial liabilities						
Amounts due to credit institutions	**3,575,570**	**3,576,138**	**(568)**	**2,953,720**	**2,953,870**	**(150)**
- Correspondent accounts and overnight deposits	706,543	706,543	–	146,036	146,036	–
- Deposits of credit institutions	959,818	960,269	(451)	1,258,113	1,258,169	(56)
- Repurchase agreements with credit institutions	1,909,209	1,909,326	(117)	1,549,571	1,549,665	(94)
Amounts due to customers	**59,726,260**	**60,633,717**	**(907,457)**	**43,288,315**	**43,611,185**	**(322,870)**
- Current/settlement accounts of state and public organizations	2,481	2,481	–	1,122	1,122	–
- Term deposits of state and public organizations	3,475,135	3,475,135	–	57,688	57,688	–
- Current/settlement accounts of other legal entities	8,608,419	8,608,419	–	6,560,831	6,560,831	–
- Term deposits of other legal entities	13,269,155	13,395,483	(126,328)	6,444,864	6,511,901	(67,037)
- Current/demand accounts of individuals	1,961,192	1,961,192	–	1,938,632	1,938,632	–
- Term deposits of individuals	32,409,878	33,191,007	(781,129)	28,285,178	28,541,011	(255,833)
Other financial liabilities	**151,126**	**151,126**	**–**	**45,000**	**45,000**	**–**
- Deferred commission income on guarantees issued	135,213	135,213	–	44,706	44,706	–
- Funds in settlement	171	171	–	219	219	–
- Deferred income on unused credit lines	15,663	15,663	–	–	–	–
- Credit and debit card payables	79	79	–	75	75	–
Debt securities issued	**405,012**	**401,241**	**3,771**	**535,411**	**535,601**	**(190)**
Subordinated Eurobonds issued	**1,398,052**	**1,398,052**	**–**	**1,155,215**	**1,155,215**	**–**
Total financial liabilities carried at amortized cost	**65,256,020**	**66,160,274**	**(904,254)**	**47,977,661**	**48,300,871**	**(323,210)**

Valuation techniques and assumptions applied in determining fair values of assets and liabilities

The following describes the techniques and assumptions used to determine fair values for assets and liabilities recorded at fair value in the financial statements and those items that are not measured at fair value in the consolidated statement of financial position, but whose fair value is disclosed.

Assets for which fair value approximates carrying amount

For financial assets and financial liabilities that are liquid or having a short-term maturity (less than three months) it is assumed that the carrying amounts approximate to their fair value. This assumption is also applied to demand deposits and accounts without a specific maturity.

Derivatives

Derivatives valued using a valuation technique with market observable inputs are mainly interest rate swaps, currency swaps and forward foreign exchange contracts. The most frequently applied valuation techniques include forward pricing and swap pricing models, using present value calculations. The models incorporate various inputs including the credit quality of counterparties, foreign exchange spot and forward rates and interest rate curves. Derivatives valued using a valuation technique with significant non-market observable inputs are primarily long-term option contracts. These derivatives are valued using the binomial model. The models incorporate various unobservable assumptions, which include market rate volatilities.

32 Fair values of financial instruments (continued)

Valuation techniques and assumptions applied in determining fair values of assets and liabilities (continued)

Trading securities and investment securities

Trading and investment securities valued using a valuation technique mainly comprise unquoted shares and debt securities. These assets are valued using models which sometimes only incorporate data observable in the market and at other times use both observable and unobservable data. The unobservable inputs to the models include assumptions regarding the future financial performance of the investee, its risk profile, and economic assumptions regarding the industry and geographical jurisdiction in which the investee operates.

Loans at fair value through profit or loss

Loans at fair value through profit or loss are valued using internal models based on present value techniques or, in some circumstances (for example, in respect of cash flow from assets held as collateral), external valuation reports. The unobservable inputs to the models include adjustments for credit risk associated with the expected cash flows from the borrower's operations or in respect of collateral valuation.

Financial assets and financial liabilities carried at amortized cost

Fair value of the quoted bonds is based on price quotations at the reporting date. The fair value of unquoted instruments, loans to customers, customer deposits, amounts due from credit institutions and amounts due to the CBR and credit institutions and other financial assets and liabilities is estimated by discounting future cash flows using rates currently available for debt on similar terms, credit risk and remaining maturities. The analysis of these rates is presented below:

	2018	2017
Amounts due from credit institutions		
Term deposits with credit institutions	0.0% per annum	0.0% per annum
Loans to customers		
Large businesses	2.0%-10.2% per annum	3.5%-10.5% per annum
Medium businesses	4.3%-10.2% per annum	4.1%-10.5% per annum
Small businesses	8.3%-10.2% per annum	5.5%-12.9% per annum
Loans to individuals	0.0%-18.4% per annum	0.0%-21.3% per annum
Amounts due to credit institutions		
Correspondent accounts and overnight deposits of credit institutions	0.0% per annum	0.0% per annum
Deposits of credit institutions	0.0% per annum	0.0%-1.3% per annum
Repurchase agreements with credit institutions	0.0% per annum	0.0% per annum
Amounts due to customers		
Term deposits of legal entities	0.1%-7.9% per annum	0.2%-7.5% per annum
Term deposits of individuals	0.0%-6.9% per annum	0.1%-6.4% per annum

Investment property

Fair value of investment property was determined by using market comparable method. It means that the valuation performed by the appraiser is based on the prices of market transactions significantly adjusted with regard to differences in nature, location or condition of specific real estate item. As of the valuation date, the fair value of investment property is based on the revaluation by an independent firm of professional appraisers who have a recognized qualification and experience in valuation of similar property in terms of its location and category.

32 Fair values of financial instruments (continued)

Valuation techniques and assumptions applied in determining fair values of assets and liabilities (continued)

Property and equipment – land and buildings

Fair value of the properties was determined using the market approach. It means that the valuation performed by the appraiser is based on the prices of market transactions significantly adjusted with regard to differences in the nature, location or condition of the specific property. As of the valuation date, the fair value of property is based on the revaluation by an independent firm of professional appraisers who have a recognized qualification and experience in valuation of similar property in terms of its location and category.

Movements in Level 3 assets and liabilities at fair value

The following table shows a reconciliation of the 2018 opening and closing balances of Level 3 assets which are recorded at fair value:

(in thousands of Russian rubles)	1 January 2018	Income/ (expense) recorded in profit or loss	Income/ (expense) recorded in other comprehend-sive income	Acquisitions/ issuance	Settlements	Transfers from Level 1 and Level 2	Transfers to Level 1 and Level 2	31 December 2018
Assets								
Trading securities	–	41,176	–	6,506	(57,642)	899,328	(889,368)	–
Loans at FVPL	177,241	241,113	–	3,018,758	(920,047)	–	–	2,517,065
Investments securities at FVOCI (2017: investment securities available for sale)	1,092,485	57,252	159,455	903,000	(10,761)	200,609	–	2,402,040

Transfers between the levels of the fair value hierarchy are deemed to have been made as of the end of the reporting period.

During the year ended 31 December 2018, the Group transferred investment securities at FVOCI and trading securities from Level 1 to Level 3 and from Level 2 to Level 3 of the fair value hierarchy, respectively. The carrying amount of the transferred assets totaled RUB 1,099,937 thousand. As of the date of transfer, the cumulative unrealized loss amounted to RUB 206,701 thousand. The reason for the transfers from Level 1 to Level 3 is that the market for some securities has become inactive, which has led to a change in the method used to determine fair value. The transfer from Level 2 to Level 3 was due to the fact that inputs used in valuation models ceased to be observable. Prior to the transfer, the fair value of financial instruments was determined based on observable market transactions or binding broker quotes for the same or similar instruments. Since the transfer, these financial instruments have been valued using valuation models that incorporate significant unobservable inputs.

In 2018, the Group transferred trading securities in the amount of RUB 889,368 thousand from Level 3 to Level 1 of the fair value hierarchy due to a rise in market activity. As of the date of transfer, the cumulative unrealized loss amounted to RUB 12,216 thousand. These securities represent corporate bonds. The reason for the transfers from Level 3 to Level 1 is that the market for some securities has become active, and since the transfer these instruments have been valued using quoted prices in an active market for identical assets.

The following table shows a reconciliation of the 2017 opening and closing balances of Level 3 assets which are recorded at fair value:

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

In 2017, there were no transfers of financial instruments to or from Level 3 of the fair value hierarchy.

32 Fair values of financial instruments (continued)

Significant unobservable inputs and sensitivity of Level 3 financial instruments measured at fair value to changes in key assumptions

The following table shows the quantitative information about significant unobservable inputs used in the fair value measurement categorized within Level 3 of the fair value hierarchy as of 31 December 2018:

	Carrying amount	Valuation techniques	Unobservable inputs	Range (weighted average value)
Trading securities				
Corporate bonds	–	Income approach	Value of underlying asset	Not applicable
Loans to customers				
Loans to large businesses measured at FVPL	2,398,230	Discounted cash flows	Probability of default	4.3%-12.5%
Loans to medium businesses at FVPL	118,835	Discounted cash flows	Probability of default	3.0%
Investment securities at FVOCI				
Equity securities	2,181,112	Price/equity	Value of underlying asset	Not applicable
Corporate bonds	220,928	Income approach	Value of underlying asset	Not applicable

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

31 December 2017	Carrying amount	Valuation techniques	Unobservable inputs	Range (weighted average value)
Investment securities at FVOCI				
Equity securities	1,092,485	Price/equity	Value of underlying asset	Not applicable

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

	31 December 2018 (unaudited)		31 December 2017	
(in thousands of Russian rubles)	Carrying amount	Effect of reasonably possible alternative assumptions	Carrying amount	Effect of reasonably possible alternative assumptions
Loans to customers	**2,517,065**	**(125,854)**	**–**	**–**
Loans to large businesses measured at FVPL	2,398,230	(119,912)	–	–
Loans to medium businesses at FVPL	118,835	(5,942)	–	–
Investment securities at FVOCI (2017: investment securities available for sale)	**2,402,040**	**(136,021)**	**1,092,485**	**(54,624)**
Equity securities	2,181,112	(109,056)	1,092,485	(54,624)
Corporate bonds	220,928	(26,965)	–	–

32 Fair values of financial instruments (continued)

Significant unobservable inputs and sensitivity of Level 3 financial instruments measured at fair value to changes in key assumptions (continued)

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

- For debt securities, the Group adjusted the yield to maturity assumptions by increasing the assumptions by 5 percentage points, which, in the Group's opinion, is within a range of possible alternative changes in this ratio.
- For loans to customers, the Group adjusted the probability of default assumptions by increasing the assumptions by 5 percentage points, which, in the Group's opinion, is within a range of possible alternative changes in this ratio.
- For shares, the Group adjusted the average price/issuer's equity ratio (P/E ratio) by decreasing it by 5 percentage points, which, in the Group's opinion, is within a range of possible alternative change of this ratio for other companies of the same industry bearing similar risks.

Transfers between Level 1 and Level 2

In 2018, the Group transferred trading securities in the amount of RUB 4,827,302 thousand from Level 2 to Level 1 of the fair value hierarchy due to a rise in market activity. These securities represent bonds of state corporations, corporate bonds and bonds of Russian banks.

In 2018, the Group transferred trading securities in the amount of RUB 1,084,245 thousand from Level 1 to Level 2 of the fair value hierarchy due to a decline in the market activity. These securities represent bonds of state corporations and corporate bonds.

In 2018, the Group transferred investment securities in the amount of RUB 1,275,165 thousand from Level 1 to Level 2 of the fair value hierarchy due to a decline in the market activity. These securities represent bonds of Russian banks.

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

Significant unobservable inputs and sensitivity of Level 3 non-financial instruments measured at fair value to changes in key assumptions

The following table shows the summarized information on sensitivity of the fair value measurement of investment property, land and buildings of the Group categorized within Level 3 of the fair value hierarchy to changes in unobservable inputs as of 31 December 2018:

Unobservable inputs	Range (weighted average value)	Sensitivity
Trade discount	10%	A 10% increase/decrease in trade discount input might lead to a decrease/increase in the fair value of the Group's investment property, land and buildings by RUB 228,153 thousand (before deferred tax recognition)

The following table shows the summarized information on sensitivity of the fair value measurement of investment property, land and buildings of the Group categorized within Level 3 of the fair value hierarchy to changes in unobservable inputs as of 31 December 2017:

Unobservable inputs	Range (weighted average value)	Sensitivity
Trade discount	10%	A 10% increase/decrease in trade discount input might lead to a decrease/increase in the fair value of the Group's investment property, land and buildings by RUB 229,260 thousand (before deferred tax recognition)

33 Related party disclosures

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

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

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

As of 31 December 2018, the outstanding balances with related parties were as follows:

(in thousands of Russian rubles)	**Participants**	**Key management personnel**	**Other entities under common control**	**Other related parties**
Cash and cash equivalents	–	–	533,937	–
Allowance for ECL on cash and cash equivalents	–	–	(567)	–
Amounts due from other banks	–	–	437,033	–
Allowance for ECL on amounts due from other banks	–	–	(4,555)	–
Loans to customers (contractual interest rate: 8.0%-12.0%)	–	19,732	2,000	–
Allowance for ECL on loans and advances to customers	–	(126)	–	–
Investment securities at FVOCI	–	–	1,268,001	–
Other financial assets	–	388	–	–
Other non-financial assets	–	72	46,781	–
Other income from charge of allowance	–	–	(2,322)	–
Amounts due to credit institutions (contractual interest rate: 0%-1.81%)	–	–	411,282	–
Amounts due to customers (contractual interest rate: 0%-7.7%)	585,252	381,025	354,897	173,479
Subordinated Eurobonds issued	30,495	–	–	31,544
Other financial liabilities	–	–	8,441	–
Other non-financial liabilities	3	9,615	130	–

As of 31 December 2018, loans to key management personnel in the amount of RUB 19,960 thousand were secured by balances of amounts due to customers in the amount of RUB 14,728 thousand.

As of 31 December 2018, amounts receivable from related parties are current and not impaired.

Income and expenses for 2018 arising from transactions with related parties are disclosed below:

(in thousands of Russian rubles)	**Participants**	**Key management personnel**	**Other entities under common control**	**Other related parties**
Interest income calculated using the effective interest rate	–	1,708	12,425	91
Interest expense	(50,818)	(8,560)	(13,551)	(3,978)
Increase in allowance for credit losses on cash and cash equivalents, amounts due from other banks and loans to customers	–	(52)	(2,366)	–
Gains less losses from dealing in foreign currencies	87	170	10,230	50
(Losses less gains)/gains less losses from foreign currency translation	(151,230)	(39,634)	10,155	(10,038)
Gains less losses/(losses net of gains) on derivative financial instruments	–	392	(2,841)	–
Fee and commission income	212	673	2,173	142
Fee and commission expense	–	(51)	(678)	–
Other operating income	1	41	186,040	–
Administrative and other operating expenses	(21,744)	(315,895)	(23,082)	(3,875)

33 Related party disclosures (continued)

Other rights and obligations under transactions with related parties as of 31 December 2018 were as follows:

(in thousands of Russian rubles)	Participants	Key management personnel	Other entities under common control	Other related parties
Guarantees received by the Group at the end of the year	–	10,431	–	1,184
Other contingencies	5,384	4,247	13,000	1,790

Aggregate amounts lent to and repaid by related parties in 2018 were as follows:

(in thousands of Russian rubles)	Participants	Key management personnel	Other entities under common control	Other related parties
Amounts lent to related parties during the year	1,269	63,968	10,914,202	2,697
Amounts repaid by related parties during the year	1,269	54,788	10,283,282	2,697
Loans to non-related customers	–	–	(109,308)	–

On 15 November 2018, the Bank signed an agreement for the purchase of a 0.9084% interest in the Bank's share capital from one of its participants for RUB 128,470 thousand; the interest will be transferred to the Bank as soon as the related entry is made in the State Register of Legal Entities.

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

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

As of 31 December 2017, loans to key management personnel in the amount of RUB 7,385 thousand were secured by balances of amounts due to customers in the amount of RUB 7,385 thousand.

As of 31 December 2017, amounts receivable from related parties are current and not impaired.

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

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

33 Related party disclosures (continued)

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

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

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

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

On 30 November 2017, the Bank purchased an 8.7619% interest from one of its participants for RUB 1,220,018 thousand.

Compensations to key management are presented below:

(in thousands of Russian rubles)	2018	2017
Short-term payments		
- Salaries	312,369	315,416
- Short-term bonuses	7,340	17,674
Total	**319,709**	**333,090**

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

In 2018 and 2017, transactions with related parties were on an arm's length basis.

34 Business combinations

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

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

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

34 Business combinations (continued)

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

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

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

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

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

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

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

Analysis of cash flows on acquisition

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

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

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

		2018		2017	
(in thousands of Russian rubles)	**Notes**	**Carrying amount of transferred financial asset**	**Carrying amount of associated liability**	**Carrying amount of transferred financial asset**	**Carrying amount of associated liability**
Trading securities	8, 16, 17	2,253,303	2,138,762	–	–
Investment securities at FVOCI (2017: investment securities available for sale)	11, 16, 17	3,622,690	3,176,098	1,735,340	1,549,571
Total		**5,875,993**	**5,314,860**	**1,735,340**	**1,549,571**

As of 31 December 2018, claims under direct repurchase agreements in the amount of RUB 5,875,993 thousand (2017: RUB 1,735,340 thousand) represent securities which were sold under repurchase agreements and which can be sold or repledged by the counterparty according to contractual terms or established practice. Repurchase agreements were of short-term nature and were completed in due time from January to April 2019 (2017: in January 2018).

As of 31 December 2018, trading securities in the amount of RUB 438,769 thousand and investment securities at FVOCI in the amount of RUB 699,213 thousand (2017: investment securities held to maturity in the amount of RUB 424,716 thousand) were blocked in accordance with the General Loan Agreement with the CBR with the overdraft limit of RUB 3,500,000 thousand (2017: RUB 3,500,000 thousand). As of 31 December 2018 and 31 December 2017, the overdraft was not used by the Group.

In addition, obligatory reserves with the CBR in the amount of RUB 666,999 thousand (2017: RUB 494,409 thousand) represent non-interest-bearing deposits with the CBR which are not available to finance the Group's day-to-day operations.

36 Offsetting of financial instruments

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

					Related amounts not set off in the consolidated statement of financial position			
2018	**Notes**	**Gross amount of recognized financial instruments**	**Gross amount of recognized financial instruments set off in the consolidated statement of financial position**	**Net amount of financial assets presented in the consolidated statement of financial position**	**Financial instruments recognized in the statement of financial position**	**Cash collateral**	**Financial assets held as collateral**	**Net amount**
Financial assets								
Derivative financial assets	31	896	–	896	12	–	–	884
Reverse repurchase agreements	7	3,080,312	–	3,080,312	1,909,209	–	1,171,103	–
Total		**3,081,208**	**–**	**3,081,208**	**1,909,221**	**–**	**1,171,103**	**884**
Financial liabilities								
Derivative financial liabilities	31	14,812	–	14,812	12	–	–	14,800
Repurchase agreements	16, 17	5,314,860	–	5,314,860	1,909,209	–	3,405,651	–
Total		**5,329,672**	**–**	**5,329,672**	**1,909,221**	**–**	**3,405,651**	**14,800**

36 Offsetting of financial instruments (continued)

2017	Notes	Gross amount of recognized financial instruments	Gross amount of recognized financial instruments set off in the consolidated statement of financial position	Net amount of financial assets presented in the consolidated statement of financial position	Related amounts not set off in the consolidated statement of financial position: Financial instruments recognized in the statement of financial position	Cash collateral	Financial assets held as collateral	Net amount
Financial assets								
Derivative financial assets	31	5,797	22	5,775	–	–	–	5,775
Reverse repurchase agreements	7, 10	3,283,728	–	3,283,728	68,807	–	3,214,921	–
Total		**3,289,525**	**22**	**3,289,503**	**68,807**	**–**	**3,214,921**	**5,775**
Financial liabilities								
Derivative financial liabilities	31	107	37	70	–	–	–	70
Repurchase agreements	16, 17	1,549,571	–	1,549,571	68,807	–	1,480,764	–
Total		**1,549,678**	**37**	**1,549,641**	**68,807**	**–**	**1,480,764**	**70**

37 Maturity analysis of assets and liabilities

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

	31 December 2018			31 December 2017		
	Amounts expected to be settled/recovered			Amounts expected to be settled/recovered		
(in thousands of Russian rubles)	Within 12 months after the reporting period	More than 12 months after the reporting period	Total	Within 12 months after the reporting period	More than 12 months after the reporting period	Total
Assets						
Cash and cash equivalents	12,892,242	–	12,892,242	9,452,890	–	9,452,890
Obligatory reserve with the CBR	666,999	–	666,999	494,409	–	494,409
Trading securities	6,658,854	–	6,658,854	11,338,499	–	11,338,499
Amounts due from credit institutions	1,044,299	771,967	1,816,266	632,385	–	632,385
Loans and advances to customers	20,474,653	19,929,170	40,403,823	13,853,007	12,165,194	26,018,201
Investment securities at FVOCI (2017: investment securities available for sale)	15,822,400	–	15,822,400	9,756,328	–	9,756,328
Investments securities at amortized cost (2017: investment securities held to maturity)	–	–	–	613,594	198,268	811,862
Prepayment for current income tax liabilities	24,762	–	24,762	80,294	–	80,294
Intangible assets	–	45,984	45,984	–	29,361	29,361
Investment property	–	675,500	675,500	–	687,000	687,000
Property and equipment	–	1,696,261	1,696,261	–	1,698,871	1,698,871
Other financial assets	7,716	–	7,716	128,364	–	128,364
Other non-financial assets	102,925	–	102,925	73,871	–	73,871
Total assets	**57,694,850**	**23,118,882**	**80,813,732**	**46,423,641**	**14,778,694**	**61,202,335**
Liabilities						
Amounts due to credit institutions	3,575,570	–	3,575,570	2,953,720	–	2,953,720
Amounts due to customers	45,462,844	14,263,416	59,726,260	39,729,301	3,559,014	43,288,315
Debt securities issued	405,012	–	405,012	489,485	45,926	535,411
Deferred tax liability	–	288,734	288,734	–	27,752	27,752
Other financial liabilities	677,248	99,486	776,734	33,205	11,865	45,070
Other non-financial liabilities	420,600	–	420,600	491,632	–	491,632
Subordinated Eurobonds issued	–	1,398,052	1,398,052	–	1,155,215	1,155,215
Total liabilities	**50,541,274**	**16,049,688**	**66,590,962**	**43,697,343**	**4,799,772**	**48,497,115**

38 Changes in liabilities arising from financing activities

(in thousands of Russian rubles)	Bonds issued	Subordinated bonds issued
Carrying amount at 31 December 2016	**1,466**	**1,212,854**
Redemption	(542)	–
Translation differences	–	(60,332)
Other	–	2,693
Carrying amount at 31 December 2017	**924**	**1,155,215**
Redemption	–	–
Translation differences	–	234,430
Other	–	8,407
Carrying amount at 31 December 2018	**924**	**1,398,052**

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

39 Events after the reporting period

In March 2019, the national rating agency ACRA confirmed the national credit rating of the Bank at BBB+(RU) and upgraded the outlook from stable to positive.

Signed on behalf of the Management Board on 16 April 2019.

A.M. Sannikov
Chairman of the Management Board

G.M. Ulanova
Chief Accountant