Independent auditor's report
on the financial statements of
CentroCredit Bank
for the year ended 31 December 2018

April 2019

Translation from the original Russian version

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Independent auditor's report

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To the shareholders and Board of Directors of
CentroCredit Bank

Report on the audit of the financial statements

Opinion

We have audited the financial statements of CentroCredit Bank (the "Bank"), which comprise the statement of financial position as at 31 December 2018, and the statement of profit or loss, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

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

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISA). Our responsibilities under those standards are further described in the *Auditor's responsibility for the audit of the financial statements* section of our report. We are independent of the Bank 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 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.

Management's responsibility for the financial statements

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

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In preparing the financial statements, management is responsible for assessing the Bank'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 Bank or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibility for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the 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 International Standards on Auditing 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 financial statements.

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

- Identify and assess the risks of material misstatement of the 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 Bank's internal control;
- Evaluate the appropriateness of accounting policies used and the reasonableness of 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 Bank'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 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 Bank to cease to continue as a going concern;
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

Management of the Bank is responsible for compliance of the Bank with the mandatory prudential ratios established by the Central Bank of the Russian Federation (the "Bank of Russia") and for compliance of 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 relation of such systems.

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

1) Whether the Bank complied as at 1 January 2019 with the prudential ratios established by the Bank of Russia.
2) Whether the 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 risk management function;
   - 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.

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

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

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

Compliance by the internal control and risk management systems of the Bank with the requirements set forth by the Bank of Russia in relation to these 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 function was subordinated and accountable to the Board of Directors, and the Bank's risk management function was 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 and concentration risks, 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 and concentration risks 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 and internal audit functions during the year ended 31 December 2018 with regard to the management of credit, market and concentration risks of the Bank complied with the Bank's internal documents and that those reports included observations made by the Bank's risk management and internal audit functions in respect of 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 efficiency and consistency of the risk management procedures applied by the Bank during the year ended 31 December 2018, the Bank's Board of Directors and executive management bodies regularly reviewed the reports prepared by the Bank's risk management and internal audit functions.

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

MARIJA IGNATJEVA
Partner
Ernst & Young LLC

26 April 2019

Details of the audited entity

Name: CentroCredit Bank
Record made in the State Register of Legal Entities on 16 September 2002, State Registration Number 1027739198387.
Address: Russia 119017, Moscow, Pyatnitskaya ulitsa, 31/2, building 1.

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.

Statement of financial position

as at 31 December 2018

(thousands of Russian rubles)

	Note	2018	2017
Assets			
Cash and accounts with the CBR	5	2,462,311	2,611,594
Financial assets at fair value through profit or loss	6	11,764,172	19,211,976
Financial assets at fair value through profit or loss pledged under repurchase agreements	6	51,429,488	20,195,156
Amounts due from credit institutions	7	8,189,562	4,823,241
Loans to customers	8	17,685,858	15,035,606
Available-for-sale investments	9	–	245,676
Held-to-maturity investments	10	–	7,962,781
Property and equipment		78,091	74,775
Current income tax assets		–	183,324
Other assets	13	936,947	923,961
Total assets		**92,546,429**	**71,268,090**
Liabilities			
Amounts due to credit institutions	14	50,557,291	22,616,227
Amounts due to customers	15	13,419,965	13,856,685
Debt securities issued	16	708,055	4,677,121
Other provisions	18	896,212	968,643
Current income tax liabilities		60,584	–
Deferred income tax liabilities	11	–	566,766
Other liabilities	13	499,651	228,725
Total liabilities		**66,141,758**	**42,914,167**
Equity			
Share capital	17	6,946,140	6,946,140
Revaluation reserve for available-for-sale investments		–	(12,096)
Retained earnings		19,458,531	21,419,879
Total equity		**26,404,671**	**28,353,923**
Total equity and liabilities		**92,546,429**	**71,268,090**

Signed and authorized for release on behalf of the Management Board of the Bank

L.V. Zimina Chairman of the Management Board

O.Yu. Pavlova Chief Accountant – Head of the Accounting and Reporting Department

26 April 2019

The accompanying notes 13-80 are an integral part of these financial statements.

Statement of profit or loss

for the year ended 31 December 2018

(thousands of Russian rubles)

	Note	2018	2017
Interest income	19	6,642,106	4,646,792
Interest expense	19	(3,146,044)	(1,035,073)
Net interest income		**3,496,062**	**3,611,719**
Credit loss expense	12	(472,158)	(109,322)
Net interest income after credit loss expense		**3,023,904**	**3,502,397**
Fee and commission income	21	516,038	420,684
Fee and commission expense	21	(70,449)	(60,810)
Net losses from financial instruments at fair value through profit or loss	20	(4,755,332)	(1,636,857)
Net gains from available-for-sale investments		–	68,536
Net gains from precious metals		108,817	1,604
Net losses from foreign currencies:		(417,639)	(309,143)
- dealing		34,791	44,701
- translation differences		(452,430)	(353,844)
Dividends received	22	1,989,947	1,212,090
Other income		114,090	34,662
Non-interest expense		**(2,514,528)**	**(269,234)**
Personnel expenses	23	(738,676)	(736,457)
Depreciation and amortization		(35,776)	(31,647)
Other operating expenses	23	(383,123)	(421,608)
Non-interest expense		**(1,157,575)**	**(1,189,712)**
(Loss)/profit before income tax expense		**(648,199)**	**2,043,451**
Income tax expense	11	(267,507)	(293,165)
(Loss)/profit for the year		**(915,706)**	**1,750,286**

Statement of comprehensive income

for the year ended 31 December 2018

(thousands of Russian rubles)

	Note	*2018*	*2017*
(Loss)/profit for the year		**(915,706)**	**1,750,286**
Other comprehensive loss			
Net change in fair value of available-for-sale investments		–	(59,293)
Deferred income tax attributable to components of other comprehensive income for the period		–	9,439
Other comprehensive loss, net of tax		**–**	**(49,854)**
Total comprehensive (loss)/income for the year		**(915,706)**	**1,700,432**

The accompanying notes 13-80 are an integral part of these financial statements.

Statement of changes in equity

for the year ended 31 December 2018

(thousands of Russian rubles)

	Share capital	*Revaluation reserve for available-for-sale investments*	*Retained earnings*	*Total equity*
1 January 2017	**6,946,140**	**37,758**	**20,579,511**	**27,563,409**
Profit for the year	–	–	1,750,286	**1,750,286**
Other comprehensive loss for the year	–	(49,854)	–	**(49,854)**
Total comprehensive income for the year	**–**	**(49,854)**	**1,750,286**	**1,700,432**
Dividends to shareholders of the Bank (Note 17)	–	–	(909,918)	**(909,918)**
31 December 2017	**6,946,140**	**(12,096)**	**21,419,879**	**28,353,923**
Effect of transition to IFRS 9 (Note 3)	–	12,096	(603,401)	**(591,305)**
Balance at 1 January 2018 restated under IFRS 9	**6,946,140**	**–**	**20,816,478**	**27,762,618**
Loss for the year	–	–	(915,706)	**(915,706)**
Total comprehensive loss for the year	**–**	**–**	**(915,706)**	**(915,706)**
Dividends to shareholders of the Bank (Note 17)	–	–	(442,241)	**(442,241)**
31 December 2018	**6,946,140**	**–**	**19,458,531**	**26,404,671**

Statement of cash flows

for the year ended 31 December 2018

(thousands of Russian rubles)

	Note	*2018*	*2017*
Cash flows from operating activities			
Interest received		6,522,214	4,455,680
Interest paid		(3,281,666)	(844,966)
Fees and commissions received		516,038	420,684
Fees and commissions paid		(70,449)	(60,810)
Gains less losses from financial assets at fair value through profit or loss		(1,061,130)	715,192
Gains less losses from precious metals		352,603	209,020
Realized gains less losses from dealing in foreign currencies		34,791	44,701
Dividends received		1,738,377	1,103,456
Other income received		112,770	34,662
Personnel expenses paid		(721,069)	(718,731)
Other operating expenses paid		(377,671)	(356,393)
Cash flows from operating activities before changes in operating assets and liabilities		**3,764,808**	**5,002,495**
Net (increase)/decrease in operating assets			
Obligatory reserve with the CBR		63,096	(12,599)
Financial assets at fair value through profit or loss		(18,815,049)	(8,350,965)
Amounts due from credit institutions		(7,451)	(3,284)
Loans to customers		(4,149,991)	753,483
Other assets		(275,949)	168,967
Net increase/(decrease) in operating liabilities		–	–
Amounts due to credit institutions		27,927,104	8,332,462
Amounts due to customers		(1,397,495)	(4,857,482)
Debt securities issued		(3,842,240)	1,249,162
Other liabilities		249,028	14,713
Net cash flows from operating activities before income tax		**3,515,861**	**2,322,150**
Income tax paid		(183,878)	(283,786)
Net cash from operating activities		**3,331,983**	**2,038,364**
Cash flows from investing activities			
Purchase of available-for-sale securities		–	(157,197)
Proceeds from sale and redemption of available-for-sale securities		–	352,689
Purchase of held-to-maturity securities		–	(7,805,378)
Purchase of property and equipment		(32,313)	(8,300)
Proceeds from sale of property and equipment		1,320	5
Purchase of investment property		–	(22,000)
Proceeds from sale of investment property		31,777	43,500
Net cash from / (used in) investing activities		**784**	**(7,596,681)**
Cash flows from financing activities			
Dividends paid to shareholders of the Bank		(442,214)	(909,838)
Net cash used in financing activities		**(442,214)**	**(909,838)**
Effect of exchange rates changes on cash and cash equivalents		406,351	(81,096)
Effect of changes in expected credit losses on cash and cash equivalents		(18,281)	–
Net increase/(decrease) in cash and cash equivalents		**3,278,623**	**(6,549,251)**
Cash and cash equivalents, beginning	5	**7,204,333**	**13,753,584**
Cash and cash equivalents, ending	5	**10,482,956**	**7,204,333**

(thousands of Russian rubles)

1. Principal activities

CentroCredit joint-stock commercial bank (the "Bank") was formed in 1989. In 2015, the Bank changed its legal form from closed joint-stock company to joint-stock company in order to bring its incorporation documents in line with Chapter 4 of the Civil Code of the Russian Federation as required by Federal Law No. 99-FZ *On Amending Chapter 4 of Part 1 of the Civil Code of the Russian Federation, and on Recognizing Some Provisions of Russian Legislative Acts to be Void* dated 5 May 2014.

The Bank operates under a general banking license issued by the Central Bank of Russia (the "CBR") on 17 December 2014, as well as the CBR license for operations with precious metals (issued on 17 December 2014). The Bank also holds the following licenses related to its principal activity:

- License of a professional participant of the securities market for dealer activities No. 177-06344-010000 dated 19 September 2003.
- License of a professional participant of the securities market for broker activities No. 177-06333-100000 dated 19 September 2003.
- License of a professional participant of the securities market for custody services No. 177-06413-000100 dated 26 September 2003.

The Bank accepts deposits from legal entities and individuals and extends credit, transfers payments in Russia and abroad, exchanges currencies and provides other banking services to its commercial and retail customers. The Bank's main office is in Moscow. The Bank has 4 additional offices, 8 internal structural divisions and a representative office in London (United Kingdom). The Bank's registered legal address is Russia 119017, Moscow, Pyatnitskaya ulitsa, 31/2, bld. 1.

Starting 11 November 2004, the Bank is a member of the deposit insurance system. The system operates under the Federal laws and regulations and is governed by State Corporation "Agency for Deposits Insurance". Insurance covers the Bank's liabilities to individual depositors for the amount up to 1,400 thousand of Russian rubles for each individual in case of business failure or revocation of the CBR banking license.

As at 31 December 2018 and 2017, the Bank employed 469 and 490 people, respectively.

As at 31 December 2018 and 2017, the Bank's shareholders were as follows:

Shareholder	***2018, %***	***2017, %***
CENTRORIVER HOLDINGS LTD	64.23	67.85
Trial LLC	13.81	13.81
Andrey Igorevich Tarasov	11.96	11.96
Ilya Yuryevich Korbashov	9.96	6.34
Other	0.04	0.04
Total	**100.00**	**100.00**

As at 31 December 2018 and 2017, the Bank's ultimate controlling party is Andrey Igorevich Tarasov.

As at 31 December 2018 and 2017, the composition of the Bank's Board of Directors was as follows:

Name	***Position on the Board of Directors***	***Ownership of the Bank's shares (ultimate) 2018, %***	***Ownership of the Bank's shares (ultimate) 2017, %***
Andrey Igorevich Tarasov	Chairman of the Board of Directors	81.96	81.84
Ilya Yuryevich Korbashov	Member of the Board of Directors	18.00	18.12
Jacques Der Megreditchian	Member of the Board of Directors	–	–
Nikolay Aleksandrovich Anoshko	Member of the Board of Directors	–	–
Artyom Albertovich Dilenyan	Member of the Board of Directors	–	–

(thousands of Russian rubles)

2. Basis of preparation

General

These 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 financial statements are based on these RAL accounting records and financial statements, as adjusted and reclassified in order to comply with IFRS. The financial statements have been prepared under the historical cost convention except as disclosed in the summary of accounting policies below. For example, securities at fair value through profit or loss, derivative financial instruments and investment property have been measured at fair value. These financial statements are presented in thousands of Russian rubles ("RUB"), unless otherwise indicated.

These financial statements will be disclosed at the Bank's web site (www.ccb.ru) not later than in 30 days from the deadline for its presentation to the participants (shareholders, founders) or owners of the entity's assets in accordance with Part 7 of Article 4 of Law No. 208-FZ *On the Consolidated Financial Statements*.

3. Summary of accounting policies

Changes in accounting policies

The Bank applied IFRS 15 and IFRS 9 for the first time. The nature and effect of the changes as a result of the adoption of these new accounting standards are described below.

The Bank applied for the first time certain amendments to the standards, which are effective for annual periods beginning on or after 1 January 2017. The Bank 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 are described below:

IFRS 9 Financial Instruments

IFRS 9 replaces IAS 39 *Financial Instruments: Recognition and Measurement* for annual periods beginning on or after 1 January 2018. The Bank has not restated comparative information for 2017 for financial instruments in the scope of IFRS 9. Therefore, the information for 2017 is reported under IAS 39 and is not comparable to the information presented for 2018. Differences arising from the adoption of IFRS 9 have been recognized directly in retained earnings as at 1 January 2018 and are disclosed below.

(a) Classification and measurement

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

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

(thousands of Russian rubles)

3. Summary of accounting policies (continued)

Changes in accounting policies (continued)

Equity financial assets are required to be classified at initial recognition as FVPL unless an irrevocable designation is made to classify the instrument as FVOCI. For equity 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.

Derivatives are measured at FVPL. Embedded derivatives are not separated from a host financial asset.

All financial liabilities are classified as measured at amortized cost, except:

a) Financial liabilities at fair value through profit or loss;

b) Financial guarantees;

c) Liabilities on loans bearing a below-market interest rate.

(b) Impairment

The adoption of IFRS 9 has fundamentally changed the Bank's accounting for loan impairment by replacing IAS 39 incurred loss approach with a forward-looking expected credit loss (ECL) approach. From 1 January 2018, the Bank has been recording the allowance for expected credit losses for all loans and other debt financial assets not held at FVPL, together with loan commitments and financial guarantee contracts. Equity instruments are not subject to impairment under IFRS 9.

The allowance is based on the ECLs associated with the probability of default in the next twelve months unless there has been a significant increase in credit risk since origination. If the financial asset meets the definition of purchased or originated credit-impaired (POCI) financial asset, the allowance is based on the change in the lifetime ECL. Details of the Bank's impairment method are disclosed in Note 24. The quantitative impact of applying IFRS 9 as at 1 January 2018 is disclosed in section (c) below.

(c) Effect of transition to IFRS 9

The following table sets out the impact of adopting IFRS 9 on the statement of financial position and retained earnings as at 1 January 2018 including the effect of replacing IAS 39 incurred credit loss calculations with IFRS 9 ECL.

(thousands of Russian rubles)

3. Summary of accounting policies (continued)

Changes in accounting policies (continued)

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

		IAS 39 measurement		*Reclassifica-tion*	*Remeasurement*		*IFRS 9 measurement*	
Financial assets	***Ref***	***Category***	***Amount***		***ECL***	***Other***	***Amount***	***Category***
Cash and accounts with the CBR		L&R[1]	2,611,594	–	–	–	2,611,594	Amortized cost
Financial assets at fair value through profit or loss		FVPL[2]	19,211,976	8,208,390	–	7,646	27,428,012	FVPL (mandatory)
From: available-for-sale investments	A		–	*245,609*	–	–		
From: held-to-maturity investments	B		–	*7,962,781*	–	–		
Financial assets at fair value through profit or loss pledged under repurchase agreements		FVPL	20,195,156	–	–	–	20,195,156	FVPL (mandatory)
Amounts due from credit institutions		L&R[1]	4,823,241	–	(8,600)	–	4,814,641	Amortized cost
Loans to customers:			15,035,606	–	(607,805)	(362,066)	14,065,735	
- at fair value through profit or loss		FVPL	–	1,133,319	–	(362,066)	771,253	FVPL (mandatory)
From: loans to customers at amortized cost	C		–	*1,133,319*	–	–	–	
- at amortized cost		L&R[1]	15,035,606	(1,133,319)	(607,805)	–	13,294,482	Amortized cost
To: loans to customers at fair value through profit or loss	C		–	*(1,133,319)*	–	–	–	
Available-for-sale investments		AFS[4]	245,676	(245,676)	–	–	–	
To: financial assets at fair value through profit or loss	A		–	*(245,609)*	–	–	–	
To: other financial assets	D		–	*(67)*	–	–	–	
Held-to-maturity investments		HTM[5]	7,962,781	(7,962,781)	–	–	–	
To: financial assets at fair value through profit or loss	B		–	*(7,962,781)*	–	–	–	
Other financial assets		L&R[1]	291,010	67	206	–	291,283	Amortized cost
From: available-for-sale investments	D		–	67	–	–		
Total assets			**70,377,040**	**–**	**(616,199)**	**(354,420)**	**69,406,421**	
Non-financial liabilities – expected credit losses from:								
- Financial guarantees			844,109	–	(179,276)	–	664,833	
- Loan commitments			124,534	–	(49,188)	–	75,346	
Non-financial liabilities								
Deferred tax liabilities			566,766	–	(76,909)	(73,941)	415,916	
Total liabilities			**1,535,409**	**–**	**(305,373)**	**(73,941)**	**1,156,095**	

1 L&R – Loans and receivables.

2 FVPL − Financial assets at fair value through profit or loss.

3 FVOCI − Financial assets at fair value through other comprehensive income.

4 AFS – Available-for-sale.

5 HTM – Held-to-maturity.

(thousands of Russian rubles)

3. Summary of accounting policies (continued)

Changes in accounting policies (continued)

As compared with the interim condensed financial statements for the six months ended 30 June 2018, the classification of loans to customers was changed as certain loans were reclassified to loans to customers at fair value through profit or loss.

The application of the Bank's accounting policies for classification of financial instruments in accordance with IFRS 9 resulted in reclassifications presented in the table above and described below.

A The Bank classified a portion of available-for-sale equity securities as financial assets at FVPL in accordance with IFRS 9.

B The Bank classified held-to-maturity debt securities as financial assets at FVPL under IFRS 9.

C The Bank's analysis has shown that as at 1 January 2018 certain loans to customers did not qualify for the SPPI criterion. Therefore, the Bank reclassified such loans previously measured at amortized cost as financial assets at FVPL.

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

The impact of transition to IFRS 9 on the revaluation reserve and retained earnings is as follows:

	Revaluation reserve	*Retained earnings*
Balance at the end of the period under IAS 39 (31 December 2017)	**(12,096)**	**21,419,879**
Remeasurement due to reclassification of available-for-sale financial assets to financial assets at FVPL	12,096	(12,096)
Remeasurement due to reclassification of loans to customers to financial assets at FVPL	–	(362,066)
Remeasurement due to reclassification of held-to-maturity debt securities to financial assets at FVPL	–	7,646
Recognition of IFRS 9 ECLs including those measured at FVOCI	–	(387,735)
Related deferred tax	–	150,850
Balance at the beginning of the period under IFRS 9 (1 January 2018)	**–**	**20,816,478**
Total change in equity due to adopting IFRS 9	**12,096**	**(603,401)**

The following table reconciles the aggregate opening loan impairment allowances under IAS 39 and provisions for loan commitments and financial guarantees in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* to the allowance for ECL under IFRS 9.

	Allowance for impairment under IAS 39 / IAS 37 at 31 December 2017	*Reclassification*	*Charge/(reversal) of allowance*	*ECL under IFRS 9 at 1 January 2018*
Allowance for impairment				
Amounts due from credit institutions	–	–	8,600	8,600
Loans to customers	15,102,429	(1,904,257)	607,805	13,805,977
Other financial assets	17,928	–	(206)	17,722
	15,120,357	**(1,904,257)**	**616,199**	**13,832,299**
Financial guarantees	844,109	–	(179,276)	664,833
Loan commitments	124,534	–	(49,188)	75,346
	968,643	**–**	**(228,464)**	**740,179**
	16,089,000	**(1,904,257)**	**387,735**	**14,572,478**

(thousands of Russian rubles)

3. Summary of accounting policies (continued)

Changes in accounting policies (continued)

Reclassifications

After the application of IFRS 9, the Bank changed the presentation of the statement of profit or loss and presented impairment losses, defined in accordance with IFRS 9, as a single line item. Therefore, in order to ensure compliance with 2018 presentation principles, impairment losses from held-to-maturity investment securities, other financial assets and financial guarantees, letters of credit and loan commitments in the statement of profit or loss for 2017 were reclassified as follows:

	As previously reported	*Reclassification*	*As adjusted*
Charge of allowance for impairment of interest-earning assets	(1,141,946)	1,141,946	–
Other gains/(losses) from impairment and provisions	1,032,624	(1,032,624)	–
Credit loss expense	–	(109,322)	(109,322)

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. However, the standard does not apply to revenue associated with financial instruments and leases, and therefore, does not impact the majority of the Bank's revenue including interest revenue, gains/(losses) on operations with securities, lease income which are covered by IFRS 9 *Financial Instruments* and IAS 17 *Leases*. As a result, a major part of the Bank's income is not affected by the adoption of this standard.

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 must determine the date of the transaction for each payment or receipt of advance consideration. The interpretation had no impact on the Bank's 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 Bank's financial statements.

Amendments to 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 to measure its investments in associates and joint ventures at fair value through profit or loss. This election is made separately for each investment at initial recognition. 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.

(thousands of Russian rubles)

3. Summary of accounting policies (continued)

Changes in accounting policies (continued)

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 Bank's financial statements.

Fair value measurement

The Bank measures financial instruments carried at FVPL and FVOCI and non-financial assets, such as investment property, at fair value at each reporting date. Fair values of financial instruments are disclosed in Note 25.

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

The Bank 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 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 financial statements on a recurring basis, the Bank 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.

Financial assets and liabilities

Initial recognition

Date of recognition

All regular way purchases and sales of financial assets and liabilities are recognized on the settlement date, i.e. the date that the asset is delivered or liability is assumed. Regular way purchases or sales are purchases or sales of financial assets and liabilities that require delivery of assets and liabilities within the period generally established by regulation or convention in the marketplace.

Initial measurement

The classification of financial instruments at initial recognition depends on their contractual terms and the business model used for managing the instruments. Financial instruments are initially measured at fair value, including transaction costs, except when financial assets and financial liabilities are measured at FVPL.

(thousands of Russian rubles)

3. Summary of accounting policies (continued)

Financial assets and liabilities (continued)

Measurement categories of financial assets and liabilities

From 1 January 2018, the Bank 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 Bank classifies and measures its derivative and trading portfolio at FVPL. The Bank may designate financial instruments at FVPL, if so doing eliminates or significantly reduces measurement or recognition inconsistencies.

Prior to 1 January 2018, the Bank classified the financial assets into the following categories: loans and receivables (measured at amortized cost), assets measured at FVPL, and available-for-sale or held-to-maturity assets (measured at amortized cost).

All financial liabilities are classified as measured at amortized cost, except:

a) Financial liabilities at fair value through profit or loss;

b) Financial guarantees;

c) Liabilities on loans bearing a below-market interest rate.

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 Bank intended to sell immediately or in the near term;
- That the Bank, upon initial recognition, designated as at FVPL or as available for sale;
- For which the Bank may not recover substantially all of its initial investment, for reasons other than because of credit deterioration. Such assets were classified as available for sale.

From 1 January 2018, the Bank measures amounts due from credit institutions, loans to customers, and other financial investments at amortized cost, only 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 (SPPI).

The details of these conditions are outlined below.

Business model assessment

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

The Bank'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;
- 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 Bank's assessment.

(thousands of Russian rubles)

3. Summary of accounting policies (continued)

Financial assets and liabilities (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 Bank's original expectations, the Bank 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.

The SPPI test

As a second step of its classification process, the Bank assesses the contractual terms of the 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 Bank applies judgement 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 required to be measured at FVPL.

Debt instruments at FVOCI

From 1 January 2018, the Bank 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 OCI. 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 OCI are reclassified from OCI 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 arise if the assets were measured at amortized cost is recognized in OCI as an accumulated impairment amount, with a corresponding charge to profit or loss. The accumulated loss recognized in OCI is recycled to the profit and loss upon derecognition of the asset.

Equity instruments at FVOCI

From 1 January 2018, at initial recognition of certain investments in equity instruments, the Bank sometimes makes an irrevocable decision to reclassify investments in equity instruments at FVOCI if they meet the definition of an equity instrument according to IAS 32 *Financial Instruments: Presentation* and are not held for trading. Such classification is determined on an instrument-by-instrument basis.

Gains and losses from these equity instruments are never recycled to profit or loss. Dividends are recognized in profit or loss as other income when the right of the payment has been established, except when the Bank benefits from such proceeds as a recovery of part of the cost of the instrument, in which case, such gains are recorded in OCI. 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.

(thousands of Russian rubles)

3. Summary of accounting policies (continued)

Financial assets and liabilities (continued)

Financial guarantees, letters of credit and loan commitments

The Bank 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 Bank's liability under each guarantee is measured at the higher of the amount initially recognized less cumulative amortization recognized in the statement of profit or loss, and an ECL provision (under IFRS 9 (from 1 January 2018)).

Loan commitments and letters of credits are contractual commitments, under which, over the duration of the commitment, the Bank 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.

Held-to-maturity investments

Before 1 January 2018, non-derivative financial assets with fixed or determinable payments and fixed maturity were classified as held-to-maturity when the Bank has the positive intention and ability to hold them to maturity. Investments intended to be held for an undefined period were not included in this classification.

Held-to-maturity investments 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.

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 available-for-sale investment securities. 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.

Available-for-sale financial assets

Prior to 1 January 2018, available-for-sale financial assets were those non-derivative financial assets that were designated as available for sale or were not classified in any of the three preceding categories. After initial recognition available-for sale financial assets were measured at fair value with 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 statement of profit or loss. However, interest calculated using the effective interest rate method was recognized in profit or loss.

Reclassification of financial assets and liabilities

From 1 January 2018, the Bank does not reclassify financial assets after their initial recognition, apart from exceptional cases, when the Bank changes the business model for managing the financial assets. Financial liabilities are never reclassified. In 2017, the Bank did not reclassify any of its financial assets and liabilities.

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, amounts due from the CBR, excluding obligatory reserves, and amounts due from credit institutions on current, clearing and deposit accounts, as well as reverse repurchase agreements with credit institutions that mature within ninety days of the date of origination and are free from contractual encumbrances.

Precious metals

Gold and other precious metals are recorded at the CBR bid prices, which approximate fair values and are quoted at a discount to London Bullion Market rates. Changes in the CBR bid prices are recorded as translation differences from precious metals in other income.

(thousands of Russian rubles)

3. Summary of accounting policies (continued)

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 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 repo") are recorded as amounts due from credit institutions or loans to customers as appropriate.

The difference between sale and repurchase price is treated as interest income and accrued over the life of repo agreements using the effective interest method.

Securities lent to counterparties are retained in the statement of financial position. Securities borrowed are not recorded in the statement of financial position, unless these are sold to third parties, in which case the purchase and sale are recorded within gains less losses from trading securities in the statement of profit or loss.

The obligation to return them is recorded at fair value as a trading liability.

Derivative financial instruments

In the normal course of business, the Bank 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 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. Fair value of standardized exchange-traded contracts providing for the daily transfer of variation margin, is determined as the amount of claims for (obligation to pay) a variation margin at the end of the operating day. 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 statement of profit or loss as net gains/(losses) from financial instruments at fair value through profit or loss or net gains/(losses) from foreign currencies, depending on the nature of the instrument.

An embedded derivative is a component of a hybrid instrument that also includes a non-derivative host contract with the effect that some of the cash flows of the combined instrument vary in a way similar to a stand-alone derivative. An embedded derivative causes some or all of the cash flows that otherwise would be required by the contract to be modified according to a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided that, in the case of a non-financial variable, it is not specific to a party to the contract. A derivative that is attached to a financial instrument, but is contractually transferable independently of that instrument, or has a different counterparty from that instrument, is not an embedded derivative, but a separate financial instrument.

Under IAS 39, derivatives embedded in financial assets, liabilities and non-financial host contacts were treated as separate derivatives and recorded at fair value if they met the definition of a derivative (as defined above), their economic characteristics and risks were not closely related to those of the host contract, and the host contract was not itself held for trading or designated at FVPL. The embedded derivatives separated from the host contract were carried at fair value in the trading portfolio with changes in fair value recognized in the statement of profit or loss.

Since 1 January 2018, with the introduction of IFRS 9, the Bank has accounted in this way for derivatives embedded in financial liabilities and non-financial host contracts. Financial assets are classified based on the business model and SPPI assessments.

Promissory notes

Promissory notes purchased are included in amounts due from credit institutions or in loans to customers, depending on their substance and are accounted for in accordance with the accounting policies for these categories of assets.

(thousands of Russian rubles)

3. Summary of accounting policies (continued)

Borrowings

Issued financial instruments or their components are classified as liabilities, where the substance of the contractual arrangement results in the Bank having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity instruments. Such instruments include amounts due to the CBR, amounts due to credit institutions, amounts due to customers and debt securities issued. After initial recognition, borrowings are subsequently measured at amortized cost using the effective interest method. Gains and losses are recognized in profit or loss when the borrowings are derecognized as well as through the amortization process.

Leases

i) Finance – Bank as lessee

The Bank recognizes finance leases as assets and liabilities in the statement of financial position at the date of commencement of the lease term at amounts equal to the fair value of the leased property or, if lower, at the present value of the minimum lease payments. In calculating the present value of the minimum lease payments the discount factor used is the interest rate implicit in the lease, when it is practicable to determine; otherwise, the Bank's incremental borrowing rate is used. Initial direct costs incurred are included as part of the asset. Lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to periods during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

The costs identified as directly attributable to activities performed by the lessee for a finance lease, are included as part of the amount recognized as an asset under the lease.

ii) Finance − Bank as lessor

The Bank recognizes lease receivables at value equal to the net investment in the lease, starting from the date of commencement of the lease term. Finance income is based on a pattern reflecting a constant periodic rate of return on the net investment outstanding. Initial direct costs are included in the initial measurement of the lease receivables.

iii) Operating – Bank as lessee

Leases of assets under which the risks and rewards of ownership are effectively retained with 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 into other operating expenses.

iv) Operating – Bank as lessor

The Bank presents assets subject to operating leases in the statement of financial position according to the nature of the asset. Lease income from operating leases is recognized in profit or loss on a straight-line basis over the lease term. The aggregate cost of incentives provided to lessees is recognized as a reduction of rental income over the lease term on a straight-line basis. Initial direct costs incurred specifically to earn revenues from an operating lease are added to the carrying amount of the leased asset.

Offsetting of financial instruments

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 statement of financial position.

(thousands of Russian rubles)

3. Summary of accounting policies (continued)

Renegotiated loans

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

From 1 January 2018, the Bank derecognizes a financial asset, such as a loan to a customer, when the terms and conditions have been revised 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 a loan to a customer should be derecognized, the Bank considers the following:

- A change in the currency of a loan;
- A change in the counterparty;
- If the modification is such that the instrument would no longer meet the SPPI criterion.

If the modification does not result in cash flows that are substantially different, the modification does not result in derecognition. Based on the changes in cash flows discounted at the original effective interest rate, the Bank recognizes a gain or loss from modification in the statement of profit or loss to the extent that an impairment loss has not already been recorded.

For modifications not resulting in derecognition, the Bank also reassesses whether here 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 the result of modification, it will remain in Stage 3 until the date it is fully repaid or until the elimination of circumstances causing the asset’s classification as Stage 3.

Impairment of financial assets under IAS 39

Prior to 1 January 2018, the Bank assessed at each reporting date whether there was any objective evidence that a financial asset or a group of financial assets was impaired. A financial asset or a group of financial assets was deemed to be impaired if, and only if, there was objective evidence of impairment as a result of one or more events that had occurred after the initial recognition of the asset (an incurred “loss event”) and that loss event (or events) had an impact on the estimated future cash flows of the financial asset or the group of financial assets that could be reliably estimated. Evidence of impairment might include indications that the borrower or a group of borrowers was experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they would enter bankruptcy or other financial reorganization and where observable data indicated that there was a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlated with defaults. For available-for-sale financial instruments, evidence of impairment also included significant or prolonged decline in fair value of investment below its cost.

The Bank assessed whether objective evidence of impairment existed individually for financial assets that were individually significant, or collectively for financial assets that were not individually significant.

If there was objective evidence that an impairment loss had been incurred, the amount of the loss was measured as the difference between the assets’ carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that had not yet been incurred) discounted using the original effective interest rate, or, for available-for-sale financial assets, as the difference between the cost of the investment and its fair value. The carrying amount of the asset was reduced, and the amount of the loss was recognized in profit or loss. Interest income continued to be accrued on the reduced carrying amount based on the original effective interest rate of the asset, or, for financial assets available-for-sale, using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Assets together with the associated allowance were written off when there is no realistic prospect of future recovery and all collateral had been realized or has been transferred to the Bank. If, in a subsequent year, the amount of the estimated impairment loss decreased because of an event occurring after the impairment had been recognized, the previously recognized impairment loss was reversed in the statement of profit or loss, except for available-for-sale equity investments, for which the post-impairment increases in the fair value were recognized in other comprehensive income.

For the purpose of a collective evaluation of impairment, financial assets were grouped on the basis of credit risk characteristics such as asset type, industry, geographical location, collateral type, past-due status and other relevant factors.

(thousands of Russian rubles)

3. Summary of accounting policies (continued)

Impairment of financial assets under IAS 39 (continued)

Future cash flows on a group of financial assets that were collectively evaluated for impairment were estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience was adjusted on the basis of current observable data to reflect the effects of current conditions that had not affected the years on which the historical loss experience was based and to remove the effects of conditions in the historical period that did not exist currently. Estimates of changes in future cash flows reflected, and were directionally consistent with, changes in related observable data from year to year (such as changes in unemployment rates, property prices, commodity prices, payment status, or other factors that were indicative of incurred losses in the group or their magnitude). The methodology and assumptions used for estimating future cash flows were reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Information on impairment assessment under IFRS 9 is presented in Note 24.

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 where:

- The rights to receive cash flows from the asset have expired;
- The Bank has transferred its rights to receive cash flows from the asset, or retained the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a “pass-through” arrangement; and
- The Bank 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 Bank 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 Bank’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 Bank could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Bank’s continuing involvement is the amount of the transferred asset that the Bank 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 Bank’s continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Write-off

From 1 January 2018, financial assets are written off either partially or in their entirety only when the Bank 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 against 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.

(thousands of Russian rubles)

3. Summary of accounting policies (continued)

Taxation

The current income tax expense is calculated in accordance with the regulations of the Russian Federation.

Deferred tax assets and liabilities are calculated in respect of temporary differences using the liability method. Deferred income taxes are provided for all temporary differences arising between the tax bases of assets and liabilities and their carrying amount for financial reporting purposes, except where the deferred income tax arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

A deferred tax asset is recorded only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized. Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates that have been enacted or substantively enacted at the reporting date.

Russia also has various operating taxes, that are assessed on the Bank's activities. These taxes are included as a component of other operating expenses.

Property and equipment

Property and equipment are carried at cost, excluding the costs of day-to-day servicing, less accumulated depreciation and any accumulated impairment. Such cost includes the cost of replacing part of equipment when that cost is incurred if the recognition criteria are met.

The carrying amounts of property and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable.

Depreciation of an asset begins when it is available for use. Depreciation is calculated on a straight-line basis over the following estimated useful lives:

	Years
Buildings	25-30
Furniture and fixtures	2-5
Computers and office equipment	5
Vehicles	4

The asset's residual values, useful lives and methods are reviewed, and adjusted as appropriate, at each financial year-end.

Costs related to repairs and renewals are charged when incurred and included in other operating expenses, unless they qualify for capitalization.

Investment property

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

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 Bank's investment property is determined on the base of various sources including reports of independent appraisers, who hold a recognized and relevant professional qualification and who have recent experience in valuation of property of similar location and category.

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

Subsequent expenditure is capitalized only when it is probable that future economic benefits associated with it will flow to the Bank 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.

(thousands of Russian rubles)

3. Summary of accounting policies (continued)

Intangible assets

Intangible assets include computer software and licenses.

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortized over the useful economic lives of 2 to 35 years and assessed for impairment whenever there is an indication that the intangible asset may be impaired.

Provisions

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

Retirement and other employee benefit obligations

The Bank does not have any pension arrangements separate from the State pension system of the Russian Federation, which requires current contributions by the employer calculated as a percentage of current gross salary payments; such expense is charged in the period the related salaries are earned.

Share capital

Share capital

Ordinary shares and non-redeemable preference shares with discretionary dividends are both classified as equity.

Dividends

Dividends are recognized as a liability and deducted from equity at the reporting date only if they are declared before or on the reporting date. Dividends are disclosed when they are proposed before the reporting date or proposed or declared after the reporting date but before the financial statements are authorized for issue.

Contingencies

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

Recognition of income and expenses

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Bank 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 Bank 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 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 Bank 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 Bank calculates interest revenue by applying the effective interest rate to the net amortized cost of the financial asset. If the financial assets cures and is no longer credit-impaired, the Bank reverts to calculating interest income on a gross basis.

(thousands of Russian rubles)

3. Summary of accounting policies (continued)

Recognition of income and expenses (continued)

In case of purchased or originated credit-impaired (POCI) financial assets, the Bank calculates the interest revenue applying the effective interest rate adjusted for the credit risk to the amortized cost of the financial asset. An effective interest rate adjusted for the credit risk is an interest rate that at initial recognition discounts estimated future cash flows (including credit losses) to the amortized cost of the POCI assets.

The interest revenue for all financial assets at FVPL is recognized with the use of a contractual interest rate in “Other interest income” in the statement of profit or loss.

Fee and commission income

The Bank 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 the 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 Bank’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 Bank’s right to receive the payment is established.

Foreign currency translation

The financial statements are presented in Russian rubles, which is the Bank’s functional and presentation currency. Transactions in foreign currencies are initially recorded in the functional currency, converted at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the reporting date. Gains and losses resulting from the translation of foreign currency transactions are recognized in the statement of profit or loss as gains less losses from foreign currencies – translation differences. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Differences between the contractual exchange rate of a transaction in a foreign currency and the CBR exchange rate on the date of the transaction are included in gains less losses from foreign currencies. The official CBR exchange rates at 31 December 2018 and 2017 were RUB 69.4706 and RUB 57.6002 to USD 1, respectively.

(thousands of Russian rubles)

3. Summary of accounting policies (continued)

Standards issued but not yet effective

The standards and interpretations that have been issued, but are not yet effective, up to the date of issuance of the Bank's financial statements are disclosed below. The Bank 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 Involving the Legal Form of a Lease*. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of "low-value" assets (e.g. 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.

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 Bank plans to adopt IFRS 16 retrospectively with the cumulative effect of initially applying IFRS 16 recognized at the date of initial application. The Bank will elect to apply the standard to contracts that were previously identified as leases applying IAS 17 and IFRIC 4. The Bank will therefore not apply the standard to contracts that were not previously identified as containing a lease applying IAS 17 and IFRIC 4.

The Bank will elect to use the exemptions proposed by the standard on lease contracts for which the lease terms ends within 12 months as at the date of initial application, and lease contracts for which the underlying asset is of low value.

According to the Bank's preliminary estimates, the adoption of the new standard will not have any significant effect on assets, liabilities, and retained earnings of the Bank as at 1 January 2019.

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 and non-life insurance, 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:

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

(thousands of Russian rubles)

3. Summary of accounting policies (continued)

Standards issued but not yet effective (continued)

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 Bank.

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. The interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately;
- The assumptions an entity makes about the examination of tax treatments by taxation 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 Bank will apply the interpretation from its effective date. Since the Bank operates in a complex tax environment, applying the interpretation may affect its financial statements. In addition, the Bank may need to establish processes and procedures to obtain information that is necessary to apply the interpretation on a timely basis.

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 financial statements of the Bank.

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. These amendments have no impact on the financial statements of the Bank.

(thousands of Russian rubles)

3. Summary of accounting policies (continued)

Standards issued but not yet effective (continued)

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 annual 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 Bank.

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 from 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 Bank does not have such long-term interests in its associates or joint ventures, the amendments will not have any impact on its financial statements.

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 adoption permitted. These amendments are currently not applicable to the Bank but may apply to future business combinations.

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 Bank but may apply to future transactions.

(thousands of Russian rubles)

3. Summary of accounting policies (continued)

Standards issued but not yet effective (continued)

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 adoption 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 Bank's current practice is in line with the amendments, the Bank does not expect any effect on its 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 adoption permitted. Since the Bank's current practice is in line with these amendments, the Bank does not expect any effect on its financial statements.

4. Significant accounting judgments and estimates

In the process of applying the Bank's accounting policies, management has used its judgments and made estimates in determining the amounts recognized in the financial statements. The most significant judgments and estimates used are as follows:

Fair values of financial instruments

As described in Note 25, the Bank uses valuation techniques that include inputs that are not based on observable market data to estimate the fair value of certain types of financial instruments (loans at fair value through profit or loss). Note 25 provides detailed information about the key assumptions used in the determination of the fair value of financial instruments, as well as the detailed sensitivity analysis for these assumptions. Management of the Bank believes that the chosen valuation techniques and assumptions used are appropriate in determining the fair value of financial instruments.

Valuation of investment property

The Bank records land and buildings within investment property at fair value. For this purpose, the Bank engages an independent qualified appraiser. The most recent revaluation of investment property was carried out as at 1 January 2019 by an independent qualified appraiser (KG Lair LLC) applying an appropriate valuation methodology and information on transactions with similar real estate objects in the same location.

(thousands of Russian rubles)

4. Significant accounting judgments and estimates (continued)

Expected credit losses / impairment losses from 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 assessing 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 Bank'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 the ECL models that are considered accounting judgments and estimates include:

- The Bank's internal credit grading model, which assigns PDs to the individual grades;
- The Bank's criteria for assessing if there has been a significant increase in credit risk and so allowances for financial assets should be measured on a lifetime ECL basis and the qualitative assessment;
- The 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 interrelations between macroeconomic scenarios and economic inputs, such as unemployment levels and collateral values, and the effect on PDs, EADs and LGDs;
- Selection of forward-looking macroeconomic scenarios and their probability weightings to derive economic inputs for ECL calculation models.

Deferred tax asset recognition

A deferred tax asset is the amount of income tax which may be offset against future income taxes and is recorded in the statement of financial position. A deferred income tax asset is recorded to the extent that the realization of the related tax benefit is probable. According to the Bank's management, it cannot be deemed highly probable that taxable profit will be available in the future as at the reporting date.

5. Cash and accounts with the CBR

Cash comprises:

	2018	***2017***
Cash on hand	1,475,569	1,054,494
Accounts with the CBR	986,742	1,557,100
Cash and accounts with the CBR	**2,462,311**	**2,611,594**

Credit institutions are required to maintain a non-interest earning cash deposit (obligatory reserve) with the CBR, the amount of which depends on the level of funds attracted by the credit institution. The Bank's ability to withdraw such deposit is significantly restricted by the statutory legislation.

As at 31 December 2018 and 31 December 2017, obligatory reserve with the CBR amounted to RUB 113,511 thousand and RUB 176,607 thousand, respectively.

(thousands of Russian rubles)

5. Cash and accounts with the CBR (continued)

Cash and cash equivalents for the purposes of the statement of cash flows comprise the following:

	2018	*2017*
Current and clearing accounts with credit institutions (Note 7)	5,492,136	4,042,758
Cash and accounts with the CBR	2,462,311	2,611,594
Reverse repurchase agreements with credit institutions up to 90 days (Note 7)	2,351,474	–
Time deposits with credit institutions up to 90 days (Note 7)	371,668	780,483
Less: allowance for impairment	(18,281)	–
	10,659,308	**7,434,835**
Less:		
Obligatory reserve with the CBR	(113,511)	(176,607)
Encumbered current and clearing accounts with credit institutions	(62,841)	(53,895)
Cash and cash equivalents	**10,482,956**	**7,204,333**

All balances of cash and cash equivalents are taken to Stage 1.

6. Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss comprise:

	2018	*2017*
Equity securities	10,382,841	18,085,000
Russian State bonds	1,356,245	510,248
Derivative financial assets	25,086	68,334
Bonds of credit institutions	–	548,394
Financial assets at fair value through profit or loss	**11,764,172**	**19,211,976**

Financial assets at fair value through profit or loss pledged under repurchase agreements comprise:

	2018	*2017*
Russian State bonds	41,251,184	20,009,816
Equity securities	10,178,304	185,340
Financial assets at fair value through profit or loss pledged under repurchase agreements	**51,429,488**	**20,195,156**

Equity securities at fair value through profit or loss, including those pledged as collateral under repurchase agreements comprise:

	2018	*2017*
Bashneft PJSC	2,210,925	1,587,920
Unipro PJSC	2,112,468	2,622,973
Transneft PJSC	1,500,985	1,427,200
MMK PJSC	1,288,650	423,400
Mosenergo PJSC	966,320	1,029,188
Severstal PJSC	804,489	424,270
Nizhnekamskneftekhim PJSC	787,388	392,700
MOESK PJSC	776,961	730,635
Gazprom PJSC	743,505	1,561,508
NLMK OJSC	664,558	–
Rostelecom PJSC	664,342	733,139
ALROSA (PJSC)	637,602	955,995
TGK-1 PJSC	637,440	946,400
OGK-2 PJSC	615,030	405,270
Tatneft named after V.D. Shashina PJSC	610,620	179,892
Aeroflot OJSC	606,480	–
Rosneft Oil Company PJSC	470,965	1,584,224
Other	4,462,417	3,265,626
Equity securities at fair value through profit or loss	**20,561,145**	**18,270,340**

(thousands of Russian rubles)

6. Financial assets at fair value through profit or loss (continued)

Derivative financial instruments

The Bank enters into derivative financial instruments for trading purposes. The table below shows the fair values of derivative financial instruments, recorded as assets or liabilities, together with their notional amounts. The notional amount, recorded gross, is the amount of a derivative's underlying asset and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at the year end and are not indicative of the credit risk.

	2018			*2017*		
	Notional amount	***Fair value***		***Notional amount***	***Fair value***	
		Asset	***Liability***		***Asset***	***Liability***
Foreign exchange contracts						
Futures – foreign	698,645	–	–	771,342	–	–
Futures – domestic	5,363,886	–	–	3,024,011	–	–
Credit derivative financial instruments						
Credit default swaps – foreign	7,135,018	24,699	–	6,183,773	68,334	–
Contracts for precious metals						
Precious metal forwards – domestic	42,608	387	–	–	–	–
Total derivative assets/ liabilities		**25,086**	**–**		**68,334**	**–**

Foreign and domestic in the table above stand for counterparties where foreign means non-Russian entities and domestic means Russian entities.

As at 31 December 2018 and 2017, the Bank has positions in the following types of derivatives:

Forwards and futures

Forwards and futures contracts are contractual agreements to buy or sell a specified financial instrument at a specific price and date in the future. Forwards are customized contracts transacted in the over-the-counter market. Futures contracts are transacted in standardized amounts on regulated exchanges and are subject to daily cash margin requirements. The fair value of standardized exchange-traded contracts providing for the daily transfer of variation margin, is determined as the amount of claims for (obligation to pay) a variation margin at the end of the operating day.

Swaps

Swaps are contractual agreements between two parties to exchange movements in interest and foreign currency rates and equity indices, and (in the case of credit default swaps) to make payments with respect to defined credit events based on specified notional amounts.

7. Amounts due from credit institutions

Amounts due from credit institutions comprise:

	2018	*2017*
Current and clearing accounts with credit institutions	5,492,136	4,042,758
Reverse repurchase agreements with credit institutions up to 90 days	2,351,474	–
Time deposits with credit institutions up to 90 days	371,668	780,483
	8,215,278	**4,823,241**
Less: allowance for impairment	(25,716)	–
Amounts due from credit institutions	**8,189,562**	**4,823,241**

As at 31 December 2018, the Bank placed RUB 4,417,240 thousand (31 December 2017: RUB 2,315,208 thousand) and RUB 697,777 thousand (31 December 2017: RUB 1,238,412 thousand) on current and clearing accounts with a Russian credit institution and internationally recognized OECD banks, respectively.

(thousands of Russian rubles)

7. Amounts due from credit institutions (continued)

As at 31 December 2018, time deposits with credit institutions included RUB 371,668 thousand (31 December 2017: RUB 780,483 thousand) placed with an internationally recognized OECD bank.

As at 31 December 2018, the Bank entered into a reverse repurchase agreement with a Russian credit institution.

As at 31 December 2017, the Bank did not enter in reverse repurchase agreements with credit institutions.

	2018		*2017*	
	Carrying amount of loans	*Fair value of collateral*	*Carrying amount of loans*	*Fair value of collateral*
Russian State bonds	2,301,442	2,479,005	–	–
Clearing participation certificate	50,032	50,000	–	–
Total	**2,351,474**	**2,529,005**	**–**	**–**

Movements in the gross carrying amount and respective allowances for ECL as at 31 December 2018 are presented in the table below:

	Stage 1	*Stage 2*	*Stage 3*	*Total*
Gross carrying amount at 1 January 2018	**4,823,241**	**–**	**–**	**4,823,241**
Assets recognized during the period	5,015,465	–	–	**5,015,465**
Assets disposed or redeemed (except for write-offs)	(1,623,428)	–	–	**(1,623,428)**
Transfers to Stage 3	(7,195)	–	7,195	**–**
At 31 December 2018	**8,208,083**	**–**	**7,195**	**8,215,278**

	Stage 1	*Stage 2*	*Stage 3*	*Total*
Allowance for ECL at 1 January 2018	**8,600**	**–**	**–**	**8,600**
Assets recognized during the period	7,131	–	–	**7,131**
Assets disposed or redeemed (except for write-offs)	(1,892)	–	–	**(1,892)**
Transfers to Stage 3	(2,644)	–	2,644	**–**
Effect on the period-end ECL due to transfers between stages during the period	–	–	4,551	**4,551**
Changes to models and inputs used for ECL calculations	7,326	–	–	**7,326**
At 31 December 2018	**18,521**	**–**	**7,195**	**25,716**

Allowances for impairment of amounts due from credit institutions for the year ended 31 December 2017 were not accrued.

8. Loans to customers

Loans to customers comprise:

	2018	*2017*
Loans to legal entities	19,421,436	18,834,416
Reverse repurchase agreements	6,094,907	4,240,356
Loans to individuals	3,712,204	5,720,962
Net investment in finance leases	1,316,610	1,342,301
Total loans to customers at amortized cost	**30,545,157**	**30,138,035**
Less: allowance for impairment	(14,318,736)	(15,102,429)
Loans to customers at amortized cost	**16,226,421**	**15,035,606**
Loans to customers at FVPL	1,459,437	–
Loans to customers	**17,685,858**	**15,035,606**

Information on fair value measurement of loans to customers at FVPL is presented in Note 25.

(thousands of Russian rubles)

8. Loans to customers (continued)

Movements in the gross carrying amount and respective allowances for ECL on loans to legal entities as at 31 December 2018 are presented in the table below:

Loans to legal entities	*Stage 1*	*Stage 2*	*Stage 3*	*POCI*	*Total*
Gross carrying amount at 1 January 2018	**1,727,822**	**10,961,602**	**3,244,469**	**–**	**15,933,893**
New assets, including under available credit facilities	6,384,168	142,746	–	–	**6,526,914**
Assets disposed or redeemed (except for write-offs)	(1,051,378)	(1,881,467)	(203,638)	–	**(3,136,483)**
Assets sold during the period	–	–	(176,152)	–	**(176,152)**
Transfers to Stage 2	(3,855,315)	4,455,527	(600,212)	–	**–**
Transfers to Stage 3	(198,489)	(200,000)	398,489	–	**–**
Unwinding of discount	–	–	273,264	–	**273,264**
At 31 December 2018	**3,006,808**	**13,478,408**	**2,936,220**	**–**	**19,421,436**

Loans to legal entities	*Stage 1*	*Stage 2*	*Stage 3*	*POCI*	*Total*
Allowance for ECL at 1 January 2018	**244,621**	**5,039,035**	**3,209,976**	**–**	**8,493,632**
New assets, including under available credit facilities	1,602,823	59,862	–	–	**1,662,685**
Assets disposed or redeemed (except for write-offs)	(100,858)	(572,777)	(199,788)	–	**(873,423)**
Assets sold during the period	–	–	(176,152)	–	**(176,152)**
Transfers to Stage 2	(453,782)	1,053,994	(600,212)	–	**–**
Transfers to Stage 3	(134,978)	(44,480)	179,458	–	**–**
Effect on the period-end ECL due to transfers between stages during the period	–	1,241,344	219,032	–	**1,460,376**
Unwinding of discount (recorded in interest income)	–	–	273,264	–	**273,264**
Changes to models and inputs used for ECL calculations	(152,610)	(70,652)	30,642	–	**(192,620)**
At 31 December 2018	**1,005,216**	**6,706,326**	**2,936,220**	**–**	**10,647,762**

Movements in the gross carrying amount and respective allowances for ECL on reverse repurchase agreements as at 31 December 2018 are presented in the table below:

Reverse repurchase agreements	*Stage 1*	*Stage 2*	*Stage 3*	*POCI*	*Total*
Gross carrying amount at 1 January 2018	**4,240,356**	**–**	**–**	**–**	**4,240,356**
Assets recognized during the period	6,094,907	–	–	–	**6,094,907**
Assets disposed or redeemed (except for write-offs)	(4,240,356)	–	–	–	**(4,240,356)**
At 31 December 2018	**6,094,907**	**–**	**–**	**–**	**6,094,907**

Reverse repurchase agreements	*Stage 1*	*Stage 2*	*Stage 3*	*POCI*	*Total*
Allowance for ECL at 1 January 2018	**1,272,107**	**–**	**–**	**–**	**1,272,107**
Assets recognized during the period	139,948	–	–	–	**139,948**
Assets disposed or redeemed (except for write-offs)	(1,272,107)	–	–	–	**(1,272,107)**
At 31 December 2018	**139,948**	**–**	**–**	**–**	**139,948**

(thousands of Russian rubles)

8. Loans to customers (continued)

Movements in the gross carrying amount and respective allowances for ECL on loans to individuals as at 31 December 2018 are presented in the table below:

Loans to individuals	***Stage 1***	***Stage 2***	***Stage 3***	***POCI***	***Total***
Gross carrying amount at 1 January 2018	**5,233,001**	**–**	**350,908**	**–**	**5,583,909**
New assets, including under available credit facilities	290,317	–	–	–	**290,317**
Assets disposed or redeemed (except for write-offs)	(2,274,091)	–	(35,435)	–	**(2,309,526)**
Assets sold during the period	–	–	(7,548)	–	**(7,548)**
Transfers to Stage 2	(436,275)	436,275	–	–	**–**
Unwinding of discount	–	–	142,364	–	**142,364**
Amounts written off	–	–	(362)	–	**(362)**
Translation differences	–	–	13,050	–	**13,050**
At 31 December 2018	**2,812,952**	**436,275**	**462,977**	**–**	**3,712,204**

Loans to individuals	***Stage 1***	***Stage 2***	***Stage 3***	***POCI***	***Total***
Allowance for ECL at 1 January 2018	**2,378,533**	**–**	**350,908**	**–**	**2,729,441**
New assets, including under available credit facilities	169,145	–	–	–	**169,145**
Assets disposed or redeemed (except for write-offs)	(1,079,797)	–	(35,382)	–	**(1,115,179)**
Assets sold during the period	–	–	(7,548)	–	**(7,548)**
Transfers to Stage 2	(48,776)	48,776	–	–	**–**
Effect on the period-end ECL due to transfers between stages during the period	–	157,011	–	–	**157,011**
Unwinding of discount (recorded in interest income)	–	–	142,364	–	**142,364**
Changes to models and inputs used for ECL calculations	247,734	–	(36)	–	**247,698**
Amounts written off	–	–	(362)	–	**(362)**
Translation differences	–	–	13,033	–	**13,033**
At 31 December 2018	**1,666,839**	**205,787**	**462,977**	**–**	**2,335,603**

Movements in the gross carrying amount and respective allowances for ECL on net investment in finance leases as at 31 December 2018 are presented in the table below:

Net investment in finance leases	***Stage 1***	***Stage 2***	***Stage 3***	***POCI***	***Total***
Gross carrying amount at 1 January 2018	**–**	**1,342,301**	**–**	**–**	**1,342,301**
Changes in contractual cash flows due to modification not resulting in derecognition	–	(25,691)	–	–	**(25,691)**
At 31 December 2018	**–**	**1,316,610**	**–**	**–**	**1,316,610**

Net investment in finance leases	***Stage 1***	***Stage 2***	***Stage 3***	***POCI***	***Total***
Allowance for ECL at 1 January 2018	**–**	**1,310,797**	**–**	**–**	**1,310,797**
Changes in contractual cash flows due to modification not resulting in derecognition	–	(24,800)	–	–	**(24,800)**
Changes to models and inputs used for ECL calculations	–	(90,574)	–	–	**(90,574)**
At 31 December 2018	**–**	**1,195,423**	**–**	**–**	**1,195,423**

(thousands of Russian rubles)

8. Loans to customers (continued)

The following table shows a reconciliation of the allowance for impairment (under IAS 39) of loans to customers by class as at 31 December 2017:

	Loans to legal entities	*Loans to individuals*	*Reverse repurchase agreements*	*Net investment in finance leases*	*Total*
1 January 2017	**11,087,306**	**1,636,238**	**580,898**	**1,350,275**	**14,654,717**
Charge/(reversal) of allowance	(309,736)	1,188,242	271,414	(7,974)	**1,141,946**
Loans written off against allowance	(210,081)	(91,462)	–	–	**(301,543)**
Write-off on sale of assets	(392,691)	–	–	–	**(392,691)**
31 December 2017	**10,174,798**	**2,733,018**	**852,312**	**1,342,301**	**15,102,429**
Individual impairment	10,030,760	2,733,018	852,312	1,342,301	**14,958,391**
Collective impairment	144,038	–	–	–	**144,038**
	10,174,798	**2,733,018**	**852,312**	**1,342,301**	**15,102,429**
Total amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	**17,777,236**	**5,720,962**	**4,240,356**	**1,342,301**	**29,080,855**

Modified and restructured loans

The Bank derecognizes a financial asset, such as a loan to 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 Bank records a modification gain or loss, to the extent that an impairment loss has not already been recorded.

During the reporting period, there were no significant loans that were renegotiated and, as a result, recognized as restructured loans, no respective losses incurred by the Bank due to the modification were recorded.

Collateral and other credit enhancements

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

The main types of collateral obtained are as follows:

- For reverse repurchase transactions, securities;
- For commercial lending, charges over real estate properties, securities issued by the Bank and vehicles;
- For retail lending, mortgages over residential properties and charges over vehicles and securities.

Management regularly monitors the market value of collateral and, if necessary, requests additional collateral in accordance with the underlying agreement.

(thousands of Russian rubles)

8. Loans to customers (continued)

Collateral and other credit enhancements (continued)

The Bank did not apply collateral and other credit enhancements for credit-impaired assets (Stage 3 assets) and loans at fair value through profit or loss.

In 2018, the Bank obtained the assets through foreclosure and accord and satisfaction agreements relating to loans to customers in the amount of RUB 20,910 thousand (in 2017 the Bank obtained assets in the amount of RUB 93,483 thousand). Assets acquired through foreclosure in 2018 are recognized as investment property within other assets (Note 13).

As at 31 December 2018 and 2017, loans to customers included reverse repurchase agreements maturing on 9 January 2019 and 9 January 2018, respectively. Fair value of assets pledged as collateral and carrying amount of reverse repurchase agreements comprised:

	2018		*2017*	
	Carrying amount of loans	***Fair value of collateral***	***Carrying amount of loans***	***Fair value of collateral***
Debt securities of the Russian Federation	6,094,907	6,661,579	4,240,356	4,626,933

Concentration of loans to customers

As at 31 December 2018, the total outstanding amount of loans to four major borrowers was RUB 16,402,446 thousand, or 51.3% of the Bank's gross loan portfolio (31 December 2017: RUB 18,208,661 thousand, or 60.4%). As at 31 December 2018, an allowance for impairment of RUB 4,900,723 thousand (31 December 2017: RUB 9,635,118 thousand) was recognized against these loans.

Loans have been extended to the following types of customers:

	2018	***2017***
Private companies	28,269,371	24,417,073
Individuals	3,735,223	5,720,962
	32,004,594	**30,138,035**

Loans are made principally within Russia in the following industry sectors:

	2018	***2017***
Finance	6,695,119	5,063,856
Construction (infrastructure facilities)	6,193,622	6,311,742
Real estate	4,198,705	4,094,701
Individuals	3,735,223	5,720,962
Mining	2,476,636	1,514,000
Transport	2,348,644	1,509,030
Agribusiness	2,304,660	1,667,731
Trade	2,252,377	2,065,363
Machine-building	1,064,054	819,450
Metallurgy	100,005	340,333
Chemical industry	19,500	23,000
Timber, furniture and woodworking industry	–	347,582
Other	616,049	660,285
	32,004,594	**30,138,035**

(thousands of Russian rubles)

8. Loans to customers (continued)

Finance lease receivables

Included in corporate lending portfolio are finance lease receivables. The analysis of finance lease receivables as at 31 December 2018 is as follows:

	Less than 1 year	*1 to 5 years*	*Later than 5 years*	*Total*
Gross investment in finance leases	60,468	755,725	870,006	**1,686,199**
Unearned future finance income on finance leases	(2,851)	(153,958)	(212,780)	**(369,589)**
Net investment in finance leases	**57,617**	**601,767**	**657,226**	**1,316,610**

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

	Less than 1 year	*1 to 5 years*	*Later than 5 years*	*Total*
Gross investment in finance leases	55,747	731,497	1,067,673	**1,854,917**
Unearned future finance income on finance leases	(2,567)	(181,191)	(328,858)	**(512,616)**
Net investment in finance leases	**53,180**	**550,306**	**738,815**	**1,342,301**

As at 31 December 2018, the amount of allowance for impairment of finance leases was RUB 1,195,423 thousand (31 December 2017: RUB 1,342,301 thousand).

9. Available-for-sale investments

As at 31 December 2017, available-for-sale investments in the amount of RUB 245,676 thousand included equity securities of Russian companies.

The Bank classified available-for-sale securities as financial assets at FVPL in accordance with IFRS 9 (Note 3).

10. Held-to-maturity investments

As at 31 December 2017, held-to-maturity investments of RUB 7,962,781 thousand included Russian State bonds with nominal interest rate of 7.7% p.a. maturing on 23 March 2033.

The Bank classified held-to-maturity debt securities as financial assets at FVPL in accordance with IFRS 9 (Note 3).

11. Taxation

The corporate income tax expense comprises:

	2018	*2017*
Current tax charge	683,423	282,196
Deferred tax (credit)/charge – origination and reversal of temporary differences	(415,916)	10,969
Income tax expense	**267,507**	**293,165**

Russian legal entities have to file individual corporate income tax declarations. The standard income tax rate for companies (including banks) comprised 20% in 2018 and 2017. The corporate income tax rate applicable to interest (coupon) income on state and municipal bonds was 15% in 2018 and 2017. Dividends are subject to Russian income tax at a standard rate of 13%, which can be reduced to 0% subject to certain criteria.

(thousands of Russian rubles)

11. Taxation (continued)

The effective income tax rate differs from the statutory income tax rates. A reconciliation of the income tax expense based on the statutory rate with actual is as follows:

	2018	*2017*
(Loss)/profit before tax	**(648,199)**	**2,043,451**
Statutory tax rate	20%	20%
Theoretical income tax (benefit)/expense at the statutory tax rate	**(129,640)**	**408,690**
Effect of different tax rates	(289,346)	(126,520)
Non-deductible expenditures	14,550	10,995
Change in deferred tax assets not recognized in the statement of financial position	671,943	–
Income tax expense	**267,507**	**293,165**

Deferred tax assets and liabilities as at 31 December and their movements for the respective years comprise:

		Origination and reversal of temporary differences				*Origination and reversal of temporary differences*		
	2016	*In the statement of profit or loss*	*In other comprehensive income*	*2017*	*Effect of adopting IFRS 9*	*In the statement of profit or loss*	*In other comprehensive income*	*2018*
Tax effect of deductible temporary differences								
Financial assets at fair value through profit or loss	166,760	99,949	–	266,709	(2,762)	645,425	–	909,372
Available-for-sale investments	–	–	2,419	2,419	(2,419)	–	–	–
Other allowances for impairment	404,477	(206,525)	–	197,952	(44,651)	37,897	–	191,198
Tax losses carried forward	–	–	–	–	–	484,541	–	484,541
Debt securities issued	295	652	–	947	–	(938)	–	9
Investment property	70,584	13,380	–	83,964	–	(56,000)	–	27,964
Property and equipment	10,044	1,061	–	11,105	–	5,809	–	16,914
Other	331,962	84,559	–	416,521	(33,930)	(261,285)	–	121,306
Gross deferred tax assets	**984,122**	**(6,924)**	**2,419**	**979,617**	**(83,762)**	**855,449**	**–**	**1,751,304**
Deferred tax assets not recognized in the statement of financial position	–	–	(2,419)	(2,419)	2,419	(671,943)	–	(671,943)
Deferred tax asset	**984,122**	**(6,924)**	**–**	**977,198**	**(81,343)**	**183,506**	**–**	**1,079,361**
Tax effect of taxable temporary differences								
Available-for-sale investments	9,269	1,272	(9,439)	1,102	(1,102)	–	–	–
Derivative financial instruments	185,304	(171,637)	–	13,667	–	(8,650)	–	5,017
Allowance for impairment of loans	800,129	92,653	–	892,782	(255,314)	95,179	–	732,647
Property and equipment	115	(8)	–	107	–	6,217	–	6,324
Debt securities issued	5,446	9,249	–	14,695	–	(14,695)	–	–
Other	150,504	61,710	–	212,214	24,223	(107,434)	–	129,003
Allowance for impairment of securities	398,591	10,806	–	409,397	–	(203,027)	–	206,370
Deferred tax liability	**1,549,358**	**4,045**	**(9,439)**	**1,543,964**	**(232,193)**	**(232,410)**	**–**	**1,079,361**
Deferred tax liability	**565,236**	**10,969**	**(9,439)**	**566,766**	**(150,850)**	**(415,916)**	**–**	**–**

(thousands of Russian rubles)

12. Credit loss expense and other impairment and provisions

The table below shows the ECL charges on financial instruments recorded in the statement of profit or loss for the year ended 31 December 2018:

	Note	*Stage 1*	*Stage 2*	*Stage 3*	*POCI*	*Simplified approach*	*Total*
Cash and accounts with the CBR	5	–	–	–	–	–	**–**
Amounts due from credit institutions	7	9,921	–	7,195	–	–	**17,116**
Loans to customers	8	(1,083,258)	1,757,704	(393,253)	–	–	**281,193**
Other financial assets	13	–	–	–	–	17,816	**17,816**
Financial guarantees	18	(88,644)	184,980	(707)	–	–	**95,629**
Loan commitments	18	(1,776)	62,180	–	–	–	**60,404**
Total credit loss expense		**(1,163,757)**	**2,004,864**	**(386,765)**	**–**	**17,816**	**472,158**

The allowance for ECL on assets is deducted from the carrying amount of the respective assets. Provisions for financial guarantees and loan commitments are recorded in other provisions in the statement of financial position.

The movements in the allowance for ECL on other financial assets for the year ended 31 December 2018 were as follows:

	2018
Allowance for ECL at 1 January 2018	**17,722**
Charge	(17,816)
Write-off against allowance	(1,478)
At 31 December 2018	**34,060**

Movements in allowances for impairment and other provisions under IAS 39 for the year ended 31 December 2017 were as follows:

	Other assets	*Guarantees, credit facilities and overdrafts issued*	*Total*
1 January 2017	**28,594**	**1,990,601**	**2,019,195**
Reversal	(10,514)	(1,021,958)	**(1,032,472)**
Write-off against allowance	(152)	–	**(152)**
31 December 2017	**17,928**	**968,643**	**986,571**

(thousands of Russian rubles)

13. Other assets and liabilities

Other assets comprise:

	2018	*2017*
Other financial assets		
Fees on issued bank guarantees receivable	144,844	–
Settlements on broker operations	126,271	143,812
Settlements with suppliers and other debtors	42,442	48,430
Commemorative coins receivable	36,364	57,407
Dividends receivable	7,044	11,110
Other financial assets	15,103	48,179
	372,068	**308,938**
Less: allowance for impairment	(34,060)	(17,928)
Total other financial assets	**338,008**	**291,010**
Other non-financial assets		
Investment property	523,700	547,820
Intangible assets	60,418	43,471
Precious metals	8,601	41,118
Prepaid taxes other than income tax	3,502	542
Other non-financial assets	2,718	–
Total other non-financial assets	**598,939**	**632,951**
Other assets	**936,947**	**923,961**

Investment property

Movements in investment property were as follows:

	2018	*2017*
Opening balance at 1 January	**547,820**	**503,319**
Additions	20,910	159,893
Disposals	(37,640)	(48,493)
Revaluation recognized in profit or loss	(7,390)	(66,899)
Closing balance at 31 December	**523,700**	**547,820**

Investment property includes land and buildings.

As at 31 December 2018, the amount of fair value of investment property is based on results of a valuation performed by an independent certified appraiser. The Bank has neither restrictions on the realizability of its investment property nor contractual obligations to purchase, construct or develop investment properties, or to repair, maintain or enhance them.

Amounts recorded in profit or loss:

	2018	*2017*
Rental income derived from investment property	4,614	5,551
Direct operating expenses (including repairs and maintenance) arising from investment property	(13,059)	(9,052)
	(8,445)	**(3,501)**

(thousands of Russian rubles)

13. Other assets and liabilities (continued)

Investment property (continued)

Other liabilities comprise:

	2018	*2017*
Other financial liabilities		
Carrying amount of guarantees	152,833	–
Dividends payable	540	513
Other financial liabilities	22,122	16,225
Total other financial liabilities	**175,495**	**16,738**
Other non-financial liabilities		
Settlements with customers	197,042	95,079
Settlements with employees	111,686	94,079
Current tax liabilities other than income tax	9,065	7,939
Other non-financial liabilities	6,363	14,890
Total other non-financial liabilities	**324,156**	**211,987**
Other liabilities	**499,651**	**228,725**

14. Amounts due to credit institutions

As at 31 December 2018, amounts due to credit institutions included repurchase agreements with Russian credit institutions of RUB 50,557,291 thousand maturing on 11 January 2019 (31 December 2017: RUB 22,616,227 thousand maturing on 12 January 2018).

The carrying amount and fair value of securities pledged under repurchase agreements are disclosed in Note 26.

15. Amounts due to customers

Amounts due to customers comprise:

	2018	*2017*
Current accounts	7,812,319	5,906,484
Time deposits	3,251,797	5,964,754
Brokerage accounts	2,355,849	1,985,447
Amounts due to customers	**13,419,965**	**13,856,685**

As at 31 December 2018, amounts due to customers of RUB 7,572,749 thousand, or 56.4%, were due to ten largest customers (2017: RUB 6,572,672 thousand, or 47.4%).

Included in time deposits are deposits of individuals in the amount of RUB 3,212,796 thousand (31 December 2017: RUB 3,621,591 thousand). In accordance with the Russian Civil Code, the Bank is obliged to repay such deposits upon demand of a depositor. In case a time deposit is repaid upon demand of the depositor prior to maturity, interest on it is paid based on the interest rate for demand deposits, unless a different interest rate is specified in the agreement.

Amounts due to customers include accounts with the following types of customers:

	2018	*2017*
Private companies	8,721,264	9,111,811
Individuals	4,028,964	3,690,807
Employees	669,737	1,054,067
Amounts due to customers	**13,419,965**	**13,856,685**

(thousands of Russian rubles)

15. Amounts due to customers (continued)

An analysis of customer accounts by economic sector is as follows:

	2018	*2017*
Finance	6,272,152	5,387,064
Individuals	4,028,964	3,690,807
Construction	1,055,005	174,527
Employees	669,737	1,054,067
Trade	456,867	939,535
Real estate	245,827	236,726
Transport	144,098	513,702
Timber, furniture and woodworking industry	129,321	426,616
Mining	46,941	117,346
Agribusiness	28,266	13,230
Machine-building	28,203	1,011,873
Electric energy	5,460	38,013
Metallurgy	4,178	12,601
Chemical industry	3,338	1,340
Other	301,608	239,238
Amounts due to customers	**13,419,965**	**13,856,685**

16. Debt securities issued

Debt securities issued comprise:

	2018	*2017*
Savings certificates	644,510	4,504,952
Promissory notes	63,545	172,169
Debt securities issued	**708,055**	**4,677,121**

Interest-bearing promissory notes and savings certificates issued by the Bank as at 31 December 2018 bear annual interest rates ranging from 5.75% to 13.20% (31 December 2017: from 0.01% to 13.20%) and mature through 18 April 2028 (31 December 2017: through 21 December 2026).

17. Equity

The authorized, issued and fully paid share capital comprises:

	Number of shares		*Nominal amount*		*Inflation adjustment*	*Total*
	Preferred	*Ordinary*	*Preferred*	*Ordinary*		
31 December 2017	48	17,168,974	5	6,695,900	250,235	**6,946,140**
31 December 2018	48	17,168,974	5	6,695,900	250,235	**6,946,140**

The share capital of the Bank was contributed by the shareholders in Russian rubles and they are entitled to dividends and any capital distribution in Russian rubles.

At the shareholders' meeting held in June 2018, the Bank declared dividends for 2017 totaling RUB 442,273 thousand to be paid using profit received in 2017 and a portion of retained earnings for prior years (RUB 25.76 per ordinary share and RUB 6.44 per preferred share). The dividends were paid in July 2018.

At the shareholders' meeting held in September 2017, the Bank declared and paid dividends in respect of the six months of 2017 totaling RUB 600,228 thousand using retained earnings for prior years (RUB 34.96 per ordinary share and RUB 8.74 per preferred share). At the shareholders' meeting held in June 2017, the Bank declared and paid dividends for 2016 totaling RUB 309,729 thousand using retained earnings for prior years (RUB 18.04 per ordinary share and RUB 4.51 per preferred share).

Dividends which have not been demanded by shareholders within the timeframe established by Russian law amounted to RUB 32 thousand (2017: RUB 39 thousand).

(thousands of Russian rubles)

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

Legal

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

Taxation

Major part of the Bank's business activity is carried out in the Russian Federation. Russian tax, currency and customs legislation as currently in effect is vaguely drafted and is subject to varying interpretations, selective and inconsistent application and changes, which can occur frequently, at short notice and may apply retrospectively. Management's interpretation of such legislation as applied to the transactions and activity of the Bank may be challenged by the relevant regional and federal authorities. The tax authorities may be taking a more assertive position in their interpretation and application of this legislation, in performing tax reviews. It is therefore possible that transactions and activities of the Bank that have not been challenged in the past may be challenged at any time in the future.

As a result, significant additional taxes, penalties and interest may be assessed by the relevant authorities. Tax reviews of the accuracy of tax calculation and payment conducted by the tax authorities may cover three calendar years immediately preceding the year in which the decision to conduct a tax review is taken. Under certain circumstances tax reviews may cover longer periods.

As at 31 December 2018, management believes that its interpretation of the relevant legislation is appropriate and that the Bank's tax, currency and customs positions will be sustained.

Commitments and contingencies

The Bank's commitments and contingencies comprise the following:

	2018	*2017*
Credit-related commitments		
Guarantees	9,808,014	6,579,682
Loan commitments	807,582	550,807
	10,615,596	**7,130,489**
Operating lease commitments		
Less than 1 year	6,906	5,774
1 to 5 years	–	–
Over 5 years	–	–
	6,906	**5,774**
Less: allowance for impairment	(896,212)	(968,643)
Commitments and contingencies	**9,726,290**	**6,167,620**

(thousands of Russian rubles)

18. Commitments and contingencies (continued)

Commitments and contingencies (continued)

The fair value of guarantees comprise the carrying amount of guarantees of RUB 152,833 thousand (Note 13) and provision for impairment in the amount of RUB 760,462 thousand (Note 18).

Movements in the nominal amount of financial guarantees and the related ECL are presented in the table below:

Financial guarantees	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Exposure at 1 January 2018	**5,761,047**	**817,928**	**707**	**6,579,682**
New exposures	10,793,598	–	–	**10,793,598**
Exposures derecognized or expired (except for write-offs)	(6,767,700)	(797,566)	–	**(7,565,266)**
Transfers to Stage 2	(3,695,294)	3,695,294	–	**–**
At 31 December 2018	**6,091,651**	**3,715,656**	**707**	**9,808,014**

Financial guarantees	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
ECL at 1 January 2018	**543,568**	**120,558**	**707**	**664,833**
New exposures	858,930	–	–	**858,930**
Exposures derecognized or expired (except for write-offs)	(624,556)	(118,610)	–	**(743,166)**
Transfers to Stage 2	(133,840)	133,840	–	**–**
Effect on the period-end ECL due to transfers between stages during the period	–	169,563	–	**169,563**
Changes to models and inputs used for ECL calculations	(189,178)	187	(707)	**(189,698)**
At 31 December 2018	**454,924**	**305,538**	**–**	**760,462**

Movements in the nominal amount of loan commitments and the related ECL are presented in the table below:

Loan commitments	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Exposure at 1 January 2018	**364,035**	**186,772**	**–**	**550,807**
New exposures	1,367,359	11,746	–	**1,379,105**
Exposures derecognized or expired (except for write-offs)	(1,048,976)	(73,354)	–	**(1,122,330)**
Transfers to Stage 2	(337,111)	337,111	–	**–**
At 31 December 2018	**345,307**	**462,275**	**–**	**807,582**

Loan commitments	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
ECL at 1 January 2018	**32,082**	**43,264**	**–**	**75,346**
New exposures	495,534	3,594	–	**499,128**
Exposures derecognized or expired (except for write-offs)	(434,618)	(18,751)	–	**(453,369)**
Transfers to Stage 2	(56,044)	56,044	–	**–**
Effect on the period-end ECL due to transfers between stages during the period	–	27,791	–	**27,791**
Changes to models and inputs used for ECL calculations	(6,648)	(6,498)	–	**(13,146)**
At 31 December 2018	**30,306**	**105,444**	**–**	**135,750**

Insurance

The Bank has not currently obtained insurance coverage related to liabilities arising from errors or omissions. Liability insurance is generally not available in Russia at present.

(thousands of Russian rubles)

19. Net interest income

Net interest income comprises the following:

	2018	*2017*
Financial assets at amortized cost		
Loans to customers	3,314,689	3,605,744
Amounts due from banks (including under reverse repurchase agreements)	29,765	84,369
Interest income calculated using the effective interest rate	**3,344,454**	**3,690,113**
Financial assets at fair value through profit or loss	2,917,745	842,213
Loans to customers at FVPL	379,907	–
Investment securities	–	114,466
Other interest income	**3,297,652**	**956,679**
Interest income	**6,642,106**	**4,646,792**
Amounts due to credit institutions	2,752,609	547,168
Debt securities issued	207,034	270,221
Amounts due to customers	186,401	217,684
Interest expense calculated using the effective interest rate	**3,146,044**	**1,035,073**
Net interest income	**3,496,062**	**3,611,719**

20. Net losses from financial instruments at fair value through profit or loss

Net losses from assets and liabilities at fair value through profit or loss comprise:

	2018	*2017*
Net (losses)/gains from sale of securities	(952,917)	900,532
Adjustment of the fair value of securities	(3,354,347)	(1,794,147)
Net losses from sale of derivative financial instruments	(97,791)	(169,871)
Net losses from revaluation of derivative financial instruments	(43,248)	(573,371)
Loans to customers at FVPL	(307,029)	–
Net losses from financial assets and liabilities at fair value through profit or loss	**(4,755,332)**	**(1,636,857)**

21. Net fee and commission income

Net fee and commission income comprises:

	2018	*2017*
Issuance of bank guarantees	234,097	190,729
Brokerage services	127,157	45,829
Settlement and cash operations	61,996	76,748
Cash transfers	44,451	50,374
Foreign currency operations	23,709	40,056
Other	24,628	16,948
Fee and commission income	**516,038**	**420,684**
Cash transfers	26,929	26,061
Settlement operations	18,876	15,604
Agency fees	8,976	2,429
Cash operations	4,837	4,730
Foreign currency operations	2,596	2,979
Other	8,235	9,007
Fee and commission expense	**70,449**	**60,810**
Net fee and commission income	**445,589**	**359,874**

(thousands of Russian rubles)

22. Dividends received

Dividends received include the following:

	2018	*2017*
Dividends from investments in shares of		
Russian companies	1,775,943	1,211,885
Russian credit institutions	193,202	2
Non-resident entities	20,802	203
	1,989,947	**1,212,090**

In 2018, the Bank received dividends from Russian entities totaling RUB 1,775,943 thousand, including RUB 281,672 thousand from GMK Norilskiy Nikel PJSC, RUB 238,425 thousand from Bashneft PJSC and RUB 166,538 thousand from Unipro PJSC.

In 2017, the Bank received dividends from Russian entities totaling RUB 1,211,885 thousand, including RUB 224,871 thousand from Unipro PJSC, RUB 178,156 thousand from Bashneft PJSC and RUB 128,616 thousand from Alrosa (PJSC).

23. Personnel and other operating expenses

Personnel and other operating expenses comprise:

	2018	*2017*
Employee compensation	598,173	599,211
Social security costs	140,503	137,246
Personnel expenses	**738,676**	**736,457**
Occupancy and rent	96,447	111,255
Legal, consulting and professional services	52,849	38,560
Communications	46,265	40,679
Operating taxes	45,796	42,988
Entertainment	27,341	18,360
Deposit insurance	25,743	20,012
Repair and maintenance	15,505	15,980
Investment property maintenance	13,059	9,052
Office supplies	11,964	10,937
Marketing and advertising	9,149	7,484
Change in fair value of investment property	7,390	66,899
Business travel and related expenses	7,344	9,379
Loss on disposal of investment property	5,906	4,992
Charity	4,488	3,329
Security	1,523	4,078
Insurance	1,183	2,170
Other	11,171	15,454
Other operating expenses	**383,123**	**421,608**

24. Risk management

Introduction

Risk and capital management system is a part of the Bank's overall corporate governance structure, and is aimed at sustainable development of the Bank in accordance with the *Bank's Strategy* approved by the Board of Directors.

Risk management is performed in accordance with *Risks and Capital Management Strategy* in the course of internal capital adequacy testing.

(thousands of Russian rubles)

24. Risk management (continued)

Introduction (continued)

Risk management structure

The Bank's organizational structure is set up to avoid conflict of interest and ensures allocation of *risk-taking and risk management* duties and responsibilities of collegial bodies, divisions and responsible employees as follows:

- In accordance with the *Strategy*, risk-taking *divisions* maintain reasonable risk to yield ratio and carry out follow-up monitoring of decisions taken.
- Risk management *divisions* develop risk management standards and support data flow arrangement, determine respective limits, monitor risk exposures and generate reports for the governance bodies of the Bank.
- The *risk management audit* evaluates the efficiency of the risk management system and communicates deficiencies identified in the risk management system and measures to address them to the Bank's governance bodies (the Management Board, Board of Directors).

The Bank's internal bodies that accept risks include the following governance bodies:

General Shareholders' Meeting

- Makes decisions in respect of increase/decrease of share capital, share split/consolidation, issue/conversion of bonds and other issuable securities;
- Makes decisions in respect of the dividend distribution;
- Approves the Bank's Charter.

Board of Directors:

- Determines the development priorities, including approval of the *Development Strategy* and *Budget parameters*;
- Approves key components and criteria of the risk and capital management system, including the *Risk Strategy* and such parameters as *risk appetite* and *target levels of risks*. It also approves *risk and capital management guidelines* in respect of risks that are significant for the Bank;
- Determines staffing of risk-taking committees;
- Reviews and assesses limit compliance report and results of capital adequacy stress-testing;
- Makes decisions on changes in equity in accordance with its competencies set forth in the Bank's Charter, including decisions on raising additional capital in the form of subordinated loans;
- Assesses efficiency of risk management and capital adequacy system in general.

Management Board:

- Approves *risk and capital management procedures* in respect of all types of risks inherent to the Bank's operations (other than *significant* ones), including segregation of duties and responsibilities of divisions and certain employees that may include setting limits on the types of risks and/or transactions;
- Approves limits for certain types of transactions, assets and risks;
- Ensures conditions for efficient internal capital adequacy testing in general and sustains capital adequacy on the level that meets conditions for mitigation of inherent risks in line with the Bank's business needs.

Chairman of the Management Board:

- Ensures completion of internal capital adequacy assessment procedures (ICAAP);
- Reviews current ICAAP reporting;
- Makes decisions to submit issues for review by the Board of Directors, Management Board, authorized Committees.

(thousands of Russian rubles)

24. Risk management (continued)

Introduction (continued)

In addition to the governance bodies that accept risks directly, the following Management Board's *committees and divisions* are involved in the *risk acceptance process*, including the preliminary expertise (to find out whether they comply with internal regulations and applicable laws), calculation, assessment of their impact on the final performance indicators, etc.:

The Assets and Liabilities Committee (ALCO) approves limits for certain types of transactions, assets and risks (and allocates the planned amount of credit risk among the respective divisions), reviews interim reports prepared in the course of internal capital adequacy testing, and holds responsibility for requirements to capital set for transactions performed by the Bank's divisions.

The Credit Committee makes decisions on credit transactions and sets limits for borrowers (group of related borrowers) and the terms of each particular credit-related transaction (except for reverse repurchase transactions) and respective support.

The Client Committee considers and makes decisions on the introduction of new banking products/services, including based on the systematization of the results of expert reviews performed by the Legal Department and other departments of the Bank to verify compliance with applicable legislation and internal regulatory documents.

The Main Treasury Transactions Department (the Treasury) brings the Bank's asset and derivative structure in line with the Bank's *Development Strategy*, manages the portfolios of funds raised and placed, sets internal rates for raising and placing funds, manages liquidity, as well as determines tools and ways of hedging the Bank's inherent market risk.

The Bank's internal functions responsible for risk management include the following:

The Risk Assessment Department:

- ► Designs, implements, supports and improves the Bank's risk management system in general. It also designs methodologies to identify, calculate and monitor risks (both significant and insignificant), forms an opinion on their mitigation and participates in determining certain stress-testing parameters;
- ► Determines fair value of credit claims for IFRS purposes and controls existence and condition of property pledged as collateral for the commercial loan portfolio;
- ► Participates in preparing the internal capital adequacy testing documentation;
- ► Prepares an aggregate report on the significant risks inherent to the Bank's operations for the Bank's sole executive body and collegial executive body to ensure proper management decision-making;
- ► Assists in update of applied risk assessment models and risk management models.

The General Financial Department:

- ► Prepares drafts of the Bank's *Development Strategy* and *Budget*, other business-planning documents that consider target *risk appetite* and limits imposed;
- ► Prepares suggestions for limits values, *risk appetite*, *target risk indicators*, ensures approval of suggested parameters by the respective risk-taking divisions;
- ► Calculates, monitors and interprets the Bank's performance indicators (for the entire Bank and for separate business segments), prepares analytical materials (management accounts) for the Bank's management decision-making;
- ► Controls some of the Bank's risks and ensures comprehensive control over compliance with limits on all risks accepted by the Bank, including aggregate stress-testing of the capital adequacy;
- ► Ensures methodological support of risk identification and assessment of the certain risk types, as well as forms an opinion of the risk mitigation procedures.

The Internal Control Function is responsible for regulatory risk management.

(thousands of Russian rubles)

24. Risk management (continued)

Introduction (continued)

The Consolidated Financial Statements Unit of the Accounting and Reporting Department calculates prudential ratios in accordance with the instructions of the Bank of Russia and provides this information to the General Financial Department and sole executive body in order to ensure control and timely management decision-making.

The Bank's only division responsible for the audit of the risk management system is *the Internal Audit Function*, which exercises, on an ongoing basis, preliminary, current and subsequent control over the compliance of the risk management process with the approved internal documents and the requirements established by the CBR.

Risk measurement and reporting systems

Risk identification and assessment of their effect for the purpose of internal capital adequacy testing is performed annually and ends before the start of a new annual business-planning cycle. If internal and external factors affecting the Bank's business structure changed significantly (e.g., the Bank's asset structure or the CBR's key rate has been changed significantly), an extraordinary risk identification and assessment of the effect may take place.

The Bank is exposed to credit risk, liquidity risk, market risk (comprising price risk, interest rate risk and currency risk), and operating risk.

The Bank has respective risk management policies and procedures, risk measurement methodology and methodology to assess capital requirements, as well as a limit system to ensure control over such risks.

The *limit system* is a multilevel structure comprising limits on assets (investments) and limits for risk exposure (potential loss limits) in both absolute and relative terms.

The Bank's internal control system includes components and tools to maintain control over the limit compliance, namely, a range of *indicators showing a level of the risks utilization*.

Risk mitigation

If the Bank reaches a set level of such indicators and/or fails to comply with the set limits of any level, the respective information is immediately communicated to the Bank's Board of Directors, Management Board, Asset and Liability Management Committee, heads of the Risk Assessment Department and the Treasury.

The Bank prepared corrective procedures for each *indicator* (by types of respective risks), including risk mitigation procedures and/or procedures to relocate and increase equity.

The Risk Assessment Department systematizes information on compliance with limits of significant risks that also includes their utilization (reach of indicator levels) on a daily basis.

Credit risk

Credit risk is the risk that the Bank will incur losses because its clients or counterparties failed to discharge their contractual obligations. The Bank manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties and for geographical and industry concentrations, and by monitoring exposures in relation to such limits.

The Bank has established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties, including regular collateral revisions. Counterparty limits are established by the use of a credit risk classification system, which assigns each counterparty (except for collectively assessed counterparties) a risk rating. Risk ratings are subject to regular revision. The credit quality review process allows the Bank to assess the potential loss as a result of the risks to which it is exposed and take corrective action.

Derivative financial instruments

Credit risk arising from derivative financial instruments is, at any time, limited to those with positive fair values, as recorded in the statement of financial position.

(thousands of Russian rubles)

24. Risk management (continued)

Credit risk (continued)

Credit-related commitments risks

The Bank makes available to its customers guarantees which may require that the Bank make payments on their behalf. Such payments are collected from customers based on the terms of the letter of credit. They expose the Bank to similar risks to loans and these are mitigated by the same control processes and policies.

The maximum exposure to credit risk for the components of the consolidated statement of financial position, including derivatives, before the effect of mitigation through the use of master netting and collateral agreements, is best represented by their carrying amounts.

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

For more detail on the maximum exposure to credit risk for each class of financial instrument, references shall be made to the specific notes. The effect of collateral and other risk mitigation techniques is shown in Note 8.

Impairment assessment

From 1 January 2018, the Bank calculates ECL based on several probability-weighted scenarios to measure the expected cash shortfalls, discounted at the EIR or an approximation to the EIR. 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)	The *Probability of Default* (PD) is an estimate of the likelihood of default over a given time horizon. The probability of default may be assessed either for 12 months, or for the life of the financial instrument.
Exposure at default (EAD)	The *Exposure at Default* (EAD) is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest whether scheduled by contract or otherwise, as well as expected repayment of loans issued and interest accrued on overdue payments.
Loss given default (LGD)	The *Loss Given Default* is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realization of any collateral. It is usually expressed as a percentage of the EAD and is assumed as 100% for all groups of unsecured assets. When assessing the final loss given default, the Bank considers collateral under a “simple” approach recommended by the Basel Committee on Banking Supervision of the Bank for International Settlements.

The estimated allowance for ECL is calculated based on the credit losses expected to arise over the life of the asset (lifetime ECL), if there has been a significant increase in credit risk since the initial recognition, otherwise the allowance is based on the 12 months’ expected credit losses (12-month ECL). The 12-month ELC are the portion of lifetime ECL that represent the ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date. Lifetime and 12-month ECL are assessed individually.

(thousands of Russian rubles)

24. Risk management (continued)

Credit risk (continued)

The Bank has established a policy to perform an assessment, at the end of each quarter, of whether a financial instrument's credit risk has increased significantly since initial recognition, including by considering the changes in the risk of default occurring over the remaining life of the financial instrument. Based on the above process, the Bank groups its loans as follows:

Stage 1: At initial recognition of a loan, the Bank recognizes an allowance in the amount equal to 12-month ECL. Stage 1 loans also include facilities where the credit risk has improved and the loan has been reclassified from Stage 2. A number of non-financial factors (e.g., no statements provided by the borrower, a default experienced by an entity within the group of borrower-related entities, etc.) may significantly increase the amount of the allowance.

Stage 2: When a loan has shown a significant increase in credit risk since origination, the Bank records an allowance for the lifetime ECL. Stage 2 loans also include facilities where the credit risk has improved and the loan has been reclassified from Stage 3. A number of non-financial factors (e.g., no statements provided by the borrower, a default experienced by an entity within the group of borrower-related entities, etc.) may significantly increase the amount of the allowance.

Stage 3: Loans considered credit-impaired. The Bank records an allowance for the full amount.

POCI: Purchased or originated credit-impaired (POCI) assets are financial assets that are credit-impaired on initial recognition. POCI assets are recorded at fair value at original recognition and interest revenue is subsequently recognized based on a credit-adjusted EIR. The allowance for ECL is only recognized or derecognized to the extent that there is a subsequent change in the lifetime expected credit losses.

Definition of default

The decision that a borrower (and all its financial instruments) is default is taken by the Credit Committee of the Bank on a collegial basis in the course of the analysis of circumstances indicating a potential default. The default is determined if any of the following conditions applies, unless such condition is technical/insignificant.

Conditions considered to determine default:

- Bankruptcy (defined as the circumstances where the borrower is under supervision, bankruptcy management, financial rehabilitation, undergoing liquidation process (except due to a merger or a change in the legal form) based on the court decision, or when the Bank or the borrower has filed for the borrower's bankruptcy);
- Seizure by a third party of most of the borrower's core assets, without which the borrower cannot operate to settle its liabilities;
- A decision of the Bank's authorized body on early repayment of any borrower's liability to the Bank;
- Cross default, i.e. a default on any other liability of the same borrower;
- A refusal or moratorium, whereby the borrower refuses to make a payment or challenges the binding character of the liability;
- Assignment (cession) of a borrower's liability entailing significant losses for the Bank (more than 10% of the principal and/or interest accrued for the use of lent funds);
- A significant partial write-off of the borrower's payables to the Bank (forgiveness of a portion of the debt);
- Restructuring of the debt (postponing repayment of the principal and/or interest till the maturity if the loan initially provided for repayment by installments; reduction of the effective interest rate to a level lower the market range) due to financial difficulties of the borrower and simultaneous reduction of its credit rating to CC or lower;
- Sustained insolvency, i.e. the borrower's failure to repay any amount of the principal and/or interest within the timeframe established by the agreement, with the payments falling overdue by more than 90 consecutive calendar days (except for technical delays), as well as delays of more than 90 calendar days in discharging liabilities of a comparable amount to third parties;
- A decision of an arbitration court and/or tax authorities on the seizure of the borrower's settlement accounts (whether the amount or the duration of the seizure is significant, as well as whether the entity is likely to implement the decision of a respective body within a short timeframe to stop the seizure are considered on a case-by-case basis).

(thousands of Russian rubles)

24. Risk management (continued)

Credit risk (continued)

Internal rating and PD estimation process

The internal rating models are developed by the Bank's independent Risk Assessment Department. The models incorporate both qualitative and quantitative information that could affect the borrower's behavior. Where practical, they also build on information from the national and international external rating agencies. Internal ratings and PDs assigned to each counterparty (including collective PDs) are also based on forward-looking macroeconomic scenarios (including the stressed scenarios), as well as the lifetime probability of default for assets characterized by a significant increase in credit risk since initial recognition.

Treasury and interbank relationships

The Bank's treasury and interbank relationships comprise relationships with such counterparties as financial services institutions, banks, broker-dealers, exchanges and clearing-houses. For assessing these relationships, the Bank's Risk Assessment Department relies on external ratings assigned by international and/or Russian rating agencies.

Corporate lending

The corporate borrowers are assessed based on an internal model that takes into account various historical, current and forward-looking information such as:

- Financial information, including actual and expected results, solvency ratios, and liquidity ratios relevant to assess financial performance of the customer;
- Internal information on the debt servicing quality, restructuring, purpose of the loan and sources of its repayment;
- Macroeconomic information (the USD to RUB exchange rate, provisioning rate, number of days overdue with regard to the banking system, etc.);
- Any other reasonable and supportable information on the quality of governance and prospects of the borrower that is relevant for assessing the entity's performance.

(thousands of Russian rubles)

24. Risk management (continued)

Credit risk (continued)

The Bank's internal credit rating grades are as follows:

Rating grade (internal)	*Credit rating (equivalent to the international one)*	*PD range, %*	*Internal grade*
1 2 3	BBB- and higher	up to 0.4	High grade
4 5 6 7 8 9	BB+ to B-	0.4-9.5	Standard grade
10 11 12 13 14 15 16 17 18	CCC+ and lower	9.5-100.0	Low grade
19	D	100.0	Default

Significant increase in credit risk

The Bank continuously monitors all assets subject to ECL. In order to determine whether an instrument or a portfolio of instruments is subject to 12-month ECL or lifetime ECL, the Bank assesses whether there has been a significant increase in credit risk since initial recognition. The Bank believes that credit risk on a financial instrument has increased significantly since its initial recognition if at least one of the following factors is identified:

- The borrower's internal credit rating as at the assessment date is determined at CCC+ or lower and has decreased from the date of initial recognition;
- The borrower's internal credit rating as at the assessment date has decreased by more than 3 grades as compared with its internal rating grade as at the date of initial recognition;
- The debt has been restructured not due to the customer's financial difficulties (not a default indicator).

Grouping financial assets measured on a collective basis

Depending on the factors below, the Bank calculates ECL either on a collective or on an individual basis.

Asset classes where the Bank calculates ECL on an individual basis include:

- Commercial loans;
- Loans to individuals exceeding 1% of the Bank's equity;
- Treasury and interbank relationships (e.g., amounts due from banks, cash equivalents and debt investment securities at amortized cost and at FVOCI);
- Financial assets reclassified as POCI assets upon the derecognition of the original loan and the recognition of a new loan as a result of debt restructuring.

24. Risk management (continued)

Credit risk (continued)

Asset classes where the Bank calculates ECL on a collective basis include:

- Loans to individuals not exceeding 1% of the Bank’s equity;
- Trade receivables;
- Fees and commissions receivable;
- Receivables arising from other transactions and other financial and business operations.

The Bank groups these exposures into homogeneous portfolios, based on the asset class and loan type (for loans to individuals).

Loans to individuals

The Bank assesses ECL on loans to individuals on a collective basis, except for certain loans exceeding the qualitative criterion. Loans to individuals are allocated to respective portfolios grouping the Bank’s products such as:

- Loans to the Bank’s employees;
- Overdrafts on bank cards;
- Other loans.

The portfolios are further subdivided into subportfolios of restructured loans, a portfolio of non-performing loans to individuals and a portfolio of defaulted loans.

The Bank classifies the portfolio of non-performing loans and subportfolios of restructured loans as Stage 2, and the portfolio of defaulted loans as Stage 3. All other portfolios (standard) are classified as Stage 1.

The total probability of default by individual borrowers are estimated on a collective basis based on a respective projected annual reference frequency of defaults determined in accordance with the internal methodology, excluding investment loans to individuals, non-performing loans to individuals, and defaulted loans (ECL on defaulted loans equal to 100%), bearing imputed rates.

(thousands of Russian rubles)

24. Risk management (continued)

Credit risk (continued)

Credit quality per class of financial assets

The credit quality of financial assets is managed by the Bank via an internal credit rating system, as described above. The table below shows the credit quality by class of assets for loan-related lines in the statement of financial position, based on the Bank's credit rating system.

31 December 2018	*Note*	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Accounts with the CBR	**5**	**986,742**	**–**	**–**	**986,742**
High grade		986,742	–	–	986,742
Amounts due from credit institutions	**7**	**8,208,083**	**–**	**7,195**	**8,215,278**
High grade		8,133,618	–	–	8,133,618
Standard grade		65,124	–	–	65,124
Low grade		9,341	–	–	9,341
Default		–	–	7,195	7,195
Loans to customers at amortized cost	8	**11,914,667**	**15,231,293**	**3,399,197**	**30,545,157**
- Loans to legal entities		*3,006,808*	*13,478,408*	*2,936,220*	*19,421,436*
Standard grade		1,284,304	1,422,411	–	2,706,715
Low grade		1,722,504	12,055,997	–	13,778,501
Default		–	–	2,936,220	2,936,220
- Reverse repurchase agreements		*6,094,907*	–	–	*6,094,907*
Low grade		6,094,907	–	–	6,094,907
- Loans to individuals		*2,812,952*	*436,275*	*462,977*	*3,712,204*
Loans to employees		5,532	3,268	–	8,800
Overdrafts on bank cards		19,343	–	–	19,343
Other loans		14,710	291,275	–	305,985
Defaulted loans to individuals		–	–	462,977	462,977
Loans assesses individually		2,773,367	141,732	–	2,915,099
- Net investment in finance leases		–	*1,316,610*	–	*1,316,610*
Low grade		–	1,316,610	–	1,316,610
Financial guarantees	18	**6,091,651**	**3,715,656**	**707**	**9,808,014**
High grade		37,500	–	–	37,500
Standard grade		3,821,063	3,040,252	–	6,861,315
Low grade		2,233,088	675,404	–	2,908,492
Default		–	–	707	707
Loan commitments	18	**345,307**	**462,275**	**–**	**807,582**
High grade					
Standard grade		262,214	129,158	–	391,372
Low grade		83,093	333,117	–	416,210
Total		**27,546,450**	**19,409,224**	**3,407,099**	**50,362,773**

The gross carrying amounts calculated under IAS 39 based on the Group's internal credit rating system as at 31 December 2017 are provided in the table below:

		Neither past due nor impaired				
31 December 2017	*Note*	*High grade*	*Standard grade*	*Substandard grade*	*Individually impaired*	*Total*
Accounts with the CBR	5	1,557,100	–	–	–	**1,557,100**
Financial assets at fair value through profit or loss (debt securities)	6	–	21,068,458	–	–	**21,068,458**
Amounts due from credit institutions	7	4,607,834	8,983	206,424	–	**4,823,241**
Loans to customers	8	–	–	1,056,132	29,081,903	**30,138,035**
Held-to-maturity investments	10	–	7,962,781	–	–	**7,962,781**
Other financial assets	13	–	–	291,010	–	**291,010**
Total		**6,164,934**	**29,040,222**	**1,553,566**	**29,081,903**	**65,840,625**

(thousands of Russian rubles)

24. Risk management (continued)

Credit risk (continued)

In the table above, accounts with the CBR and amounts due from credit institutions with a high grade represents funds with minimal credit risk, normally with a credit rating on or close to the sovereign level or very well collateralized. Other borrowers with a good financial position and good debt service are included in the standard grade category. The low grade comprises loans below the standard grade but not individually impaired. For debt securities, high grade is equivalent to Moody's Baa3 rating and above, standard – below Baa3 but above B3, sub-standard – below B3.

See Note 8 for more details on the allowance for impairment of loans to customers.

Financial guarantees, letters of credit and loan commitments are tested for impairment and a provision for expected credit losses is calculated in a similar manner as for loans.

The geographical concentration of the Bank's financial assets and liabilities is set out below:

	2018				*2017*			
	Russia	***OECD***	***Non-OECD***	***Total***	***Russia***	***OECD***	***Non-OECD***	***Total***
Assets								
Cash and accounts with the CBR	2,462,311	–	–	**2,462,311**	2,611,594	–	–	**2,611,594**
Financial assets at fair value through profit or loss	62,708,106	485,554	–	**63,193,660**	39,005,169	401,963	–	**39,407,132**
Amounts due from credit institutions	7,120,450	1,068,375	737	**8,189,562**	2,803,635	2,018,896	710	**4,823,241**
Loans to customers	11,730,900	–	5,954,958	**17,685,858**	11,647,562	–	3,388,044	**15,035,606**
Available-for-sale investments	–	–	–	**–**	245,627	49	–	**245,676**
Held-to-maturity investments	–	–	–	**–**	7,962,781	–	–	**7,962,781**
Other financial assets	209,287	128,721	–	**338,008**	133,125	157,827	58	**291,010**
Total financial assets	**84,231,054**	**1,682,650**	**5,955,695**	**91,869,399**	**64,409,493**	**2,578,735**	**3,388,812**	**70,377,040**
Property and equipment	78,091	–	–	**78,091**	74,775	–	–	**74,775**
Current income tax assets	–	–	–	**–**	183,324	–	–	**183,324**
Other non-financial assets	598,939	–	–	**598,939**	632,951	–	–	**632,951**
Total non-financial assets	**677,030**	**–**	**–**	**677,030**	**891,050**	**–**	**–**	**891,050**
Total assets	**84,908,084**	**1,682,650**	**5,955,695**	**92,546,429**	**65,300,543**	**2,578,735**	**3,388,812**	**71,268,090**
Liabilities								
Amounts due to credit institutions	50,557,291	–	–	**50,557,291**	22,616,227	–	–	**22,616,227**
Amounts due to customers	7,840,257	161,104	5,418,604	**13,419,965**	11,157,495	4,389	2,694,801	**13,856,685**
Debt securities issued	708,055	–	–	**708,055**	4,124,903	–	552,218	**4,677,121**
Other financial liabilities	175,495	–	–	**175,495**	16,738	–	–	**16,738**
Total financial liabilities	**59,281,098**	**161,104**	**5,418,604**	**64,860,806**	**37,915,363**	**4,389**	**3,247,019**	**41,166,771**
Other provisions	896,212	–	–	**896,212**	968,643	–	–	**968,643**
Current income tax liabilities	60,584	–	–	**60,584**	–	–	–	**–**
Deferred income tax liabilities	–	–	–	**–**	566,766	–	–	**566,766**
Other non-financial liabilities	254,417	632	69,107	**324,156**	155,585	480	55,922	**211,987**
Total non-financial liabilities	**1,211,213**	**632**	**69,107**	**1,280,952**	**1,690,994**	**480**	**55,922**	**1,747,396**
Total liabilities	**60,492,311**	**161,736**	**5,487,711**	**66,141,758**	**39,606,357**	**4,869**	**3,302,941**	**42,914,167**
Net assets and liabilities	**24,415,773**	**1,520,914**	**467,984**	**26,404,671**	**25,694,186**	**2,573,866**	**85,871**	**28,353,923**

(thousands of Russian rubles)

24. Risk management (continued)

Liquidity risk

Liquidity risk is a risk that the Bank will fail to fulfill its liabilities in full and on a timely manner.

Strategic asset and liability management, including that aimed to support the target liquidity level, is the responsibility of the Bank's Management Board which determines funding sources and investment areas.

Operational liquidity management is the responsibility of the Bank's Treasury and involves maintaining such a structure and quality of assets and liabilities that allow the Bank to ensure an adequate level of liquidity in a prompt manner without a marked decline in the profitability of banking transactions and a deterioration of the Bank's other performance indicators. *The General Financial Department* prepares a set of analytical materials for management decision making purposes and performs the stress-testing of the Bank's liquidity in line with approved scenarios and stress test parameters.

When planned transactions have certain parameters, the Bank's departments that place and raise funds must obtain approval for their actions from a supervising body (in most cases, the Treasury) which may suspend a planned transaction in the event of its negative impact on liquidity.

The level of the Bank's liquidity required for the proper performance of obligations as they fall due is assessed by type of liquidity: instant, current, medium-term and long-term liquidity. Depending on the Bank's needs and taking into account the applicable requirements of the CBR, the Bank uses four methods for the assessment of the liquidity level:

- Calculation of financial ratios;
- Calculation of short-term liquidity indicator;
- Stress-testing;
- Comparison of assets and liabilities by maturities.

To assess instant, current and long-term liquidity, the Bank uses ratios N2, N3 and N4 calculated in accordance with the methodology established by the CBR. *The Consolidated Financial Statements Unit of the Accounting and Reporting Department* calculates these liquidity ratios on a daily basis. Ratios with detailed breakdowns are immediately transferred to the Bank's *Treasury*.

The stress-testing method is used to assess the level of current liquidity and determine expected loss from liquidity risk that are considered when planning the required capital in the course of internal capital adequacy testing. The parameters of scenarios are revised as planned, and the scenario of a stress test developed by the working group and its parameters are approved by the Bank's Management Board. The *General Financial Department* makes calculations for stress tests in line with the approved scenario at least once in three months.

To assess medium-term and long-term liquidity, the Bank compares the remaining maturities of assets and liabilities.

When the liquidity deficit is identified, the Bank may do the following:

- Take liability management measures (e.g., use previously opened credit facilities, raise loans under repurchase agreements or under collateral of securities);
- Take asset-management measures (e.g. review the lending policy, consider the possibility to sell the securities portfolio);
- Take organizational measures (e.g. reduce management expenses).

The General Financial Department carries out daily monitoring of the amount of funds raised.

In the reporting period, the estimated instant and current liquidity ratios exceeded the minimum acceptable values, and the long-term liquidity ratio did not exceed the limits established by the CBR.

(thousands of Russian rubles)

24. Risk management (continued)

Liquidity risk (continued)

The N2 ratio (instant liquidity, acceptable minimum value of 15.0%) as at 31 December 2018 was 64.7% (31 December 2017: 68.9%).

The N3 ratio (current liquidity, acceptable minimum value of 50.0%) as at 31 December 2018 was 76.8% (31 December 2017: 103.3%).

The N4 ratio (long-term liquidity, acceptable maximum value of 120.0%) as at 31 December 2018 was 10.6% (31 December 2017: 10.5%).

Reports on liquidity risk prepared in the reporting period in the form of a stress test of the Bank's balance sheet show that upon occurrence of stress events, the implementation of the respective intended measures will fully allow the Bank to ensure an adequate level of liquidity.

The tables below show the analysis of liquidity risk as at 31 December 2018 and 2017:

31 December 2018	*Less than 1 month*	*1 to 3 months*	*3 to 12 months*	*1 to 5 years*	*Over 5 years*	*No stated maturity*	*Total*
Assets							
Cash and accounts with the CBR	2,348,800	–	–	–	–	113,511	**2,462,311**
Financial assets at fair value through profit or loss	63,193,660	–	–	–	–	–	**63,193,660**
Amounts due from credit institutions	8,134,157	–	–	–	–	55,405	**8,189,562**
Loans to customers	5,989,704	1,456,700	5,968,519	4,019,095	202,985	48,855	**17,685,858**
Other financial assets	205,289	2,753	33,275	96,691	–	–	**338,008**
Total financial assets	**79,871,610**	**1,459,453**	**6,001,794**	**4,115,786**	**202,985**	**217,771**	**91,869,399**
Property and equipment	–	–	–	–	–	78,091	**78,091**
Other non-financial assets	75,239	–	–	–	–	523,700	**598,939**
Total non-financial assets	**75,239**	**–**	**–**	**–**	**–**	**601,791**	**677,030**
Total assets	**79,946,849**	**1,459,453**	**6,001,794**	**4,115,786**	**202,985**	**819,562**	**92,546,429**
Liabilities							
Amounts due to credit institutions	50,557,291	–	–	–	–	–	**50,557,291**
Amounts due to customers	13,419,965	–	–	–	–	–	**13,419,965**
Debt securities issued	708,055	–	–	–	–	–	**708,055**
Other financial liabilities	18,657	9,841	41,851	105,146	–	–	**175,495**
Total financial liabilities	**64,703,968**	**9,841**	**41,851**	**105,146**	**–**	**–**	**64,860,806**
Other provisions	84,016	280,624	367,665	163,907		–	**896,212**
Current income tax liabilities	60,584	–	–	–	–	–	**60,584**
Deferred income tax liabilities	–	–	–	–	–	–	**–**
Other non-financial liabilities	238,660	6,081	18,751	60,664	–	–	**324,156**
Total non-financial liabilities	**383,260**	**286,705**	**386,416**	**224,571**	**–**	**–**	**1,280,952**
Total liabilities	**65,087,228**	**296,546**	**428,267**	**329,717**	**–**	**–**	**66,141,758**
Net assets and liabilities	**14,859,621**	**1,162,907**	**5,573,527**	**3,786,069**	**202,985**	**819,562**	**26,404,671**
Accumulated gap	**14,859,621**	**16,022,528**	**21,596,055**	**25,382,124**	**25,585,109**	**26,404,671**	

(thousands of Russian rubles)

24. Risk management (continued)

Liquidity risk (continued)

31 December 2017	*Less than 1 month*	*1 to 3 months*	*3 to 12 months*	*1 to 5 years*	*Over 5 years*	*No stated maturity*	*Total*
Assets							
Cash and accounts with the CBR	2,434,987	–	–	–	–	176,607	**2,611,594**
Financial assets at fair value through profit or loss	39,407,132	–	–	–	–	–	**39,407,132**
Amounts due from credit institutions	4,769,346	–	–	–	–	53,895	**4,823,241**
Loans to customers	3,419,332	179,818	6,120,803	4,709,567	173,791	432,295	**15,035,606**
Available-for-sale investments	245,676	–	–	–	–	–	**245,676**
Held-to-maturity investments	–	–	–	–	7,962,781	–	**7,962,781**
Other financial assets	291,010	–	–	–	–	–	**291,010**
Total financial assets	**50,567,483**	**179,818**	**6,120,803**	**4,709,567**	**8,136,572**	**662,797**	**70,377,040**
Property and equipment	–	–	–	–	–	74,775	**74,775**
Current income tax assets	–	–	183,324	–	–	–	**183,324**
Other non-financial assets	85,116	15	–	–	–	547,820	**632,951**
Total non-financial assets	**85,116**	**15**	**183,324**	**–**	**–**	**622,595**	**891,050**
Total assets	**50,652,599**	**179,833**	**6,304,127**	**4,709,567**	**8,136,572**	**1,285,392**	**71,268,090**
Liabilities							
Amounts due to credit institutions	22,616,227	–	–	–	–	–	**22,616,227**
Amounts due to customers	13,856,685	–	–	–	–	–	**13,856,685**
Debt securities issued	4,569,840	–	106,705	576	–	–	**4,677,121**
Other financial liabilities	16,738	–	–	–	–	–	**16,738**
Total financial liabilities	**41,059,490**	**–**	**106,705**	**576**	**–**	**–**	**41,166,771**
Other provisions	223,956	277,385	420,777	46,503	22	–	**968,643**
Deferred income tax liabilities	–	–	–	–	–	566,766	**566,766**
Other non-financial liabilities	154,767	1,913	–	55,307	–	–	**211,987**
Total non-financial liabilities	**378,723**	**279,298**	**420,777**	**101,810**	**22**	**566,766**	**1,747,396**
Total liabilities	**41,438,213**	**279,298**	**527,482**	**102,386**	**22**	**566,766**	**42,914,167**
Net assets and liabilities	**9,214,386**	**(99,465)**	**5,776,645**	**4,607,181**	**8,136,550**	**718,626**	**28,353,923**
Accumulated gap	**9,214,386**	**9,114,921**	**14,891,566**	**19,498,747**	**27,635,297**	**28,353,923**	

Financial assets at fair value through profit or loss were classified into the "Less than 1 month" category, as management believes that all these assets can be realized within one month in the ordinary course of business.

Amounts due to customers and debt securities issued include time deposits of individuals and savings certificates. In accordance with the Russian legislation, the Bank is obliged to repay such deposits upon demand of a depositor (refer to Note 15). The Bank also classifies time deposits of legal entities in into the "Less than 1 month" category.

(thousands of Russian rubles)

24. Risk management (continued)

Liquidity risk (continued)

Analysis of financial liabilities by remaining contractual maturities

The table below summarizes the maturity profile of the Bank's financial liabilities at 31 December based on contractual undiscounted repayment obligations. Repayments which are subject to notice are treated as if notice were to be given immediately. However, the Bank expects that many customers will not request repayment on the earliest date the Bank could be required to pay and the table does not reflect the expected cash flows indicated by the Bank's deposit retention history.

31 December 2018	*Less than 3 months*	*3 to 12 months*	*1 to 5 years*	*Over 5 years*	*Total*
Financial liabilities					
Amounts due to credit institutions	50,654,246	–	–	–	**50,654,246**
Amounts due to customers	11,344,945	2,096,697	–	–	**13,441,642**
Debt securities issued	141,488	5,319	174,450	699,374	**1,020,631**
Other financial liabilities	28,498	41,851	105,146	–	**175,495**
Total undiscounted financial liabilities	**62,169,177**	**2,143,867**	**279,596**	**699,374**	**65,292,014**

31 December 2017	*Less than 3 months*	*3 to 12 months*	*1 to 5 years*	*Over 5 years*	*Total*
Financial liabilities					
Amounts due to credit institutions	22,666,378	–	–	–	**22,666,378**
Amounts due to customers	10,306,437	3,582,212	7,484	–	**13,896,133**
Debt securities issued	866,970	473,386	514,826	5,619,107	**7,474,289**
Other financial liabilities	16,738	–	–	–	**16,738**
Total undiscounted financial liabilities	**33,856,523**	**4,055,598**	**522,310**	**5,619,107**	**44,053,538**

The table below shows the contractual maturities of the Bank's credit-related commitments and contingencies. Each loan commitment is included in the time band containing the earliest date it can be drawn down. For financial guarantees, the maximum amount of the guarantee is allocated to the earliest period in which the guarantee could be called.

	Less than 3 months	*3 to 12 months*	*1 to 5 years*	*Over 5 years*	*Total*
2018	3,473,791	4,066,698	3,075,107	–	**10,615,596**
2017	4,281,707	2,171,224	674,808	2,750	**7,130,489**

The Bank expects that not all of the contingent liabilities or credit-related commitments will be drawn before expiry of the commitments.

Market risk

Market risk is a risk that the Bank will incur a financial loss due to an adverse change of the market (fair) value of securities or due to unfavorable fluctuations of parameters of deals that comprise derivative financial instruments, adverse fluctuation of foreign exchange rates, interest rates, precious metal prices, commodities and raw materials prices, as well as other market indicators affecting the Bank's open positions.

The Bank is exposed to market risk as it enters into transactions with financial instruments of the trading portfolio on both an organized (exchange) market and unorganized (over-the-counter) market, and has open currency positions formed by balance sheet and off-balance sheet assets and liabilities.

(thousands of Russian rubles)

24. Risk management (continued)

Market risk (continued)

Market risks are subject to ongoing monitoring by the Bank's management due to their complexity and difficulties in the management. High volatility of equity and foreign exchange markets require the Bank to assess assets exposed to market risks using a reasonable approach, and put in place methodologically rigorous and consistently applied market risk assessment guidelines and related risk management mechanisms, including an effective action plan in case of unfavorable changes in market parameters.

The purpose of market risk management is to maintain adequate structure and value of exposed assets, as well as the target level of the Bank's capital in light of market factor changes. This task involves implementation of a set of measures aimed at market risk optimization and control, including monitoring compliance with set limits and risk appetite.

Market risk management is an ongoing process, extending from preparation of the Bank's Budget for a planned period through the formation and movements in market assets in accordance with the approved Budget and Development Strategy of the Bank.

The target market risk exposure (risk appetite) is determined annually in the course of standard procedures for capital planning and allocating as a threshold of risk-weighted assets as at the planned dates. This value is adjusted if needed in the course of ICAAP.

Market risk limits are established by decision of the respective authorized bodies of the Bank (Board of Directors, Asset and Liability Management Committee) depending on the limit type/level. The compliance with the established limits is monitored on a regular basis (including daily monitoring).

As part of limit monitoring procedures, the Bank establishes alarm levels, and when approaching these levels certain corrective measures are taken depending on limit type/level and on its utilization (how close the value is to the alarm level).

Control and analytical functions in respect of monitoring if market risks are distributed among the *Risk Assessment Department, General Financial Department* and governance bodies in accordance with their competencies. Therefore, when accepting risk management role, the conflict of interest is eliminated by segregation of duties and responsibilities among collegial bodies, divisions and responsible employees.

Market risk is measured by obtaining numeric value characterizing possible loss the Bank may incur as a result of such risk and by comparing this value with the respective risk capital (i.e. with a portion of capital the Bank plans to use in order to cover the market risk) in order to determine whether it is sufficient to cover those losses.

The Bank calculates aggregate market risk value on a daily basis.

As an alternative calculation method, the Bank also applies other (internal) market risk valuation techniques as follows:

- Market risk valuation techniques based on value-at-risk (VaR).

VaR is a method used in measuring the maximum loss due to realization of the market risk that will not be exceeded at a given confidence level and over a specified time horizon.

Based on recommendations of the Basel Committee on Banking Supervision, the Bank uses VaR with a 99% confidence level and a 10-day projection horizon. Therefore, for the risk measurement purposes, the Bank with a 99% confidence level assumes that its maximal loss over a 10-day projection horizon will not be exceeded.

Expected loss is determined for the entire trading portfolio, by certain components of trading portfolio and by each financial instrument (security) included in the trading portfolio.

(thousands of Russian rubles)

24. Risk management (continued)

Market risk (continued)

The Bank assesses its VaR-based expected loss for the trading portfolio on a daily basis.

Analysis of VaR-based expected loss for the trading portfolio is as follows:

	2018	***2017***
VaR (trading portfolio)	2,226,371	1,607,594

Mitigation of the market risks assumes a set of measures aimed at reducing the probability of events or circumstances that cause losses and/or reducing (limiting) the amount of potential losses from the market risk.

The general approaches to the market risk mitigation include the following:

- Reasonable decision-making on any transaction;
- Implementation and application of aligned approach towards acceptance and monitoring of the market risk;
- Compliance with segregation of duties principle in terms of acceptance and measurement of the market risk;
- Normalizing of transactions and deals with financial instruments.

The specific approaches to the market risk mitigation include the following:

- Entering into a *matched bargain* with derivatives for the purpose of insurance against possible losses;
- Diversification of investments in financial instruments sensitive to the change of market indicators.

Interest rate risk

Interest rate risk is a risk the Bank will incur a financial loss due to adverse changes in interest rates of open positions in the debt securities and other instruments within its *trading portfolio* sensitive to the interest rates fluctuations.

Interest rate sensitivity analysis

The sensitivity of the Bank's financial result and equity to movements in the fair value of debt securities within the Bank's trading portfolio due to changes in interest rates (prepared based on simplified scenario of the 100 basis points (bp) parallel shifts (up and down) in yield curves) is presented in the table below:

Change	***Effect on financial result 2018***	***Effect on equity 2018***
+100 bp parallel rise	(3,334,738)	(3,334,738)
-100 bp parallel fall	3,334,738	3,334,738

Change	***Effect on financial result 2017***	***Effect on equity 2017***
+100 bp parallel rise	(1,757,109)	(1,757,109)
-100 bp parallel fall	1,757,109	1,757,109

(thousands of Russian rubles)

24. Risk management (continued)

Stock exchange risk

Stock exchange risk is a risk that the Bank will incur a financial loss due to an adverse change in fair value of the stock exchange financial instruments (securities and derivatives) due to factors related to the securities' issuer and overall fluctuations of the financial instruments' quotes at the stock exchange.

For the purpose of additional analysis of stock exchange risk, the Bank uses a valuation technique that includes evaluation of a decline in the trading portfolio's value by calculation of the expected loss for its components that are exposed to such risk.

The expected loss is determined on the basis of value-at-risk (VaR) with a 99% confidence level and a 10-day projection horizon.

The analysis of expected losses by components of trading portfolio that are exposed to the stock exchange risk is as follows:

	2018	*2017*
VaR (securities portfolio)	1,096,288	995,512

Sensitivity analysis in respect of stock exchange risk

The effect on the financial result and equity (as a result of changes in the fair value of equity instruments) due to a reasonably possible change in the prices of equity securities within the trading portfolio is as follows:

Change in equity price	*Effect on financial result 2018*	*Effect on equity 2018*
15% increase in prices	3,055,450	3,055,450
15% decrease in prices	(3,055,450)	(3,055,450)

Change in equity price	*Effect on financial result 2017*	*Effect on equity 2017*
15% increase in prices	2,740,551	204,326
15% decrease in prices	(2,740,551)	(204,326)

Currency risk

Currency risk is the risk that the Bank may incur financial losses due to adverse changes in foreign exchange rates and/or gold prices under the Bank's open positions in foreign currencies and/or gold.

In order to evaluate *currency risk* due to revaluation of the open currency positions, the Bank applies the VaR method.

The expected loss is determined for positions in foreign currencies (for all currencies in aggregate or for specific currencies) and gold.

VaR is determined using the Monte Carlo method calculated via Bloomberg's information system. VaR is determined on the basis of 99% confidence level and a 5-day projection horizon.

The Bank believes that forecasting of foreign exchange rates and gold prices fluctuations for larger period is not reasonable as the high liquidity of the above currency instruments helps to adjust the currency risk in the short period of time (namely in no more than two working days).

(thousands of Russian rubles)

24. Risk management (continued)

Currency risk (continued)

For the purpose of VaR calculation, the Bank also eliminates sharp fluctuations of the foreign exchange rates and gold prices in the planning horizon.

According to the applicable CBR regulations, currency risk is limited by open positions in certain currencies and precious metals.

The Bank strives to minimize its open currency positions to mitigate currency risk.

VaR for the Bank's open currency positions is as follows:

	2018	*2017*
VaR	35,442	19,086

Analysis of sensitivity to changes in foreign currency exchange rates

Weakening of the Russian ruble against the currencies in the table below would affect the financial result and equity as follows:

Currency	*Effect on financial result 2018*	*Effect on equity 2018*
30% appreciation of USD	(296,653)	(296,653)
30% appreciation of EUR	26,293	26,293

Currency	*Effect on financial result 2017*	*Effect on equity 2017*
11.0% appreciation of USD	3,268	3,268
12.5% appreciation of EUR	(8,957)	(8,957)

Strengthening of the Russian ruble against the above currencies as at 31 December 2018 and 31 December 2017 would produce the reverse effect if all other variables held constant.

(thousands of Russian rubles)

24. Risk management (continued)

Currency risk (continued)

The Bank's exposure to currency risk as at 31 December 2018 is as follows:

31 December 2018	*RUB*	*USD*	*EUR*	*Other currencies*	*Total*
Assets					
Cash and accounts with the CBR	1,644,978	336,754	316,132	164,447	**2,462,311**
Financial assets at fair value through profit or loss	62,732,805	–	294,000	166,855	**63,193,660**
Amounts due from credit institutions	6,442,887	1,071,252	521,974	153,449	**8,189,562**
Loans to customers	17,635,561	1,864	48,433	–	**17,685,858**
Other financial assets	208,781	124,343	78	4,806	**338,008**
Total financial assets	**88,665,012**	**1,534,213**	**1,180,617**	**489,557**	**91,869,399**
Property and equipment	78,091	–	–	–	**78,091**
Other non-financial assets	598,939	–	–	–	**598,939**
Total non-financial assets	**677,030**	**–**	**–**	**–**	**677,030**
Total assets	**89,342,042**	**1,534,213**	**1,180,617**	**489,557**	**92,546,429**
Liabilities					
Amounts due to credit institutions	50,557,291	–	–	–	**50,557,291**
Amounts due to customers	7,431,930	3,981,754	1,714,261	292,020	**13,419,965**
Debt securities issued	708,055	–	–	–	**708,055**
Other financial liabilities	174,888	73	534	–	**175,495**
Total financial liabilities	**58,872,164**	**3,981,827**	**1,714,795**	**292,020**	**64,860,806**
Other provisions	896,212	–	–	–	**896,212**
Current income tax liabilities	60,584	–	–	–	**60,584**
Other non-financial liabilities	275,117	48,394	645	–	**324,156**
Total non-financial liabilities	**1,231,913**	**48,394**	**645**	**–**	**1,280,952**
Total liabilities	**60,104,077**	**4,030,221**	**1,715,440**	**292,020**	**66,141,758**
Open balance sheet position	**29,792,848**	**(2,447,614)**	**(534,178)**	**197,537**	**27,008,593**
Open position on spot deals and derivative financial instruments	(1,972,081)	1,491,304	568,619	(87,842)	**–**
Open position	**27,820,767**	**(956,310)**	**34,441**	**109,695**	**27,008,593**

(thousands of Russian rubles)

24. Risk management (continued)

Currency risk (continued)

31 December 2017	*RUB*	*USD*	*EUR*	*Other currencies*	*Total*
Assets					
Cash and accounts with the CBR	1,954,606	238,551	268,225	150,212	**2,611,594**
Financial assets at fair value through profit or loss	39,073,503	–	151,872	181,757	**39,407,132**
Amounts due from credit institutions	1,850,682	1,789,006	620,437	563,116	**4,823,241**
Loans to customers	14,866,496	1,968	167,142	–	**15,035,606**
Available-for-sale investments	245,676	–	–	–	**245,676**
Held-to-maturity investments	7,962,781	–	–	–	**7,962,781**
Other financial assets	114,170	161,705	5,563	9,572	**291,010**
Total financial assets	**66,067,914**	**2,191,230**	**1,213,239**	**904,657**	**70,377,040**
Property and equipment	74,775	–	–	–	**74,775**
Current income tax assets	183,324	–	–	–	**183,324**
Other non-financial assets	591,833	–	–	41,118	**632,951**
Total non-financial assets	**849,932**	**–**	**–**	**41,118**	**891,050**
Total assets	**66,917,846**	**2,191,230**	**1,213,239**	**945,775**	**71,268,090**
Liabilities					
Amounts due to credit institutions	22,616,227	–	–	–	**22,616,227**
Amounts due to customers	7,044,711	4,359,201	1,651,468	801,305	**13,856,685**
Debt securities issued	4,621,129	1,730	54,262	–	**4,677,121**
Other financial liabilities	15,679	451	468	140	**16,738**
Total financial liabilities	**34,297,746**	**4,361,382**	**1,706,198**	**801,445**	**41,166,771**
Other provisions	968,643	–	–	–	**968,643**
Deferred income tax liabilities	566,766	–	–	–	**566,766**
Other non-financial liabilities	163,193	46,730	508	1,556	**211,987**
Total non-financial liabilities	**1,698,602**	**46,730**	**508**	**1,556**	**1,747,396**
Total liabilities	**35,996,348**	**4,408,112**	**1,706,706**	**803,001**	**42,914,167**
Open balance sheet position	**31,770,168**	**(2,170,152)**	**(492,959)**	**103,212**	**29,210,269**
Open position on spot deals and derivative financial instruments	(3,010,977)	2,237,947	423,186	349,844	**–**
Open position	**28,759,191**	**67,795**	**(69,773)**	**453,056**	**29,210,269**

Operational risk

Operational risk is the risk that the credit institution will incur losses arising from unreliability of and deficiency in internal management procedures, failure of information and other systems, or external events affecting the credit institution's operations.

The purpose of operational risk management is to maintain the risk accepted by the Bank at the level defined by the Bank subject to its strategic objectives. The priority is to ensure to a maximum extent the safeguarding of assets and equity by mitigation (avoiding) of potential losses.

Identifications of operational risk is done through preparation and subsequent review of the Bank's operational risks profile. To identify operational risk, the Risk Assessment Department uses the valuation method by the Bank's divisions.

(thousands of Russian rubles)

24. Risk management (continued)

Operational risk (continued)

Measurement of operational risk assumes assessment of probability of the events or circumstances leading to operational losses, and estimate of the size of potential losses. The Bank performs both quantitative and qualitative measurement of its operational risk. The *Accounting and Reporting Department* calculates the operational risk exposure for the purpose of reporting to the CBR. The Risk Assessment Department performs qualitative assessment of the operational risk by preparing its operational risk map.

For the monitoring purposes, the Bank uses a system of indicators showing the operational risk exposure both at the level of the Bank as a whole and on the level of divisions exposed to the operational risk. For each indicator *the Bank's Management Board* sets limits (indicator levels) that help to identify operational risks significant for the Bank and adequately address them on a timely manner.

Control over the compliance with the established operational risk management rules and procedures is maintained as a part of the internal control system. The controllers include the Bank's governance bodies *(Board of Directors, Management Board), the Internal Audit Function, the Risk Assessment Department,* as well as heads of all divisions of the Bank making decisions that affect the operational risk.

For the purposes of monitoring the Bank's operational risk, it has and continuously updates analytical database of all identified cases of operational risk realization. Analytical database of incurred operational losses comprises quarterly reports that include reasons of events that took place in the reporting quarter and that resulted in the realization of operational risk, and the risk indicators.

The key method of mitigating the operational risk controlled at the Bank level is to develop and/or review the organizational structure and internal policies and procedures for banking and other operations so as to eliminate (mitigate) the operating risk factors.

The Bank organizes and sets internal control procedures over the operations of the Bank's divisions that are relevant to the scope of their operations. The control system determines efficiency of segregation of duties, access rights, as well as approval, documenting and reconciliation procedures, and compliance with laws and regulations issued by the CBR.

25. Fair value measurement

Fair value measurement procedures

Classification of fair value measurement is based on the fair value hierarchy (Level 1, 2 or 3). The levels correlate to the possibility of direct measurement of fair value using the market data and reflect the materiality of the inputs used for the fair value measurement:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets which are available to the Bank at the measurement date;
- Level 2 inputs are inputs other than Level 1 quoted prices, that are observable on the market either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

(thousands of Russian rubles)

25. Fair value measurement (continued)

Fair value hierarchy

The Bank maximizes the use of observable inputs and minimizes the use of unobservable inputs.

For the purpose of fair value disclosures, the Bank has 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.

	Fair value measurement using			
31 December 2018	***Level 1 inputs***	***Level 2 inputs***	***Level 3 inputs***	***Total***
Assets measured at fair value				
Financial assets at fair value through profit or loss:	62,033,058	1,160,602	–	**63,193,660**
Russian State bonds	42,607,429	–	–	**42,607,429**
Equity securities	19,425,629	1,135,516	–	**20,561,145**
Derivative financial instruments, including:	–	25,086	–	**25,086**
- Credit default swaps – foreign	–	*24,699*	–	***24,699***
- Forwards (precious metals) – domestic	–	*387*	–	***387***
Loans to customers at FVPL	–	–	1,459,437	**1,459,437**
Investment property	–	–	523,700	**523,700**
Assets for which fair values are disclosed				
Cash and accounts with the CBR	–	–	2,462,311	**2,462,311**
Amounts due from credit institutions	–	–	8,189,562	**8,189,562**
Loans to customers	–	–	16,353,961	**16,353,961**
Other financial assets	–	–	338,008	**338,008**
Liabilities for which fair values are disclosed				
Amounts due to credit institutions	–	–	50,557,291	**50,557,291**
Amounts due to customers	–	–	13,422,146	**13,422,146**
Debt securities issued	–	–	663,770	**663,770**
Other financial liabilities	–	–	175,495	**175,495**

	Fair value measurement using			
31 December 2017	***Level 1 inputs***	***Level 2 inputs***	***Level 3 inputs***	***Total***
Assets measured at fair value				
Financial assets at fair value through profit or loss:	39,027,639	379,493	–	**39,407,132**
Russian State bonds	20,520,064	–	–	**20,520,064**
Bonds of credit institutions	548,394	–	–	**548,394**
Equity securities	17,959,181	311,159	–	**18,270,340**
Derivative financial instruments, including:	–	68,334	–	**68,334**
- Credit default swaps – foreign	–	*68,334*	–	***68,334***
Available-for-sale investments:	100,797	144,879	–	**245,676**
Equity securities	100,797	144,879	–	**245,676**
Investment property	–	–	547,820	**547,820**
Assets for which fair values are disclosed				
Cash and accounts with the CBR	–	–	2,611,594	**2,611,594**
Amounts due from credit institutions	–	–	4,823,241	**4,823,241**
Loans to customers	–	–	15,259,529	**15,259,529**
Held-to-maturity investments:	7,970,427	–	–	**7,970,427**
Russian State bonds	7,970,427	–	–	**7,970,427**
Other financial assets	–	–	291,010	**291,010**
Liabilities for which fair values are disclosed				
Amounts due to credit institutions	–	–	22,616,227	**22,616,227**
Amounts due to customers	–	–	13,875,060	**13,875,060**
Debt securities issued	–	–	4,716,466	**4,716,466**
Other financial liabilities	–	–	16,738	**16,738**

Except as detailed above, the fair value of financial assets and liabilities approximates their carrying amount.

(thousands of Russian rubles)

25. Fair value measurement (continued)

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

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

	Carrying amount 2018	*Fair value 2018*	*Unrecognized gain/(loss) 2018*	*Carrying amount 2017*	*Fair value 2017*	*Unrecognized gain/(loss) 2017*
Financial assets						
Cash and accounts with the CBR	2,462,311	2,462,311	–	2,611,594	2,611,594	–
Amounts due from credit institutions	8,189,562	8,189,562	–	4,823,241	4,823,241	–
Loans to customers	16,226,421	16,353,961	127,540	15,035,606	15,259,529	223,923
Held-to-maturity investments	–	–	–	7,962,781	7,970,427	7,646
Other financial assets	338,008	338,008	–	291,010	291,010	–
Financial liabilities						
Amounts due to credit institutions	50,557,291	50,557,291	–	22,616,227	22,616,227	–
Amounts due to customers	13,419,965	13,422,146	(2,181)	13,856,685	13,875,060	(18,375)
Debt securities issued	708,055	663,770	44,285	4,677,121	4,716,466	(39,345)
Other financial liabilities	175,495	175,495	–	16,738	16,738	–
Total unrecognized change in fair value			**169,644**			**173,849**

Valuation models and assumptions

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

Assets for which carrying amount approximates fair value

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 their fair value. This assumption is also applied to demand deposits and savings accounts without a specific maturity.

Derivatives

Derivatives valued using a valuation model with market observable inputs are mainly credit default swaps. The valuation model incorporates various inputs, including forward and spot rates, the fair value of the underlying asset as well as interest rate curves.

Financial assets at fair value through profit or loss

Securities valued using a valuation or pricing model primarily consist of unquoted equity and debt securities. These securities 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 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.

Financial assets and financial liabilities carried at amortized cost

The fair value of the quoted bonds is based on price quotations at the reporting date. The fair value of non-quoted instruments, loans to customers, customer deposits, amounts due from credit institutions, amounts due to credit institutions, other financial assets and liabilities and finance lease liabilities is measured by discounting future cash flows using rates currently available for debt on similar terms, credit risk and remaining maturities.

(thousands of Russian rubles)

25. Fair value measurement (continued)

Valuation models and assumptions (continued)

Loans at fair value through profit or loss

The fair value of loans is measured based on discounted future cash flows adjusted for the borrower's credit risk. The models rely on unobservable inputs, e.g., the discount rate.

A 1% increase in the discount rate results in the decrease of the fair value of loans by RUB 6,606 thousand. A 1% decrease in the discount rate results in the increase of the fair value of loans by RUB 6,752 thousand. The discount rates applicable range from 7.20% to 8.86%.

Investment property

The Bank engages an independent appraiser for the investment property fair value measurement. For this purpose, the appraiser used market approach.

The market approach is based on the prices of market transactions significantly adjusted with regard to differences in nature, location or condition of a specific real estate item.

Significant unobservable inputs in determining the fair value of real estate items

As at 31 December 2018, significant unobservable inputs used to determine the fair value of real estate property (infrastructure facilities) located in Moscow region included average prices of offers to sale the similar properties ranging from RUB 29,356 to RUB 36,244 per sq. m. A 10% increase in prices of offers results in an increase in the fair value of real estate property by RUB 48,317 thousand. A 10% decrease in prices of offers results in the decrease of the fair value of real estate by RUB 48,317 thousand.

As at 31 December 2018, significant unobservable inputs used to determine the fair value of real estate property located in Moscow region included average prices of offers to sale the similar properties ranging from RUB 111,732 to RUB 141,667 per sq. m. A 10% increase in prices of offers results in an increase in the fair value of real estate property by RUB 4,360 thousand. A 10% decrease in prices of offers results in the decrease of the fair value of real estate by RUB 4,360 thousand.

Movements in Level 3 assets and liabilities at fair value

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

	31 December 2017	*Transfers at adoption of IFRS 9*	*1 January 2018*	*Total gains/ (losses) recorded in profit or loss*	*Total gains/ (losses) recorded in other comprehensive income*	*Purchases*	*Sales*	*Other movements*	*31 December 2018*
Financial assets									
Loans to customers at FVPL	–	771,253	771,253	(307,029)	–	995,213	–	–	1,459,437
Investment property	–	–	547,820	(7,390)	–	20,910	(37,640)	–	523,700
Total Level 3 financial assets	**–**	**771,253**	**1,319,073**	**(314,419)**	**–**	**1,016,123**	**(37,640)**	**–**	**1,983,137**

	1 January 2017	*Total gains/ (losses) recorded in profit or loss*	*Total gains/ (losses) recorded in other comprehensive income*	*Purchases*	*Sales*	*Other movements*	*31 December 2017*
Financial assets							
Investment property	503,319	(66,899)	–	159,893	(48,493)	–	547,820
Total Level 3 financial assets	**503,319**	**(66,899)**	**–**	**159,893**	**(48,493)**	**–**	**547,820**

(thousands of Russian rubles)

25. Fair value measurement (continued)

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

Gains or losses from Level 3 financial instruments included in profit or loss for the year comprise:

	2018			*2017*		
	Realized gains/ (losses)	***Unrealized gains/ (losses)***	***Total***	***Realized gains/ (losses)***	***Unrealized gains/ (losses)***	***Total***
Total gains or losses recorded in profit or loss for the period	(5,906)	(308,513)	**(314,419)**	–	(66,899)	**(66,899)**

Transfers between Level 1 and Level 2

The tables below show transfers between Level 1 and Level 2 of the fair value hierarchy for financial assets recorded at fair value:

	Transfers from Level 1 to Level 2	
	2018	***2017***
Financial assets		
Financial assets at fair value through profit or loss	522,207	159,287
Available-for-sale investments	–	79,311
	522,207	**238,598**

The above financial instruments were transferred from Level 1 to Level 2 as they ceased to be actively traded during the period and their fair values were consequently obtained through valuation techniques using observable market inputs.

	Transfers from Level 2 to Level 1	
	2018	***2017***
Financial assets		
Financial assets at fair value through profit or loss	72,852	–

The above financial instruments were transferred from Level 2 to Level 1 as they became actively traded during the reporting period and fair values were consequently determined using quoted prices in an active market. There were no transfers from Level 2 to Level 1 during the year ended 31 December 2017.

26. Transferred financial assets that are not derecognized

The table below provides a summary of the financial assets transferred by the Bank under repurchase agreements in such a way that all the transferred financial assets do not qualify for derecognition:

		Financial assets at fair value through profit or loss			
2018	***Transferred financial asset***	***Government debt securities***	***Other debt securities***	***Other securities***	***Total***
Carrying amount of assets	Repurchase agreements	41,251,184	–	10,178,304	**51,429,488**
Total		**41,251,184**	**–**	**10,178,304**	**51,429,488**
Carrying amount of associated liabilities	Repurchase agreements with credit institutions	37,363,493	–	7,104,866	**44,468,359**
Total		**37,363,493**	**–**	**7,104,866**	**44,468,359**

(thousands of Russian rubles)

26. Transferred financial assets that are not derecognized (continued)

2017	*Transferred financial asset*	*Financial assets at fair value through profit or loss*			*Total*
		Government debt securities	*Other debt securities*	*Other securities*	
Carrying amount of assets	Repurchase agreements	20,009,816	–	185,340	**20,195,156**
Total		**20,009,816**	**–**	**185,340**	**20,195,156**
Carrying amount of associated liabilities	Repurchase agreements with credit institutions	18,258,699	–	161,950	**18,420,649**
Total		**18,258,699**	**–**	**161,950**	**18,420,649**

The securities sold under repurchase agreements are transferred to a third party and the Bank receives cash in exchange, or other financial assets. If the securities increase or decrease in value, the Bank may, in certain circumstances, require, or be required, to pay additional cash collateral.

The Bank has determined that it retains substantially all the risks and rewards of these securities, which include credit risk, market risk, country risk and operational risk, and therefore has not derecognized them. In addition, it recognized a financial liability for cash received.

Likewise, the Bank may sell or repledge securities received as loans or purchased under reverse repurchase agreements but is obliged to return the securities, and the counterparty retains substantially all the risks and rewards of ownership. Consequently, the securities are not recognized by the Bank, which instead records a separate asset for any possible cash collateral given.

As at 31 December 2018, the fair value of securities purchased under reverse repurchase agreements and sold under repurchase agreements amounted to RUB 6,661,579 thousand (2017: RUB 4,626,933 thousand). The associated liabilities, which are recorded against the cash received for such transactions, are presented in the statement of financial position as at 31 December 2018 as amounts due to credit institutions of RUB 6,088,932 thousand (2017: RUB 4,195,578 thousand).

The carrying amount and fair value of securities sold under repurchase agreements was RUB 51,429,488 thousand as at 31 December 2018 (2017: RUB 20,195,156 thousand) and included financial assets at fair value through profit or loss.

The associated liabilities, which are recorded against the cash received for such transactions, are presented in the statement of financial position as at 31 December 2018 as amounts due to credit institutions of RUB 44,468,359 thousand (2017: RUB 18,420,649 thousand).

27. 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 statement of financial position:

2018	*Gross amount of recognized financial assets*	*Gross amount of recognized financial liabilities set off in the statement of financial position*	*Net amount of financial assets presented in the statement of financial position*	*Related amounts not set off in the statement of financial position*		*Net amount*
				Financial instruments	*Cash collateral received*	
Financial assets						
Financial assets pledged under repurchase agreements	51,429,488	–	**51,429,488**	(44,468,359)	–	**6,961,129**
Total	**51,429,488**	**–**	**51,429,488**	**(44,468,359)**	**–**	**6,961,129**
Financial liabilities						
Payables under repurchase agreements	44,468,359	–	**44,468,359**	(44,468,359)	–	**–**
Total	**44,468,359**	**–**	**44,468,359**	**(44,468,359)**	**–**	**–**

(thousands of Russian rubles)

27. Offsetting of financial instruments (continued)

2017	*Gross amount of recognized financial assets*	*Gross amount of recognized financial liabilities set off in the statement of financial position*	*Net amount of financial assets presented in the statement of financial position*	*Related amounts not set off in the statement of financial position: Financial instruments*	*Related amounts not set off in the statement of financial position: Cash collateral received*	*Net amount*
Financial assets						
Financial assets pledged under repurchase agreements	20,195,156	–	**20,195,156**	(18,420,649)	–	**1,774,507**
Total	**20,195,156**	**–**	**20,195,156**	**(18,420,649)**	**–**	**1,774,507**
Financial liabilities						
Payables under repurchase agreements	18,420,649	–	**18,420,649**	(18,420,649)	–	**–**
Total	**18,420,649**	**–**	**18,420,649**	**(18,420,649)**	**–**	**–**

28. Related party disclosures

In accordance with IAS 24 *Related Party Disclosures*, parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

The outstanding balances of related party transactions at the end of the reporting period are as follows:

	2018				*2017*			
	Sharehol-ders	*Key management personnel*	*Other related parties*	*Total*	*Sharehol-ders*	*Key management personnel*	*Other related parties*	*Total*
Loans outstanding at 1 January	**–**	**56,147**	**461,170**	**517,317**	**–**	**68,794**	**432,274**	**501,068**
Loans issued during the year	–	–	10,000	**10,000**	–	36,500	32,896	**69,396**
Loans repaid during the year	–	(49,629)	–	**(49,629)**	–	(15,147)	(4,000)	**(19,147)**
Other movements	–	–	(21,273)	**(21,273)**	–	(34,000)	–	**(34,000)**
Loans outstanding at 31 December	**–**	**6,518**	**449,897**	**456,415**	**–**	**56,147**	**461,170**	**517,317**
Less allowance for impairment at 31 December	–	(611)	(345,535)	**(346,146)**	–	(37,045)	(357,358)	**(394,403)**
Loans outstanding at 31 December, net of allowance	**–**	**5,907**	**104,362**	**110,269**	**–**	**19,102**	**103,812**	**122,914**
Other assets	534	87,011	117	**87,662**	–	–	–	**–**
Deposits at 1 January	**366,084**	**150,393**	**–**	**516,477**	**270,356**	**93,145**	**–**	**363,501**
Deposits received during the year	63,624	600,471	8,009	**672,104**	886,296	173,398	–	**1,059,694**
Deposits repaid during the year	(456,851)	(382,078)	–	**(838,929)**	(797,307)	(156,345)	–	**(953,652)**
Other movements	27,143	37,291	304	**64,738**	6,739	40,195	–	**46,934**
Deposits at 31 December	**–**	**406,077**	**8,313**	**414,390**	**366,084**	**150,393**	**–**	**516,477**
Settlement and current accounts at 31 December	**8,291**	**84,010**	**863**	**93,164**	**553,421**	**10,720**	**261,335**	**825,476**
Debt securities issued	207,055	135,534	–	**342,589**	3,443,686	19,736	–	**3,463,422**
Other liabilities	534	87,011	117	**87,662**	2,854	21,709	–	**24,563**
Loan commitments	–	3,000	–	**3,000**	–	3,000	5,584	**8,584**

(thousands of Russian rubles)

28. Related party disclosures (continued)

The income and expense arising from related party transactions are as follows:

	2018				*2017*			
	Sharehol-ders	*Key management personnel*	*Other related parties*	*Total*	*Sharehol-ders*	*Key management personnel*	*Other related parties*	*Total*
Interest income	–	5,793	56,055	**61,848**	–	4,145	62,633	**66,778**
Interest expense	(63,953)	(30,494)	(1,235)	**(95,682)**	(265,759)	(4,419)	(786)	**(270,964)**
Credit loss income/(expense)	–	39,979	(4,077)	**35,902**	–	(31,790)	(28,896)	**(60,686)**
Net (losses)/gains from foreign currencies	(62,133)	(53,973)	(51,485)	**(167,591)**	(28,932)	3,196	3,836	**(21,900)**
Fee and commission income	52,648	13,058	1,003	**66,709**	391	163	249	**803**
Other income	40,215	10,986	11	**51,212**	9,159	3	–	**9,162**
Other operating expenses	(1,221)	(1,917)	(5,776)	**(8,914)**	(1,321)	(2,054)	(5,386)	**(8,761)**

Compensation to key management personnel comprises the following:

	2018	*2017*
Salaries and other short-term benefits	53,052	50,420
Long-term employee benefits	24,107	18,353
Mandatory pension contributions	6,894	6,610
Social security costs	3,117	3,063
Total compensation to key management personnel	**87,170**	**78,446**

Key management personnel are represented by the Chairman of the Management Board, members of the Management Board, the Board of Directors, the Credit Committee and other employees assuming risks.

29. Capital adequacy

The Bank maintains an actively managed capital base to cover risks inherent in the business.

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

Capital management is performed in accordance with *Risks and Capital Management Strategy* in the course of internal capital adequacy assessment procedures (ICAAP).

In the course of ICAAP, the Bank determines risk appetite as a set of quantitative and qualitative indicators to monitor the exposure to assumed risks, capital adequacy and to ensure continuous operation of the Bank as follows:

- *Prudential* capital adequacy *ratios*, liquidity ratios and other limits established by the CBR with regard to risk and capital adequacy management;
- The *ratio of capital* required to cover all significant risks *to available capital;*
- The *capital adequacy ratio* required to be assigned a target credit rating;
- The *amount of capital* required to cover *unexpected losses*.

As part of drafting and subsequent realization of the Bank's *Development Strategy*, the Bank aims to minimize the difference between the *planned capital* and *required capital*.

The Bank regularly reconciles the aggregate required capital to actual capital. In case of actual capital inadequacy, measures are promptly taken to mitigate assumed risks / increase the Bank's capital.

In view of adoption of the internationally recognized approaches for capital adequacy assessment established by the Basel Committee of Banking Supervision (Basel III), in the course of implementation of the capital management policy the Bank evaluates the capital adequacy based on the methodology set up in the regulations issued by the CBR.

During 2018 and 2017, the Bank was in full compliance with all externally imposed capital requirements.

The Bank manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. No changes were made in the objectives, policies and processes from the previous years.

(thousands of Russian rubles)

29. Capital adequacy (continued)

Capital adequacy ratio

The Bank regularly monitors the capital adequacy to comply with the minimum capital adequacy ratios set up by the regulations issued by the CBR:

Common equity adequacy ratio − not less than 4.5%

Core capital adequacy ratio − not less than 6.0%

Equity capital adequacy ratio – not less than 8.0%.

The following table shows the composition of the Bank's capital computed in accordance with the normative acts of the CBR, which are based on Basel III requirements, as at 31 December:

	2018	*2017*
Common equity	**21,244,689**	**23,865,205**
Core capital	**21,244,689**	**23,865,205**
Additional capital	–	88,809
Total capital	**21,244,689**	**23,954,014**
Risk-weighted assets	**121,580,436**	**94,627,059**
Common equity adequacy ratio	17.5%	25.2%
Core capital adequacy ratio	17.5%	25.2%
Equity capital adequacy ratio	17.5%	25.3%

30. Events after the reporting date

At the shareholders' meeting held in April 2019, the Bank declared dividends for 2018 totaling RUB 2,082,941 thousand to be paid using retained earnings for prior years (RUB 121.32 per ordinary share and RUB 30.33 per preferred share).