Independent auditor's report
on the consolidated financial statements of
Public joint stock company ROSBANK
and its subsidiaries
for 2018

March 2019

Independent auditor's report
on the consolidated financial statements of
Public joint stock company ROSBANK and its subsidiaries

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Independent auditor's report

To the shareholders and Board of Directors of
Public joint stock company ROSBANK

Report on the audit of the consolidated financial statements

Opinion

We have audited the consolidated financial statements of Public joint stock company ROSBANK (hereinafter, the "Bank") and its subsidiaries (hereinafter, the "Group"), which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of profit or loss, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for 2018, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

Basis for opinion

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

Key audit matters

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

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

Key audit matter	How our audit addressed the matter
Allowance for expected credit loss for loans to customers, and expected credit loss for contingent liabilities and credit commitments	
Determining amount of allowance for expected credit loss for loans to customers and for contingent liabilities and credit commitments under IFRS 9 is a key audit matter of the Group. Assessment whether credit risk has not changed significantly since initial recognition, identifying factors of significant increase in credit risk, which includes identification of changes in probability of default for the lifetime of financial instrument, identification of defaults (stages) and also identification of probabilities of default and loss given default, are a significant use of professional judgments and assumptions. Use of various models and assumptions may significantly affect level of allowance for expected credit losses for loans to customers and for contingent liabilities and credit commitments. Due to substantial amounts of loans, which comprise 67% of total assets, and contingent liabilities and credit commitments that comprise 31% of total loan portfolio, and due to significant use of professional judgments, assessment of allowance for expected credit loss is a key audit matter. Information regarding allowance for expected credit loss and Group's management approach for assessment of expected credit loss and credit risk management is described in Notes 25 and 40 to the consolidated financial statements.	Our audit procedures comprised methodology analysis related to assessment of allowance for expected credit loss for loans to customers and for contingent liabilities and credit commitments, controls testing over loan granting process, including controls testing related to overdue loans accounting, procedures related to identification of significant increase in credit risk of borrowers, based on internal ratings system, and calculation of allowance for expected credit loss. We performed controls testing related to information systems, used in formation of expected credit loss process. With regard to assessment of allowance for expected credit loss for loans to customers and for contingent liabilities and credit commitments, we tested input data used by the Group (such as recovery rates statistic for default financial instruments), models analysis, and calculation of probability of default and loss given default. We also audited (on a sample basis) cash proceeds from collateral sales, collateral fair value and classification of loans to customers by stages. We performed recalculation of allowance for expected credit loss. Mentioned above audit procedures were performed as of 31 December 2018 and as of IFRS 9 implementation date on 1 January 2018. We analyzed consistency of Group's management judgment related to expected credit loss calculations. We fulfilled audit procedures related to information disclosed in notes to consolidated financial statements.
Deferred income tax assets recoverability	
As of 31 December 2018, the Group recognized deferred income tax assets of RUB 1,272 million, including a RUB 4,748 million asset on tax losses carried forward. Deferred income tax assets recoverability is a key audit matter, as their carrying amounts are substantial and the recoverability assessment involves significant judgment, including the judgment as to the timing and amount of future taxable profit. Deferred income tax assets related disclosures are made in Note 31 Income *tax*.	We tested the future taxable profit forecasts prepared by the Group using prospective budgets and management's view of business development. We ensured the forecasts are based on the budgets approved by the Group's authorized bodies, and to the extent possible, we compared the forecast data with prior period performance and available market information. We checked the Group's disclosures on deferred income tax assets for compliance with the applicable IFRS requirements.

Other information included in Annual report PJSC ROSBANK for year 2018

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

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

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

Responsibilities of management and Audit Committee for the consolidated financial statements

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

    - subordination of the risk management departments;
    - the existence of methodologies, approved by the Bank's respective authorized bodies, for detecting and managing risks that are significant to the Bank and for performing stress-testing; the existence of a reporting system at the Bank pertaining to its significant risks and capital;
    - consistency in applying and assessing the effectiveness of methodologies for managing risks that are significant to the Bank;
    - oversight performed by the 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 Banking group with the obligatory ratios established by the Bank of Russia

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

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

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

- We found that, in accordance with the legal acts and recommendations issued by the Bank of Russia, as at 31 December 2018 the Bank's internal audit division was subordinated and accountable to the Board of Directors, and the Bank's risk management departments were not subordinated or accountable to the departments that take the relevant risks.

- We found that the Bank's internal documents effective as at 31 December 2018 that establish the methodologies for detecting and managing credit, market, operational, liquidity risks, interest rate risk of banking book, structural currency risk and strategic risk that are significant to the Banking group and stress-testing have been approved by the Bank's authorized bodies in accordance with the legal acts and recommendations issued by the Bank of Russia. We also found that, as at 31 December 2018, the Bank had a reporting system pertaining to credit, market, operational, liquidity risks, interest rate risk of banking book, structural currency risk and strategic risk that were significant to the Banking group and pertaining to its capital.

- We found that the frequency and consistency of reports prepared by the Bank's risk management departments and internal audit division during the year ended 31 December 2018 with regard to the management of credit, market, operational, liquidity risks, interest rate risk of banking book, structural currency risk and strategic risk of the Banking group complied with the Bank's internal documents, and that those reports included observations made by the Bank's risk management departments and internal audit division in respect 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 Banking group with internally established risk limits and capital adequacy requirements. For the purpose of control over the effectiveness and consistency of the risk management procedures applied by the Banking group during the year ended 31 December 2018, the Board of Directors and executive management bodies of the Bank regularly reviewed the reports prepared by the Bank's risk management departments and internal audit division.

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

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

A.V. Sorokin
Partner
Ernst & Young LLC

19 March 2019

Details of the audited entity

Name: Public joint stock company ROSBANK
Record made in the State Register of Legal Entities on 25 October 2002, State Registration Number 1027739460737.
Address: Russia 107078, Moscow, Mashi Poryvaevoy stkyye, 34.

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.

ROSBANK GROUP

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS OF 31 DECEMBER 2018
(in millions of Russian roubles)

	Notes	31 December 2018	31 December 2017
ASSETS			
Cash and cash equivalents	6, 7, 34	191,279	209,810
Mandatory cash balances with the Central Bank of the Russian Federation	6	7,722	6,113
Financial assets at fair value through profit or loss	8, 9, 34	43,025	34,570
Due from banks	6, 10, 34	9,391	11,767
Loans to customers	11, 34	723,972	654,875
Investments at fair value through other comprehensive income	12, 34	46,180	–
Investments at amortized cost	13	94,118	–
Investments available-for-sale	12, 34	–	15,160
Investments held to maturity	13	–	73,479
Property and equipment	14	18,922	18,157
Intangible assets	14	3,686	2,569
Current income tax assets		295	198
Deferred income tax assets	31	1,272	2,859
Other assets	15	12,660	11,358
Total assets		**1,152,522**	**1,040,915**
LIABILITIES AND EQUITY			
LIABILITIES			
Financial liabilities at fair value through profit or loss	9, 16, 34	41,959	33,762
Due to the Central Bank of the Russian Federation		25	207
Due to banks and international financial institutions	17, 34	72,445	32,089
Customer accounts	18, 34	740,531	648,024
Debt securities issued	19, 34	99,908	146,304
Other provisions	25	683	1,124
Current income tax liabilities		333	580
Deferred income tax liabilities	31	1,081	1,522
Other liabilities	20	11,675	10,309
Subordinated debt	21, 34	31,077	34,397
Total liabilities		**999,717**	**908,318**
EQUITY			
Share capital	22	17,587	17,587
Share premium		59,707	59,707
Perpetual subordinated debt	20, 34	10,421	–
Cumulative translation reserve		172	429
Property and equipment revaluation reserve		4,218	4,941
Fair value reserve		4	(1,073)
Cash flow and NIFE hedge		62	31
Retained earnings		60,634	50,975
Total equity		**152,805**	**132,597**
TOTAL LIABILITIES AND EQUITY		**1,152,522**	**1,040,915**

Chairman of the Management Board
I.A. Polyakov

Member of the Management Board – Chief Financial Officer
A.A. Ovchinnikov

Публичное акционерное общество РОСБАНК г. Москва

19 March 2019
Moscow

The notes on pages 16-108 form an integral part of these consolidated financial statements.

ROSBANK GROUP

CONSOLIDATED STATEMENT OF PROFIT OR LOSS
FOR THE YEAR ENDED 31 DECEMBER 2018
(in millions of Russian roubles, except for earnings per share which are in Roubles)

	Notes	Year ended 31 December 2018	Year ended 31 December 2017
Interest income at effective interest rate	24, 34	83,882	81,908
Other interest income		216	283
Interest expense	24, 34	(42,073)	(43,719)
Net interest income before credit loss expense/provision for impairment losses		**42,025**	**38,472**
Credit loss expense/provision for impairment losses	25, 34	(5,187)	(3,452)
Net interest income		**36,838**	**35,020**
Net gain/(loss) on financial assets and liabilities at fair value through profit or loss, except forex swaps and forwards	26, 34	(806)	(1,295)
Net gain/(loss) on foreign exchange operations	27	3,261	5,150
Net gain/(loss) on precious metals operations		(34)	13
Net realized gain/(loss) on sale of Investments at fair value throught other comprehensive income and investments at amortized cost		175	-
Fee and commission income	28, 34	15,603	12,647
Fee and commission expense	28, 34	(3,889)	(3,173)
Other provisions	25, 34	(333)	(56)
Dividend income		489	511
Other income	29	1,042	1,075
Net non-interest income		**15,508**	**14,872**
Operating income		**52,346**	**49,892**
Operating expenses	30, 34	(37,082)	(35,619)
Other non-operating income/(expense)		(34)	(235)
Profit/(loss) before income tax		**15,230**	**14,038**
Income tax credit/(expense)	31	(3,427)	(3,642)
Net profit/(loss) for the year		**11,803**	**10,396**
EARNINGS PER SHARE			
Basic and diluted (in RUB)	32	7.61	6.70

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РОСБАНК

19 March 2019
Moscow

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CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2018
(in millions of Russian roubles)

	Notes	Year ended 31 December 2018	Year ended 31 December 2017
Net profit/(loss) for the year		**11,803**	**10,396**
Other comprehensive income/(expense)			
Items that will not be reclassified subsequently to profit or loss			
Net gain/(loss) resulting on revaluation of property		–	(656)
Income tax		–	131
Items that may be reclassified subsequently to profit or loss			
Exchange differences on translating foreign operations		(300)	(1,569)
Income tax on translating foreign operations		43	314
Cash flow and NIFE hedge		67	237
Income tax on cash flow and NIFE hedge		(36)	(50)
Changes in allowance for expected credit losses of investments at fair value through other comprehensive income			–
Net change in fair value of investments at fair value through other comprehensive income		(83)	–
Income tax on fair value of investments at fair value through other comprehensive income during the year		16	–
Net profit/(loss) resulting on revaluation of available-for-sale financial assets during the year			50
Amounts recycled to profit and loss relating to available-for-sale financial assets		–	245
Income tax on revaluation of available-for-sale financial assets during the year		–	(59)
Other comprehensive income/(expense) after income tax		**(293)**	**(1,357)**
Total comprehensive income/(loss)		**11,510**	**9,039**

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19 March 2019
Moscow

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CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2018
(in millions of Russian roubles)

	Notes	Share capital	Share premium	Perpetual subor-dinated debt	Cumulative translation reserve	Property and equipment revaluation reserve	Fair value reserve	Cash flow and NIFE hedge	Retained earnings	Total equity
31 December 2016		17,587	59,707	-	1,684	5,952	(1,309)	(156)	40,093	123,558
Net profit/(loss) for the year		-	-	-	-	-	-	-	10,396	10,396
Other comprehensive income/(expense) for the year		-	-	-	(1,255)	(525)	236	187	-	(1,357)
Total comprehensive income/ (expense) for the year		-	-	-	(1,255)	(525)	236	187	10,396	9,039
Property and equipment disposal (net of deferred tax of RUR 121 millions)		-	-	-	-	(486)	-	-	486	-
31 December 2017		17,587	59,707		429	4,941	(1,073)	31	50,975	132,597
Impact of adopting IFRS 9 (Note 5)		-	-	-	-	-	1,144	-	(2,867)	(1,723)
Restated opening balance under IFRS 9		17,587	59,707	-	429	4,941	71	31	48,108	130,874
Perpetual subordinated debt		-	-	10,421	-	-	-	-	-	10,421
Net profit/(loss) for the year		-	-	-	-	-	-	-	11,803	11,803
Other comprehensive income/(expense) for the year		-	-	-	(257)	-	(67)	31	-	(293)
Total comprehensive income (expense) for the year		-	-	-	(257)	-	(67)	31	11,803	11,510
Property and equipment disposal (net of deferred tax of RUR 180 millions)		-	-	-	-	(723)	-	-	723	-
31 December 2018		17,587	59,707	10,421	172	4,218	4	62	60,634	152,805

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A.A. Ovchinnikov

19 March 2019
Moscow

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Публичное
Москва

The notes on pages 16-108 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2018
(in millions of Russian roubles)

	Notes	Year ended 31 December 2018	Year ended 31 December 2017
Cash flows from operating activities			
Interest received		87,590	83,295
Interest paid		(44,218)	(42,143)
Fees and commissions received		15,603	12,622
Fees and commissions paid		(3,889)	(3,158)
Receipts from/(payment for) financial assets at fair value through profit or loss		(3,601)	(449)
Receipts from/(payment for) trading in foreign currencies		719	3,521
Other operating income received		984	997
Receipts from/(payment for) precious metals operations		(8)	83
Administrative and other operating expenses paid		(34,127)	(32,678)
Income tax received/(paid)		(2,172)	(2,898)
Cash flows from operating activities before changes in operating assets and liabilities		**16,881**	**19,192**
Changes in operating assets and liabilities			
Net (increase)/decrease in mandatory cash balances with the Central Bank of the Russian Federation		(1,609)	(1,244)
Net (increase)/decrease in financial assets at fair value through profit or loss		3,485	(2,684)
Net i(increase)/decrease in due from banks		4,949	2,635
Net (increase)/decrease in loans to customers		(60,177)	(72,047)
Net (increase)/decrease in other assets		(2,310)	1,540
Net increase/(decrease) in financial liabilities at fair value through profit or loss		(904)	1,161
Net increase/(decrease) in due to the Central Bank of the Russian Federation		(182)	17
Net increase/(decrease) in due to banks and international financial institutions		37,298	(16,649)
Net increase/(decrease) in customer accounts		71,335	194,530
Net increase/(decrease) in debt securities issued, other than bonds issued		1,460	548
Net increase/(decrease) in other liabilities		808	160
Net increase/(decrease) in other liabilities on law cases		–	(36)
Net cash from / (used in) operating activities		**71,034**	**127,123**
Cash flows from investing activities			
Purchase of financial assets at fair value through other comprehensive income		(143,087)	–
Purchase of available for sale financial assets		–	(9,000)
Proceeds from disposal and redemption of available for sale financial assets		–	2,077
Proceeds from disposal and redemption of financial assets at fair value through other comprehensive income		112,065	–
Proceeds from redemption of financial assets at amortised cost		12,554	–
Purchase of financial assets at amortised cost		(24,589)	–
Proceeds from redemption of held to maturity financial assets		–	1,267
Purchase of held to maturity financial assets		–	(4,477)
Purchase of property, equipment and intangible asstes		(4,878)	(2,813)
Proceeds from disposal of property and equipment		672	473
Purchase of subsidiaries		–	(166)
Dividend income received		489	511
Net cash from / (used in) investing activities		**(46,774)**	**(12,128)**
Cash flows from financing activities			
Redemption of bonds issued by the Group	19	(23,473)	(6,450)
Issue of bonds	19	–	21,000
Proceeds from sale of previously bought back bonds issued		237	1,403
Buy back of bonds issued		(23,101)	(38,013)
Repayment of subordinated debt		–	(3,550)
Payment for promissory notes issued		–	9,961
Net cash from / (used in) financing activities		**(46,337)**	**(15,649)**
Effect of exchange rate changes on the balance of cash held in foreign currencies		3,552	(2,528)
Net increase/(decrease) in cash and cash equivalents		**(18,525)**	**96,818**
CASH AND CASH EQUIVALENTS, beginning of the year	7	**209,810**	**112,992**
CASH AND CASH EQUIVALENTS, end of the year	7	**191,285**	**209,810**

Chairman of the Management Board
I.A. Polyakov

Member of the Management Board –
Chief Financial Officer
A.A. Ovchinnikov

19 March 2019
Moscow

РОСБАНК

The notes on pages 16-108 form an integral part of these consolidated financial statements.

1. Organization

ROSBANK (initially named "Nezavisimost") is a joint stock bank which was incorporated in the Russian Federation in 1993. Over the subsequent five years, ROSBANK customers were mainly comprised of medium-sized trade, finance and technology companies, for which it conducted a variety of activities, including corporate lending, settlement, government bond trading, foreign exchange and money market transactions. In 1998 ROSBANK was acquired by the Interros Group with the initial purpose of providing banking services to Interros Group companies. In 2000 ROSBANK acquired Uneximbank which was merged into ROSBANK and ceased to exist as a legal entity. In 2002 the businesses of ROSBANK and Commercial Bank "MFK Bank", specializing in investment banking, were consolidated. In 2003 the Interros Group acquired OVK group − one of Russia's largest retail banking institutions. The integration of OVK with ROSBANK has transformed ROSBANK into a financial institution capable of offering universal services.

Societe Generale became the owner of 20% minus 1 share of Rosbank in 2006. In February 2008 Societe Generale became the owner of Rosbank controlling stock interest by exercising the option for acquisition of 30% stocks. In March 2008 Societe Generale offered to buy the stakes of minority shareholders at 194.09 roubles per share. Having performed the buy-out Societe Generale raised its interest in Rosbank to 57.57%. On 23 March 2009 ROSBANK issued 26,665,928 shares by way of public subscription. The issue was bought by Societe Generale and PHARANCO HOLDINGS CO. LIMITED in the proportion 60.6786% and 39.3214%, respectively. On 27 May 2009 Societe Generale increased its share in Rosbank by 7% after the purchase of this share from PHARANCO HOLDINGS CO. LIMITED.

In February 2010, Societe Generale with the consent of other shareholders of Rosbank Group took the decision to reorganize the legal structure of its Russian subsidiaries in order to build a major financial group.

The first step was achieved in January 2011 with the acquisition of 100% of the share capital of Rusfinance and Delta Credit. The two companies kept acting as separate entities, Rusfinance being mainly dedicated to consumer credit and Delta Credit to mortgages.

The second step was achieved in July 2011 with the merger of the two universal banks ROSBANK and BSGV into a single and unified company ultimately operating under a single brand. Benefiting from their differentiated positioning on both corporate and retail segments, the new structure aims at improving its financial performance by increasing revenues through cross-selling strategy and developing synergies in order to reduce operational costs.

During 2013, Societe Generale further consolidated its positions in Russian market by acquiring in December 2013 an additional 10% stake in ROSBANK equity from VTB Group, increasing it up to 92.4%. As part of the agreement ROSBANK sold to VTB Group certain Russian assets: shares listed on Moscow Exchange as well as some loans and real-estate assets.

In April 2015 Societe Generale acquired further 7% of ROSBANK's share capital from Interros group, raising its stake to 99.4%, in line with its strategy of building up the Group's stake in ROSBANK.

ROSBANK is regulated by the Central Bank of the Russian Federation (the "CBR") and conducts its business under license number 2272. ROSBANK is engaged in a full range of banking activities, including commercial and investment banking and custodial services.

The registered office of ROSBANK is located at 34, Masha Poryvaeva Street, Moscow, 107078, Russian Federation.

As of 31 December 2018 and 2017 ROSBANK had 8 branches operating in the Russian Federation.

ROSBANK ("the Group") is the parent company of a banking group (the "Group") which consists of the following material enterprises as of 31 December 2018 and 2017:

Name	**Country of incorporation**	**Group's ownership interest / voting rights, %**		**Type of operations**
		31 December 2018	**31 December 2017**	
Delta Credit Bank JSC (previous name − Delta Credit Bank CJSC)	Russia	100/100	100/100	Banking
Rusfinance Bank LLC	Russia	100/100	100/100	Banking
Rusfinance LLC	Russia	100/100	100/100	Commerce
RB Factoring LLC	Russia	100/100	100/100	Factoring
Rosbank (Switzerland) SA	Switzerland	100/100	100/100	In liquidation
RB LEASING LLC	Russia	100/100	100/100	Leasing
ORS JSC (previous name − ORS OJSC)	Russia	100/100	100/100	Processing
RB Specialized Depositary LLC (previous name − RB Securities LLC)	Russia	100/100	100/100	Depositary services
RB Service LLC (previous name − RBS Avto LLC)	Russia	100/100	100/100	Service company
Telsikom CJSC	Russia	100/100	100/100	Telecommunication services
SG Finance	Russia	100/100	100/100	Leasing

On 14 July 2010 the Group took decision to close its foreign subsidiary in Switzerland − Rosbank (Switzerland) SA. The liquidation process is subject to authorisation by Swiss banking authorities. The Group does not anticipate any substantial impact on its financial results nor its financial position as a result of the aforementioned liquidation.

In October 2017 the Group acquired 100% shares in SG Finance, a company operating in leasing. The purchase consideration amounted to RUB 168 million, which was settled in cash.

In September 2018 the Group announced the merger of Rosbank and DeltaCredit expected to take place in the middle of 2019. The merger of resources, teams and businesses of Rosbank and DeltaCredit will allow the Group achieve further growth of its mortgage business and ensure more cross-sell opportunities.

As of 31 December 2018 and 31 December 2017, the controlling shareholder of ROSBANK is Societe Generale S.A. with share more than 99%.

2. Going concern

These consolidated financial statements have been prepared on the going concern basis. The Group has no intention or need to reduce substantially its business operations.

The management and shareholders have the intention to further develop the business of the Group in the Russian Federation both in corporate and retail segments. Management believes that the going concern assumption is appropriate for the Group due to its sufficient capital adequacy ratio and based on historical experience that short-term obligations will be refinanced in the normal course of business.

3. Basis of presentation

Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and Interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC").

Other basis of presentation criteria

These consolidated financial statements are presented in millions of Russian roubles ("mRUB"), unless otherwise indicated.

These consolidated financial statements have been prepared under the historical cost basis, except for certain financial instruments that are measured at fair values, and certain land and buildings that are measured at revalued amounts according to International Accounting Standard 16 *Property, Plant and Equipment* ("IAS 16"). Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions (ie an exit price) regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2, leasing transactions that are within the scope of IAS 17, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 or value in use in IAS 36.

The Bank and its consolidated companies, registered in the Russian Federation, maintain their accounting records in accordance with Russian Accounting Standards (RAS), foreign consolidated companies of the Group maintain their accounting records in accordance with the law of the countries, in which they operate. These consolidated financial statements have been prepared from the statutory accounting records and have been adjusted to conform to IFRS.

Functional currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The functional currency of the parent of the Group is the Russian rouble (RUB). The presentation currency of the consolidated financial statements of the Group is the RUB. All values are rounded to the nearest million RUB, unless otherwise indicated.

Offset of financial assets and liabilities

Financial assets and liabilities are offset and the net amount reported in the consolidated statement of financial position only when there is a currently legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or to realize the asset and settle the liability simultaneously. Income and expense is not offset in the consolidated statement of profit or loss unless required or permitted by any accounting standard or interpretation permitted by any IFRS, and as specifically disclosed in the accounting policies of the Group.

4. Significant accounting policies

Basis of consolidation

These consolidated financial statements incorporate the financial statements of ROSBANK and entities controlled by ROSBANK (its subsidiaries). Control is achieved when the Bank:

- Has power over the investee;
- Is exposed, or has rights, to variable returns from its involvement with the investee; and
- Has the ability to use its power to affect its returns.

The Bank reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Bank has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Bank considers all relevant facts and circumstances in assessing whether or not the Bank's voting rights in an investee are sufficient to give it power, including:

- The size of the Bank's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- Potential voting rights held by the Bank, other vote holders or other parties;
- Rights arising from other contractual arrangements; and
- Any additional facts and circumstances that indicate that the Group has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when the Bank obtains control over the subsidiary and ceases when the Bank loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and consolidated statement of comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Bank and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Group and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All significant intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

In translating the financial statements of a foreign subsidiary into the presentation currency for incorporation in the consolidated financial statements, the Group follows a translation policy in accordance with IAS 21 *The Effects of Changes in Foreign Exchange Rates* ("IAS 21"), in particular, performs the following procedures:

- Assets and liabilities, both monetary and non-monetary, of the foreign entity are translated at closing rate;
- Income and expense items of the foreign entity are translated at exchange rates at the dates of transactions;

- Equity items of the foreign entity are translated at exchange rates at the dates of transactions;
- All resulting exchange differences are classified as equity until the disposal of the investment;
- On disposal of the investment in the foreign entity related exchange differences are recognized in the consolidated statement of profit or loss.

Business combinations involving entities or businesses under common control

For the purpose of accounting of business combinations involving entities or businesses under common control (excluded from the scope of IFRS 3 *Business Combinations*) the Group considers pooling of interest as the most appropriate method to be used. A business combination involving entities or businesses under common control is a business combination in which all of the combining entities or businesses are utlimately controlled by the same party or parties both before and after the business combination, and the control is not transitory.

The pooling of interest method assumed the following rules:

- Assets and liabilities of the combined entities are stated at their net book value;
- No new goodwill is recorded as a result of the business combination, but is adjusted against equity;
- The income statement is drawn up from the date of the business combination;
- Comparative data is not restated.

Non-controlling interests

Non-controlling interests represent the portion of profit or loss and net assets of subsidiaries not owned, directly or indirectly, by the Group.

Non-controlling interests are presented separately in the consolidated statement of profit or loss and consolidated statement of comprehensive income and within equity in the consolidated statement of financial position, separately from parent shareholders' equity.

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Group.

When the Group loses control of a subsidiary, a gain or loss is recognized in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable IFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under International Accounting Standard ("IAS") 39, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

Recognition of income and expenses

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

Interest and similar revenue and expense

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

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

Interest revenue on all financial assets at fair value through profit or loss (FVPL) is recognised using the contractual interest rate in “Other interest income” in the consolidated statement of profit or loss.

Fee and commission income

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

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

Fees earned for the provision of services over a period of time are accrued over that period as respective performance obligations are satisfied. These fees include commission income and asset management, custody and other management and advisory fees. Where it is probable that a loan commitment will lead to a specific lending arrangement, the loan commitment fees are deferred, together with the related direct costs, and recognized as an adjustment to the effective interest rate of the resulting loan. Where it is unlikely that a loan commitment will lead to a specific lending arrangement, the loan commitment fees are recognized in the consolidated statement of profit or loss over the remaining period of the loan commitment. Where a loan commitment expires without resulting in a loan, the loan commitment fee is recognized in the consolidated statement of profit or loss on expiry.

Fee income from providing transaction services

Fees arising from negotiating or participating in the negotiation of a transaction for a third party − such as where the Group’s performance obligation is the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses − are recognised on completion of the underlying transaction. Fees or components of fees that are linked to certain performance obligations are recognised 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 recognised when the Group’s right to receive the payment is established.

Fair value measurement

The Group measures financial instruments carried at FVPL and FVOCI and non-financial assets at fair value at each balance sheet date.

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

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

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

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs. All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised 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 recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Financial assets and liabilities

Initial recognition

Date of recognition

All regular way purchases and sales of financial assets and liabilities are recognised on the trade date i.e. the date that the Group commits to purchase the asset or liability.

Initial measurement

The classification of financial instruments at initial recognition depends on their contractual terms and the business model for managing the instruments. Financial instruments are initially measured at their fair value and, except in the case of financial assets and financial liabilities recorded at FVPL, transaction costs are added to, or subtracted from, this amount.

Measurement categories of financial assets and liabilities

From 1 January 2018, the Group classifies all of its financial assets based on the business model for managing the assets and the asset's contractual terms, measured at either:

- Amortised cost;
- FVOCI;
- FVPL.

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

Before 1 January 2018, the Bank classified its financial assets as loans and receivables (amortised cost), FVPL, available-for-sale or held-to-maturity (amortised cost).

Financial liabilities, other than loan commitments and financial guarantees, are measured at amortised cost or at FVPL when they are held for trading, are derivative instruments or the fair value designation is applied.

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

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

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

The details of these conditions are outlined below.

Business model assessment

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

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

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

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 realised in a way that is different from the Group's original expectations, the Group does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

The SPPI test

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

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

The most significant elements of interest within a lending arrangement are typically the consideration for the time value of money and credit risk. To make the SPPI assessment, the Group applies 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 Group applies the new category under IFRS 9 of debt instruments measured at FVOCI when both of the following conditions are met:

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

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

The expected credit losses (ECL) for debt instruments measured at FVOCI do not reduce the carrying amount of these financial assets in the statement of financial position, which remains at fair value. Instead, an amount equal to the allowance that would arise if the assets were measured at amortised cost is recognised in OCI as an accumulated impairment amount, with a corresponding charge to profit or loss. The accumulated loss recognised in OCI is recycled to the profit and loss upon derecognition of the asset.

Financial guarantees, letters of credit and undrawn loan commitments

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

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

Undrawn loan commitments and letters of credits are commitments under which, over the duration of the commitment, the Group is required to provide a loan with pre-specified terms to the customer.

Held-to-maturity investments

Before 1 January 2018 Held to maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity dates and quoted in an active market that the Group has the positive intent and ability to hold to maturity. Held to maturity investments are measured at amortised cost using the effective interest method less any impairment.

Loans and receivables

Before 1 January 2018 Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market (including balances with the Central Bank of the Russian Federation, due from banks, loans to customers and other financial assets) are classified as ‘loans and receivables’. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Loans to customers granted by the Group are initially recognized at fair value plus related transaction costs that directly relate to acquisition or creation of such financial assets. Where the fair value of consideration given does not equal the fair value of the loan, for example where the loan is issued at lower than market rates, the difference between the fair value of consideration given and the fair value of the loan is recognized as a loss on initial recognition of the loan and included in the consolidated statement of profit or loss according to nature of the losses.

Available-for-sale financial assets

Before 1 January 2018 available-for-sale financial assets are non-derivatives that are either designated as available-for-sale or are not classified as (a) loans and receivables, (b) held to maturity investments or (c) financial assets at fair value through profit or loss.

Listed shares and listed redeemable notes held by the Group that are traded in an active market are classified as AFS and are stated at fair value. The Group also has investments in unlisted shares that are not traded in an active market but that are also classified as AFS financial assets and stated at fair value (because the Group management considers that fair value can be reliably measured). The Group uses quoted market prices to determine the fair value for the Group’s investments available-for-sale. If the market for investments is not active, the Group establishes fair value by using valuation techniques. Valuation techniques include using recent arm’s length market transactions between knowledgeable, willing parties, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. If there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the Group uses that technique.

Gains and losses arising from changes in fair value are recognised in other comprehensive income and accumulated in the investments revaluation reserve, with the exception of other-than-temporary impairment losses, interest calculated using the effective interest method, dividend income and foreign exchange gains and losses on monetary assets, which are recognised in profit or loss. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss.

The fair value of AFS monetary assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the end of the reporting period. The foreign exchange gains and losses that are recognised in profit or loss are determined based on the amortised cost of the monetary asset. Other foreign exchange gains and losses are recognised in other comprehensive income.

AFS equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost less any identified impairment losses at the end of each reporting period.

Reclassification of financial assets and liabilities

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

Cash and cash equivalents

Cash and cash equivalents include cash on hand, unrestricted balances on correspondent and term deposit accounts with the Central Bank of the Russian Federation and amounts due from credit institutions with original maturity within 90 days, which are free from contractual encumbrances.

Minimum reserve deposits with the Central Bank of the Russian Federation

Minimum reserve deposits with the Central Bank of the Russian Federation represent the amount of obligatory reserves deposited with the Central Bank of the Russian Federation in accordance with requirements established by the Central Bank of the Russian Federation, which subject to restrictions on their availability. In view of the above the amount of the minimum reserve deposit required by the Central Bank of the Russian Federation is not included as a cash equivalent.

Financial derivatives and hedge accounting

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

Financial derivatives are divided into two categories:

(i) *Trading financial derivatives*

Derivative instruments are considered to be trading financial derivatives by default, unless they are designated as hedging instruments for accounting purposes. They are booked in the consolidated statement of financial position under *Financial assets or liabilities at fair value through profit or loss*. Changes in fair value are recorded in the consolidated statement of profit or loss under *Net gains and losses on financial instruments at fair value through profit or loss,* except changes in fair value of forex forwards and swaps which are recorded in the consolidated statement of profit or loss under *Net gains and losses on foreign exchange operations*.

Changes in the fair value of financial derivatives involving counterparties which subsequently went into default are recorded under *Net gains and losses on financial instruments at fair value through profit or loss* until the termination date of these instruments. At this termination date, receivables and debts on these counterparties are recognized at fair value in the consolidated statement of financial position. Any further impairment on these receivables is recognized under *Provision for impairment losses* in the consolidated statement of profit or loss.

(ii) *Derivative hedging instruments*

To designate an instrument as a derivative hedging instrument, the Group must document the hedging relationship at the inception of the hedge. This documentation specifies the asset, liability, or future transaction hedged, the risk to be hedged, the type of financial derivative used and the valuation method applied to measure its effectiveness. The derivative designated as a hedging instrument must be highly effective in offsetting the change in fair value or cash flows arising from the hedged risk, both when the hedge is first set up and throughout its life. Derivative hedging instruments are recognized in the consolidated statement of financial position under *Hedging instruments*.

Depending on the risk hedged, the Group designates the derivative as a fair value hedge, or a cash flow hedge.

Fair value hedge

In a fair value hedge, the carrying value of the hedged item is adjusted for gains and losses attributable to the hedged risk, which are reported under *Net gains and losses on financial instruments at fair value through profit or loss.* As the hedging is highly effective, changes in the fair value of the hedged item are faithfully reflected in the fair value of the derivative hedging instrument. As regards interest rate derivatives, accrued interest income or expenses are booked in the consolidated statement of profit or loss *under Interest income and expense − Hedging derivatives* at the same time as the interest income or expense related to the hedged item.

If it becomes apparent that the derivative has ceased to meet the effectiveness criteria for hedge accounting or if it is sold, hedge accounting is discontinued prospectively. Thereafter, the carrying amount of the hedged asset or liability ceases to be adjusted for changes in fair value and the cumulative adjustments previously recognized under hedge accounting are amortised over its remaining life. Hedge accounting is discontinued automatically if the hedged item is sold before maturity or redeemed early.

Cash flow hedge

In a cash flow hedge, the effective portion of the changes in fair value of the hedging derivative instrument is recognized in a specific equity account, while the ineffective portion is recognized in the consolidated statement of profit or loss under *Net gains and losses on financial instruments at fair value through profit or loss.*

Amounts directly recognized in equity under the cash flow hedge accounting are reclassified in *Interest income and expenses* in the consolidated statement of profit or loss at the same time as the cash flows being hedged. Accrued interest income or expense on hedging derivatives is booked to the consolidated statement of profit or loss under *Interest income and expenses − Hedging derivatives* at the same time as the interest income or expense related to the hedged item.

Whenever the hedging derivative ceases to meet the effectiveness criteria for hedge accounting or is terminated or sold, hedge accounting is discontinued prospectively. Amounts previously recognized directly in equity are reclassified under *Interest income and expenses* in the consolidated statement of profit or loss over the periods where the interest margin is affected by cash flows arising from the hedged item.

If the forecast transaction is no longer expected to occur, unrealized gains and losses booked to other comprehensive income from the period when the hedge was effective are immediately reclassified from equity to profit or loss. A forecast transaction that is no longer highly probable may still be expected to occur.

If the hedging instrument expires or is sold, terminated or exercised, the cumulative gain or loss on the hedging instrument that has been recognised in other comprehensive income from the period when the hedge was effective remains separately in equity until the forecast transaction occurs.

Embedded derivative

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 were carried at fair value in the trading portfolio with changes in fair value recognised in the consolidated statement of profit or loss.

From 1 January 2018, with the introduction of IFRS 9, the Group accounts 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.

Government grants

The Group is running the car loan program using financing from RF Government, under which RF Government is financing interest income on car loans.

The Group also participates in the RF Government program for mortgage lending support, under which the Group originated loans at decreased interest rate and RF Government subsidies the estimated interest income receivable due to the excess of the government interest rate over the contractual interest rate.

The difference between the fair value at initial recognition and the carrying value of the loan issued under these government programs is accounted in accordance with IAS 20 Accounting for Government Grants and Disclosure of Government Assistance within Loans and advances to customers. Government grants are recognized in the consolidated statement of profit or loss within Interest income on a systematic basis over the periods in which the Group recognizes interest income on loans the grants are intended to compensate.

Securities repurchase and reverse repurchase agreements and lending transactions

In the normal course of business, the Group enters into sale and purchase back agreements (“repos”) and purchase and sale back agreements (“reverse repos”). Repos and reverse repos are utilized by the Group as an element of its treasury management.

A repo is an agreement to transfer a financial asset to another party in exchange for cash or other consideration and a concurrent obligation to reacquire the financial assets at a future date for an amount equal to the cash or other consideration exchanged plus interest. These agreements are accounted for as financing transactions. Financial assets sold under repo are retained in the consolidated financial statements and consideration received under these agreements is recorded as collateralized deposit received within balances due to banks/customer accounts.

Assets purchased under reverse repos are recorded in the consolidated financial statements as cash placed on deposit collateralized by securities and other assets and are classified within balances due from banks/loans to customers.

In the event that assets purchased under reverse repo are sold to third parties, the results are recorded with the gain or loss included in net gains/(losses) on respective assets. Any related income or expense arising from the pricing difference between purchase and sale of the underlying assets is recognized as interest income or expense in the consolidated statement of profit or loss.

The Group enters into securities repurchase agreements and securities lending transactions under which it receives or transfers collateral in accordance with normal market practice. Under standard terms for repurchase transactions in the Russian Federation (“RF”) and other CIS states, the recipient of collateral has the right to sell or repledge the collateral, subject to returning equivalent securities on settlement of the transaction, only if the counterparty fails to meet its obligations per the agreement on the lending transaction.

The transfer of securities to counterparties is only reflected on the statement of financial position if the risks and rewards of ownership are also transferred.

Renegotiated loans

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

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

- Change in currency of the loan;
- Change in 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 change in cash flows discounted at the original EIR, the Group records a modification gain or loss, presented within interest revenue calculated using EIR in the consolidated statement of profit or loss, to the extent that an impairment loss has not already been recorded.

For modifications not resulting in derecognition, the Group 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 for a minimum 6-month probation period. In order for the restructured loan to be reclassified out of Stage 3, regular payments of more than an insignificant amount of principal or interest have been made during at least half of the probation period in accordance with the modified payment schedule.

Impairment of financial assets under IAS 39

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For listed and unlisted equity investments classified as AFS, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

- Significant financial difficulty of the issuer or counterparty; or
- Breach of contract, such as default or delinquency in interest or principal payments;
- Default or delinquency in interest or principal payments; or
- It becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- Disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial asset, such as loans and receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of loans and receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of loans and receivables, where the carrying amount is reduced through the use of an allowance account. When a loan or a receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

When an AFS financial asset is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss in the period.

For financial assets measured at amortized cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

In respect of AFS equity securities, impairment losses previously recognized in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss i recognized in other comprehensive income and accumulated under the heading of investments revaluation reserve.

In respect of AFS debt securities, impairment losses are subsequently reversed through profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

It should be noted that the evaluation of losses includes a subjective factor. The management of the Group believes that the amount of recorded impairment is sufficient to cover losses incurred on assets subject to risks at the reporting date, although it is not improbable that in certain periods the Group can incur losses greater compared to recorded impairment.

Information on impairment assessment under IFRS 9 is presented in Note 40.

Write off of loans and advances

Loans and advances are written off against the allowance for impairment losses when deemed uncollectible. Loans and advances are written off after management has exercised all possibilities available to collect amounts due to the Group and after the Group has sold all available collateral. Subsequent recoveries of amounts previously written off are reflected as an offset to the charge for impairment of financial assets in the consolidated statement of profit or loss in the period of recovery.

Derecognition of financial assets

The Group derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain of loss that had been recognized in other comprehensive income and accumulated in equity is recognized in profit or loss.

On derecognition of a financial asset other than in its entirety (e.g. when the Group retains an option to repurchase part of a transferred asset), the Group allocates the previous carrying amount of the financial asset between the part it continues to recognize under continuing involvement, and the part it no longer recognises on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognised and the sum of the consideration received for the part no longer recognised and any cumulative gain or loss allocated to it that had been recognised in other comprehensive income is recognized in profit or loss. A cumulative gain or loss that had been recognised in other comprehensive income is allocated between the part that continues to be recognised and the part that is no longer recognised on the basis of the relative fair values of those parts.

Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessor

Amounts due from lessees under finance leases are recognised as receivables at the amount of the Group's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

Repossessed assets

In certain circumstances, assets are repossessed following the foreclosure on loans that are in default. Repossessed assets may be accounted by the Group under IAS 2 *Inventories*, IAS 40 *Investment Property*, IAS 16 *Property, Plant and Equipment*, IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* or other applicable standard depending on the nature and intended use of such assets.

Property and equipment

Property and equipment, except land and buildings, acquired after 1 January 2003 are carried at historical cost less accumulated depreciation and any recognized impairment loss, if any. Property and equipment and intangible assets, acquired before 1 January 2003 are carried at historical cost restated for inflation less accumulated depreciation and any recognized impairment loss, if any.

Leasehold improvements are amortized over the life of the related leased asset. Expenses related to repairs and renewals are charged when incurred and included in operating expenses unless they qualify for capitalization.

Land and buildings held for use in supply of services, or for administrative purposes, are stated in the consolidated statement of financial position at their revalued amounts, being the fair value at the date of revaluation, determined from market-based evidence by appraisal undertaken by professional independent appraisers, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair values at the reporting date.

Any revaluation increase arising on the revaluation of such land and buildings is credited to the property and equipment revaluation reserve, except to the extent that it reverses a revaluation decrease for the same asset previously recognized as an expense, in which case the increase is credited to the consolidated statement of profit or loss to the extent of the decrease previously charged. A decrease in carrying amount arising on the revaluation of such land and buildings is charged as an expense to the extent that it exceeds the balance, if any, held in the property and equipment revaluation reserve relating to a previous revaluation of that asset.

Market value of property is assessed using three methods:

- The comparable sales method which involves analysis of market sales prices for similar real estate property;
- The income-based method which assumes a direct relationship between revenues generated by the property and its market value;
- The costs method which presumes the value of property to be equal to its recoverable amount less any depreciation charges.

Depreciation on revalued buildings is charged to the consolidated statement of profit or loss. On the subsequent sale or retirement of a revalued property, the attributable revaluation surplus remaining in the property and equipment revaluation reserve is transferred directly to retained earnings.

Freehold land is not depreciated.

Depreciation is recognised so as to write off the cost or valuation of assets (other than freehold land and properties under construction) less their residual values over their useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis at the following annual rates:

Buildings	2%
Equipment	20%
Others	Over useful life of 3-10 years

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Intangible assets

Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses.

Internally-generated intangible assets − research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

- The technical feasibility of completing the intangible asset so that it will be available for use or sale;
- The intention to complete the intangible asset and use or sell it;
- The ability to use or sell the intangible asset;
- How the intangible asset will generate probable future economic benefits;
- The availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- The ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for internally-generated intangible assets is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is recognised in profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible assets are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

Derecognition of intangible assets

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, and are recognised in profit or loss when the asset is derecognised.

Impairment of tangible and intangible assets other than goodwill

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Precious metals

Assets and liabilities denominated in precious metals are translated at the current rate computed based on the second fixing of the London Metal Exchange rates, using the RUB/USD exchange rate effective at the date. Changes in the bid prices are recorded in net loss on operations with precious metals operations.

Taxation

Income tax expense represents the sum of the current and deferred tax expense.

Current tax

The current tax expense is based on taxable profit for the year. Taxable profit differs from net profit before tax as reported in the consolidated statement of profit or loss because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's current tax expense is calculated using tax rates that have been enacted during the reporting period.

Deferred tax

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognized for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred income tax assets and deferred income tax liabilities are offset and reported net on the statement of financial position if:

- The Group has a legally enforceable right to set off current income tax assets against current income tax liabilities; and
- Deferred income tax assets and the deferred income tax liabilities relate to income taxes levied by the same taxation authority on the same taxable entity.

Current and deferred tax for the year

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Operating taxes

Countries where the Group operates also have various other taxes, which are assessed on the Group's activities. These taxes are included as a component of operating expenses in the consolidated statement of profit or loss.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Contingencies

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

Fiduciary activities

The Group provides trustee services to its customers. The Group also provides depositary services to its customers which include transactions with securities on their depositary accounts. Assets accepted and liabilities incurred under the fiduciary activities are not included in the Group's financial statements. The Group accepts the operational risk on these activities, but the Group's customers bear the credit and market risks associated with such operations. Revenue for provision of trustee services is recognized as services are provided.

Share capital, share premium and treasury shares

Contributions to share capital made before 1 January 2003 are recognized at their cost restated for inflation. Contributions to share capital made after 1 January 2003 are recognized at cost. Share premium represents the excess of contributions over the nominal value of the shares issued.

Costs directly attributable to the issue of new shares, other than on a business combination, are deducted from equity net of any related income taxes.

Treasury shares are deducted directly from the Group's equity.

Dividends on ordinary shares are recognized in equity as a reduction in the period in which they are declared. Dividends that are declared after the reporting date are treated as a subsequent event under IAS 10 *Events after the Reporting Period* ("IAS 10") and disclosed accordingly.

Retirement and other benefit obligations

The Group does not have any pension arrangements separate from the State pension system of the Russian Federation and other countries, which require current contributions by the Group calculated as a percentage of current gross salary payments. Such expense is charged in the period the related salaries are earned. Upon retirement all retirement benefit payments are made by state pension fund. In addition, the Group has no post-retirement benefits or other significant compensated benefits requiring accrual.

Share based payments

For cash settled share based payments (compensation indexed on Societe Generale shares), the fair value of the amounts payable is booked to Operational expenses as an expense against a corresponding liability entry booked in the balance sheet under Other liabilities. This payables item is then remeasured at fair value against income until settled. For hedging derivatives, the effective portion of the change in their fair value is booked through profit or loss.

In April 2018 and 2017 Rosbank Group adopted a share equivalent plan (the “Share Plan”), respectively granting 38,601 and 58,362 Societe Generale Performance Shares equivalent (“the Performance Shares”) to employees of Rosbank Group, subject to conditions of presence and performance. The beneficiaries are executive corporate officers who are part of Rosbank Group as of the date the Share Plan is adopted.

The effective vesting of Performance Shares is subject to a continued employment condition as well as to performance conditions. The satisfaction of the continued employment and performance conditions will be reviewed and officially acknowledged at the end of each of the vesting periods.

The fair value of the payable amount is booked as operating expenses over the vesting period against a corresponding liability booked under other liabilities. As of 31 December 2018 and 2017, the total carrying amount of the corresponding liabilities amounted to RUB 66 and 112 million respectively.

Accounting for the effects of hyperinflation

Russia

In accordance with IAS 29, economy of the Russian Federation was treated as hyperinflationary till the end of 2002. Since 1 January 2003 economy of the Russian Federation ceased to be hyperinflationary, and the costs of non-monetary assets, liabilities and equity, calculated as at 31 December 2002, were used to form the beginning balances as at 1 January 2003.

Foreign currency translation

The individual financial statements of each Group entity are presented in the currency of the primary economic environment in which the entity operates.

In preparing the financial statements of each individual group entity, transactions in currencies other than the entity’s functional currency (foreign currencies) are recognised at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences on monetary items are recognised in profit or loss in the period in which they arise except for:

- Exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings;
- Exchange differences on transactions entered into in order to hedge certain foreign currency risks (see above for hedge accounting); and

- Exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognised initially in other comprehensive income and reclassified from equity to profit or loss on repayment of the monetary items.

For the purposes of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations, whose functional currency is not the currency of hyperinflationary economy, are translated into RUB using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity (attributed to non-controlling interests as appropriate).

On the disposal of a foreign operation (i.e. a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, or a partial disposal of an interest in a joint arrangement or an associate that includes a foreign operation of which the retained interest becomes a financial asset), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Group are reclassified to profit or loss.

In addition, in relation to a partial disposal of a subsidiary that includes a foreign operation that does not result in the Group losing control over the subsidiary, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognised in profit or loss. For all other partial disposals (i.e. partial disposals of associates or joint arrangements that do not result in the Group losing significant influence or joint control), the proportionate share of the accumulated exchange differences is reclassified to profit or loss.

Goodwill and fair value adjustments on identifiable assets and liabilities acquired arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the rate of exchange prevailing at the end of each reporting period. Exchange differences arising are recognised in other comprehensive income.

Rates of exchange and commodity prices

The exchange rates and commodity prices at period-end used by the Group in the preparation of the consolidated financial statements are as follows:

	31 December 2018	31 December 2017
RUB/1 US dollar	69.4706	57.6002
RUB/1 euro	79.4605	68.6886
RUB/Gold (1 ounce)	88,852.90	74,678.66
RUB/Platinum (1 ounce)	54,742.83	53,395.39
RUB/Palladium (1 ounce)	88,227.66	60,825.81
RUB/Silver (1 ounce)	1,062.55	971.43

Collateral

The Group obtains collateral in respect of customer liabilities where this is considered appropriate. The collateral normally takes the form of a lien over the customer's assets and gives the Group a claim on these assets for both existing and future customer liabilities.

Equity reserves

The reserves recorded in equity (other comprehensive income) on the Group's statement of financial position include:

- 'Available-for-sale reserve' which comprises changes in fair value of available-for-sale investments;
- 'Cash flow hedge reserve' which comprises the portion of the gain or loss on a hedging instrument in a cash flow hedge that is determined to be an effective hedge;
- 'Foreign currency translation reserve' which is used to record exchange differences arising from the translation of the net investment in foreign operations, net of the effects of hedging;
- 'Revaluation reserve' which comprises effect of revaluation of property and equipment.

Non-current assets held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the non-current asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

When the Group is committed to a sale plan involving loss of control of a subsidiary, all of the assets and liabilities of that subsidiary are classified as held for sale when the criteria described above are met, regardless of whether the Group will retain a non-controlling interest in its former subsidiary after the sale.

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell.

Segment reporting

Operating segments are identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segment and to assess its performance.

The Group measures information about reportable segments in accordance with IFRS. Information about reportable operating segment meets any one of the following quantitative thresholds:

- Its reported revenue, from both external customers and intersegment sales or transfers, is 10 per cent or more of the combined revenue, internal and external, of all operating segments; or
- The absolute measure of its reported profit or loss is 10 per cent or more of the greater, in absolute amount, of (i) the combined reported profit of all operating segments that did not report a loss and (ii) the combined reported loss of all operating segments that reported a loss; or
- Its assets are 10 per cent or more of the combined assets of all operating segments.

If the total external revenue reported by operating segments constitutes less than 75 per cent of the entity's revenue, additional operating segments are identified as reportable segments (even if they do not meet the quantitative thresholds set out above) until at least 75 per cent of the Group's revenue is included in reportable segments.

Critical accounting judgements and key sources of estimation uncertainty

In the application of the Group's accounting policies the Group management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Estimation uncertainty

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

Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded in the consolidated statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The input to these models is taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. Additional details are provided in Note 35.

Impairment losses on financial assets

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

- The Group's internal credit grading model, which assigns PDs to the individual grades;
- The Group'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 is assessed on a collective basis;
- Development of ECL models, including the various formulae and the choice of inputs;
- 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 the economic inputs into the ECL models.

Critical judgements in applying accounting policies

The following are the critical judgements, apart from those involving estimations (see below), that the Group management has made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the consolidated financial statements.

Property and equipment carried at revalued amounts

Certain buildings are measured at revalued amounts. The date of the latest appraisal was 31 December 2017. The next revaluation is preliminary scheduled at 31 December 2019.

Recoverability of deferred tax assets

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 utilised.

Standards issued but not yet effective

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

IFRS 16 Leases

IFRS 16 was issued in January 2016 and it 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 recognise 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 recognise 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 recognise 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 is effective for annual periods beginning on or after 1 January 2019, requires lessees and lessors to make more extensive disclosures than under IAS 17.

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

The Group will elect to use the exemptions proposed by the standard on lease contracts for which the lease terms ends within 12 months as of the date of initial application, and lease contracts for which the underlying asset is of low value. The Group has leases of certain office equipment (i.e., personal computers, printing and photocopying machines) that are considered of low value.

The Group is in process of assessment of the impact on assets and liabilities of IFRS 16 as at 1 January 2019.

IFRS 17 Insurance Contracts

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

- 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.

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

IFRIC Interpretation 23 Uncertainty over Income Tax Treatment

The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12 and does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. 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 has to 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, but certain transition reliefs are available. The Group will apply the interpretation from its effective date. Since the Group operates in a complex tax environment, applying the Interpretation may affect its consolidated financial statements. In addition, the Group may need to establish processes and procedures to obtain information that is necessary to apply the Interpretation on a timely basis.

Amendments to IFRS 9 Prepayment Features with Negative Compensation

Under IFRS 9, a debt instrument can be measured at amortised 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 from 1 January 2019, with earlier application permitted. These amendments have no impact on the consolidated financial statements of the Group.

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

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

Amendments to IAS 19 Plan Amendment, Curtailment or Settlement

The amendments to IAS 19 address the accounting when a plan amendment, curtailment or settlement occurs during a reporting period. The amendments specify that when a plan amendment, curtailment or settlement occurs during the 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 recognised 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 recognised in other comprehensive income.

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

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

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

The amendments also clarified that, in applying IFRS 9, an entity does not take account of any losses of the associate or joint venture, or any impairment losses on the net investment, recognised 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 from 1 January 2019, with early application permitted. Since the Group does not have such long-term interests in its associate and joint venture, the amendments will not have an impact on its consolidated 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 applies those amendments to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2019, with early application permitted. These amendments will apply on future business combinations of the Group.

IFRS 11 Joint Arrangements

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

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

IAS 12 Income Taxes

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

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

IAS 23 Borrowing Costs

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

An entity applies 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 applies those amendments for annual reporting periods beginning on or after 1 January 2019, with early application permitted. Since the Group's current practice is in line with these amendments, the Group does not expect any effect on its consolidated financial statements.

5. Application of new and revised International Financial Reporting Standards (IFRS)

The accounting policies adopted in the preparation of the consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2017, except for the adoption of new standards effective as of 1 January 2018. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective. The nature and the impact of each amendment is described below:

IFRS 9 Financial Instruments

IFRS 9 replaces IAS 39 *Financial Instruments: Recognition and Measurement* for annual periods on or after 1 January 2018. The Group has not restated comparative information for 2017 for financial instruments in the scope of IFRS 9. Therefore, the comparative 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 recognised directly in retained earnings as of 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" (SPPI) criterion, are classified at initial recognition as fair value through profit or loss (FVPL). Under this criterion, debt instruments that do not correspond to a "basic lending arrangement", such as instruments containing embedded conversion options or "non-recourse" loans, are measured at FVPL. For debt financial assets that meet the SPPI criterion, classification at initial recognition is determined based on the business model, under which these instruments are managed:

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

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 investments classified as FVOCI, all realised and unrealised gains and losses, except for dividend income, are recognised in other comprehensive income with no subsequent reclassification to profit and loss.

The classification and measurement of financial liabilities remains largely unchanged from the current IAS 39 requirements. Derivatives will continue to be measured at FVPL. Embedded derivatives are no longer separated from a host financial asset.

(b) Impairment

The adoption of IFRS 9 has fundamentally changed the Group'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 Group 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, in this section all referred to as 'financial instruments'. 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), the allowance is based on the change in the ECLs over the life of the asset. Details of the Bank's impairment method are disclosed in Note 40. The quantitative impact of applying IFRS 9 as at 1 January 2018 is disclosed in section below.

(c) Effect of transition to IFRS 9

The following tables set 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.

A reconciliation between the carrying amounts under IAS 39 to the balances reported under IFRS 9 as at 31 December 2017 is as follows:

	IAS 39 measurement			Remeasurement		IFRS 9 measurement	
	Category	**Amount**	**Reclas-sification**	**ECL**	**Other**	**Amount**	**Category**
Financial assets							
Cash and cash equivalents	Loans and receivables	209,810	–	(7)	–	209,803	Amortised cost
Mandatory cash balances with the Central Bank of the Russian Federation	Loans and receivables	6,113	–	–	–	6,113	Amortised cost
Financial assets at fair value through profit or loss	FVPL	34,570	191	–	–	34,761	FVPL(mandatory)
Due from banks	Loans and receivables	11,767	–	(4)	–	11,763	Amortised cost
Loans to customers – amortised cost	Loans and receivables	654,875	–	(4,206)	–	650,669	Amortised cost
Investments at fair value through other comprehensive income	AFS	15,160	(191)	–	–	14,969	FVOCI (debt)
Investments at amortised cost	HTM	73,479	–	(56)	1,427	74,850	Amortised cost
Other financial assets	Loans and receivables	1,840	–	(4)	–	1,836	Amortised cost
Non-financial assets		30,442	–	–	–	30,442	
Deferred income tax assets		2,859	–	717	(286)	3,290	
Total assets		**1,040,915**	**–**	**(3,560)**	**1,141**	**1,038,496**	
Financial liabilities							
Provisions		(1,124)	–	696	–	(428)	
Total liabilities		**(1,124)**	**–**	**696**	**–**	**(428)**	

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

	Reserves and retained earnings
Fair value reserve	
Closing balance under IAS 39 (31 December 2017)	**(1,073)**
Remeasurement of debt securities reclassified from available-for-sale to FVOCI	1,427
Recognition of expected credit losses under IFRS 9 for debt financial assets at FVOCI	3
Deferred tax in relation to the above	(286)
Restated opening balance under IFRS 9 (1 January 2018)	**71**
Retained earnings	
Closing balance under IAS 39 (31 December 2017)	**50,975**
Recognition of IFRS 9 ECLs including those measured at FVOCI	(3,584)
Deferred tax in relation to the above	717
Restated opening balance under IFRS 9 (1 January 2018)	**48,108**
Total change in equity due to adopting IFRS 9	**(1,723)**

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

	Loan loss allowance/ provision under IAS 39/IAS 37 at 31 December 2017	Remeasurement	ECL under IFRS 9 at 1 January 2018
Impairment allowance for			
Cash and cash equivalents	–	(7)	(7)
Due from banks	–	(4)	(4)
Loans and receivables at amortised cost	(46,271)	(4,206)	(50,477)
Held to maturity securities per IAS 39 / investment securities at amortised cost under IFRS 9	–	(56)	(56)
Available-for-sale debt investment securities per IAS 39 / debt financial assets at FVOCI under IFRS 9	–	(3)	(3)
Other assets	(832)	(4)	(836)
Provisions for financial guarantees issued, claims and other commitments	(847)	696	(151)

IFRS 15 Revenue from Contracts with Customers

IFRS 15, issued in May 2014, and amended in April 2016, will supersede all current revenue recognition requirements under IFRS. Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after 1 January 2018. The Group plans to adopt the new standard using the modified retrospective method by recognizing the cumulative transition effect in opening retained earnings on 1 January 2018, without restating comparative information.

IFRS 15 establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised 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, interest and fee income integral to financial instruments and leases will fall outside the scope of IFRS 15 and will be regulated by the other applicable standards (IFRS 9 and IFRS 16 *Leases*). As a result, the majority of the Group's income are not impacted by the adoption of this standard.

The Group adopted the new standard using the modified retrospective method. The application of this retrospective method did not significantly impacted the Group's retained earnings.

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 recognised in full. Any gain or loss resulting from the sale or contribution of assets that do not constitute a business, however, is recognised only to the extent of unrelated investors' interests in the associate or joint venture. The IASB has deferred the effective date of these amendments indefinitely, but an entity that early adopts the amendments must apply them prospectively. The Group will apply these amendments when they become effective.

IFRIC Interpretation 22 Foreign Currency Transactions and Advance Considerations

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 recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine the date of the transactions for each payment or receipt of advance consideration. This Interpretation does not have any impact on the Group's consolidated financial statements.

Amendments to IAS 40 Transfers of Investment Property

The amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. These amendments do not have any impact on the Group's consolidated financial statements.

6. Change of prior period balances

The Group has changed presentation of Cash and cash equivalents to provide better view of the consolidated financial statements. The presentation of the comparative figures has been adjusted to be consistent with the new presentation.

	As previously reported 31 December 2017 mRUB	Reclassi-fication	As revised 31 December 2017 mRUB
Cash and balances with Central Bank of Russian Federation	136,903	(136,903)	–
Cash and cash equivalents	–	209,810	209,810
Mandatory cash balances with the Central Bank of the Russian Federation	–	6,113	6,113
Due from banks	90,787	(79,020)	11,767

7. Cash and cash equivalents

Cash and cash equivalents comprise:

	31 December 2018 mRUB	As revised 31 December 2017 mRUB
Cash	18,931	19,269
Balances with the Central Bank of the Russian Federation	99,221	111,521
Current accounts in banks	10,028	10,358
Demand deposits in banks	6,116	5,534
Loans under reverse repurchase agreements	7,655	35,776
Due from banks with original maturity within 90 days	49,334	27,352
Cash and cash equivalents	**191,285**	**209,810**
Less: allowance for impairment	(6)	–
Total cash and cash equivalents	**191,279**	**209,810**

Fair value of assets pledged and carrying value of loans under the reverse repurchase agreements as at 31 December 2018 and 31 December 2017 comprise:

	31 December 2018 mRUB		31 December 2017 mRUB	
	Carrying value of loan	**Fair value of collateral**	**Carrying value of loan**	**Fair value of collateral**
Bonds of Russian companies	2,539	2,870	23,779	27,197
Bonds of the Russian Federation	1,536	1,618	2,430	2,771
Bonds of local authorities of Russian Federation	–	–	3,170	3,368
Bonds of the Russian banks	2,684	3,096	4,896	5,495
Shares of Russian banks	896	1,381	–	–
Shares of Russian companies	–	–	1,501	2,547
Total loans under reverse repurchase agreements	**7,655**	**8,963**	**35,776**	**41,378**

8. Financial assets at fair value through profit or loss

	31 December 2018 mRUB	31 December 2017 mRUB
Debt securities	453	3,204
Financial assets at fair value through profit or loss pleged under repurchases agreements	–	32
Derivative financial instruments (Note10)	42,381	31,334
Shares	191	–
Total financial assets at fair value through profit or loss	**43,025**	**34,570**

The debt securities included in financial assets at fair value through profit or loss relate entirely to financial assets held-for-trading.

	31 December 2018		31 December 2017	
	Nominal interest rate %	**Amount mRUB**	**Nominal interest rate %**	**Amount mRUB**
Debt securities				
Debt securities of Russian banks	–	–	8.45-10.4%	210
Debt securities of the Russian Federation	6.4-8.02%	453	6.4-10.61%	1,400
Debt securities of Russian companies	–	–	2.25-8.8%	1,426
Debt securities of local authorities	–	–	7.6-7.7%	200
		453		**3,236**

9. Due from banks

	31 December 2018 mRUB	31 December 2017 mRUB
Term deposits in banks	9,392	11,767
Less: allowance for impairment	(1)	–
Total due from banks	**9,391**	**11,767**

As of 31 December 2018 and 2017 the Group didn't have loans and advances to banks, which individually exceeded 10% of the Group's equity.

10. Derivative financial instruments

Derivative financial instruments comprise:

	Nominal value	31 December 2018 Fair value mRUB		Nominal value	31 December 2017 Fair value mRUB	
		Assets	Liabilities		Assets	Liabilities
Derivative financial instruments						
Foreign exchange contracts						
Swaps	336,482	4,676	(4,782)	52,645	809	(3,394)
Forwards	121,812	348	(1,913)	42,485	2,377	(515)
IRS/CIRS	429,200	34,211	(31,601)	338,872	27,642	(27,476)
Cash flow and NIFE hedge	3,184	608	(105)	854	32	(1)
Foreign exchange options	66,985	790	(828)	2,012	43	(43)
Total foreign exchange contracts		**40,633**	**(39,229)**		**30,903**	**(31,429)**
Contracts on precious metals and commodities						
Forwards	3,948	285	(285)	5,893	427	(427)
Swaps	118	20	–	92	4	–
Options	16,704	1,443	(1,443)	10,887	–	–
Total contracts on precious metals and commodities		**1,748**	**(1,728)**		**431**	**(427)**
Total		**42,381**	**(40,957)**		**31,334**	**(31,856)**

Embedded derivatives

The Group issued structural bonds with embedded derivatives included in financial assets at fair value through profit and loss in amount RUB 3,569 million as at 31 December 2018 and in financial liabilities at fair value through profit and loss in amount RUB 3,833 million as at 31 December 2017, respectively. Simultaneously the Group entered into interest rate swap contracts to compensate future cash flows to be paid on structural bonds issued. The fair value of interest rate swaps included in financial liabilities at fair value through profit and loss amounted to RUB 3,561million as at 31 December 2018 and in financial liabilities at fair value through profit and loss amounted to RUB 3,998 million as at 31 December 2017, respectively.

11. Loans to customers

	31 December 2018 mRUB	31 December 2017 mRUB
Loans at amortised cost		
Loans to corporate business		
Loans to legal entities	287,856	273,062
Net investments in finance lease	17,778	14,875
Account receivable from RF Government on financed loans	1,880	4,283
Loans under reverse repurchase agreements	–	847
Loans to retail business		
Loans to individuals	457,318	408,079
Total loans at amortised cost	**764,832**	**701,146**
Loans at fair value through other comprehensive income		
Loans to individuals at fair value through other comprehensive income	3,203	–
Total loans at fair value through other comprehensive income	**3,203**	**–**
Total loans to customers before impairment	**768,035**	**701,146**
Less: allowance for impairment	(44,063)	(46,271)
Total loans to customers	**723,972**	**654,875**

The analyses by sector of loans to customers is follow:

	31 December 2018 mRUB	31 December 2017 mRUB
Analysis by sector		
Individuals	460,521	408,079
Manufacturing and engineering	90,249	82,816
Trade	59,740	59,290
Metallurgy	29,714	24,269
Energy industry	27,409	18,567
Oil and gas	19,852	12,114
Transport	18,772	17,183
Precious metals and diamond extraction and manufacturing	17,670	27,483
Finance	9,219	18,024
Real estate and construction	6,692	8,195
Government	6,127	9,239
Telecommunications, media and information technology	5,617	5,364
Defence industry	–	258
Other	16,453	10,265
	768,035	**701,146**
Less: allowance for impairment losses	(44,063)	(46,271)
Total loans to customers	**723,972**	**654,875**

In 2018 the Group implemented a new business model in order to diversify the sources of income. The Group decided to achieve this objective by both collecting contractual cash flows from its financial assets and also selling them. In July 2018 the Group made the successful first deal to sell a part of mortgage loans portfolio in the amount of RUB 6,106 million to DOM.RF Mortgage Agent. Starting from July 2018 newly originated loans eligible for future sales were classified to HTCS portfolio and measured at FVOCI. As of 31 December 2018 the aggregate amount of loans to customers included loans measured at FVOCI in the amount of RUB 3,203 million.

As of 31 December 2018 the Group had loans to two groups of customers which individually exceeded 10% of the Group's equity.

As of 31 December 2017 the Group had loans to three groups of customers which individually exceeded 10% of the Group's equity.

As of 31 December 2018 the amount receivable from RF Government on the financed car loan program amounted to RUB 1,880 million (as of 31 December 2017 − to RUB 4,283 million).

As of 31 December 2018 and 2017 a substantial amount of loans is granted to companies operating in the Russian Federation, which represents a significant geographical concentration in one region.

During the years ended 31 December 2018 and 2017 the Group received non-financial assets as a repayment on loans. As at 31 December 2018 and 2017 such assets in the amount of RUB 4,122 million and RUB 4,439 million, respectively are included in other assets (Note 15).

Fair value of assets pledged and carrying value of loans under the reverse repurchase agreements as at 31 December 2018 and 2017 comprise:

	31 December 2018 mRUB		31 December 2017 mRUB	
	Carrying value of loan	Fair value of collateral	Carrying value of loan	Fair value of collateral
Bonds of Russian companies	–	–	847	960
Total loans under reverse repurchase agreements	**–**	**–**	**847**	**960**

Loans to individuals comprise the following products:

	31 December 2018		
	Gross amount mRUB	Less allowance for impairment losses mRUB	Net amount mRUB
Mortgage loans	202,874	(4,307)	198,567
Car loans	101,651	(10,948)	90,703
Consumer loans	121,341	(11,449)	109,892
Overdraft	14,163	(2,781)	11,382
Express-loans	8,769	(1,276)	7,493
Loans to VIP clients and employees	1,726	(156)	1,570
Loans to Individual enterpreneures	9,997	(2,402)	7,595
	460,521	**(33,319)**	**427,202**

	31 December 2017		
	Gross amount mRUB	Less allowance for impairment losses mRUB	Net amount mRUB
Mortgage loans	191,063	(3,408)	187,655
Car loans	97,798	(13,836)	83,962
Consumer loans	93,163	(10,191)	82,972
Overdraft	14,076	(3,195)	10,881
Express-loans	8,615	(1,562)	7,053
Loans to VIP clients and employees	2,011	(540)	1,471
Loans to individual enterpreneures	1,353	(1,329)	24
	408,079	**(34,061)**	**374,018**

The table below summarizes an analysis of loans to customers by impairment:

			31 December 2017 mRUB
	Original carrying amount	**Impairment allowance**	**Carrying amount**
Loans to customers individually determined to be impaired	12,267	(10,129)	2,138
Loans to customers individually determined to be unimpaired	269,661	–	269,661
Loans to customers collectively assessed for impairment, including:			
- loans assessed to be impaired	44,105	(36,142)	7,963
- loans assessed to be unimpaired	375,113	–	375,113
Total	**701,146**	**(46,271)**	**654,875**

The components of net investment in finance lease as of 31 December 2018 and 2017 are as follows:

	31 December 2018 mRUB	31 December 2017 mRUB
Not later than one year	8,405	6,890
Later than 1 year	13,160	11,891
Minimum lease payments	21,565	18,781
Less: unearned finance income	(3,787)	(3,906)
Net investment in finance lease	**17,778**	**14,875**
Current portion	6,786	5,352
Long-term portion	10,992	9,523
Net investment in finance lease	**17,778**	**14,875**

12. Investments at fair value through other comprehensive income (previously classified as Investments available-for-sale)

	31 December 2018 mRUB	31 December 2017 mRUB
Debt securities	46,180	14,969
Equity investments	–	191
Investments at fair value through other comprehensive income (previously classified as Investments available-for-sale)	**46,180**	**15,160**

	31 December 2018		31 December 2017	
	Nominal interest rate %	**Amount mRUB**	**Nominal interest rate %**	**Amount mRUB**
Debt securities				
Bonds of the Russian Federation	6.5-7.75%	46,180	6.5-7.75%	14,969
		46,180		**14,969**

	31 December 2018	31 December 2017
	Amount mRUB	Amount mRUB
Equity investments		
Shares of Russian companies	–	190
Shares of international clearing companies	–	1
	–	**191**

13. Investments at amortised cost (previously classified as Investments held to maturity)

	31 December 2018		31 December 2017	
	Nominal annual interest rate	Amount mRUB	Nominal annual interest rate	Amount mRUB
Eurobonds of the Russian Federation	3.5-7.5%	40,937	3.5-11.0%	39,005
Bonds of the Russian Federation	7.0-8.15%	53,137	7.0-7.6%	27,597
Eurobonds of Russian companies	4.95-4.95%	78	3.37-9.13%	6,877
Less: allowance for impairment losses		(34)		–
Investments at amortised cost (previously classified as Investments held to maturity)		**94,118**		**73,479**

14. Property and equipment and intangible assets

	Land and buildings	Equipment	Intangible assets	Capital expenditure	Total
At cost / restated cost / revalued amount					
31 December 2016	**15,722**	**10,514**	**4,947**	**1,265**	**32,448**
Additions	–	297	339	2,177	2,813
Disposals	(552)	(604)	(244)	(152)	(1,552)
Revaluation	(1,675)	–	–	–	(1,675)
Transfer	30	1,045	960	(2,035)	–
31 December 2017	**13,525**	**11,252**	**6,002**	**1,255**	**32,034**
Additions	–	633	450	3,795	4,878
Disposals	(678)	(546)	(142)	–	(1,366)
Transfer	–	1,326	1,468	(2,794)	–
31 December 2018	**12,847**	**12,665**	**7,778**	**2,256**	**35,546**
Accumulated depreciation and impairment					
31 December 2016	**423**	**7,403**	**2,939**	**–**	**10,765**
Charge for the period	379	1,161	734	–	2,274
Disposals	(51)	(554)	(240)	–	(845)
Revaluation	(751)	–	–	–	(751)
Impairment loss	–	(135)	–	–	(135)
31 December 2017	**–**	**7,875**	**3,433**	**–**	**11,308**
Charge for the period	341	1,320	793	–	2,454
Disposals	(7)	(520)	(134)	–	(661)
Recovery of impairment	–	(163)	–	–	(163)
31 December 2018	**334**	**8,512**	**4,092**	**–**	**12,938**
Net book value					
31 December 2018	**12,513**	**4,153**	**3,686**	**2,256**	**22,608**
31 December 2017	**13,525**	**3,377**	**2,569**	**1,255**	**20,726**

As at 31 December 2018 and 2017 property and equipment included fully depreciated equipment amounting to RUB 3,358 million and RUB 2,968 million, respectively.

If buildings were stated at the historical cost, the amounts would be as follows:

	31 December 2018 mRUB	31 December 2017 mRUB
Cost	9,038	9,523
Accumulated depreciation	(1,579)	(1,763)
Net book value	**7,459**	**7,760**

15. Other assets

	31 December 2018 mRUB	31 December 2017 mRUB
Other financial assets		
Miscellaneous receivables	2,647	1,448
Agency operations	825	462
	3,472	**1,910**
Less credit loss expense/allowance for impairment losses	(956)	(70)
Total other financial assets	**2,516**	**1,840**
Other non-financial assets		
Inventory	6,081	6,341
Due from suppliers and other contractors	3,264	2,971
Taxes, other than income tax, recoverable	578	661
Advances to employees	21	21
Other	774	781
	10,718	**10,775**
Less allowance for impairment losses	(574)	(1,257)
Total other non-financial assets	**10,144**	**9,518**
Total other assets	**12,660**	**11,358**

As at 31 December 2018 and 2017 miscellaneous receivables mainly consist of amounts due from clients for banking services.

Movement of allowance for impairment losses on other assets for the years ended 31 December 2018 and 2017 is disclosed in Note 25.

As at 31 December 2018 and 2017 inventory includes the repossessed collateral in amount:

	31 December 2018 mRUB	31 December 2017 mRUB
Land	2,104	2,128
Buildings	1,348	1,419
Vehicles purchased by the Group for further resale	100	99
Other	570	793
Total repossessed collateral	**4,122**	**4,439**

16. Financial liabilities at fair value through profit or loss

	31 December 2018 mRUB	31 December 2017 mRUB
Derivative financial instruments	40,957	31,856
Short position on securities purchased	1,002	1,906
Total financial liabilities at fair value through profit or loss	**41,959**	**33,762**

Derivative financial instruments are disclosed in Note 10.

17. Due to banks and international financial institutions

	31 December 2018 mRUB	31 December 2017 mRUB
Time deposits	34,467	12,615
Demand accounts	37,431	18,436
Loans under repurchase agreements	547	1,038
Total due to banks and international financial institutions	**72,445**	**32,089**

The Group is obligated to comply with financial covenants in relation to certain balances deposits by banks disclosed above. These covenants include various financial performance ratios. As of 31 December 2018 and 2017 the Group has not breached any of these covenants.

As at 31 December 2018 and 2017 included in due to banks and international financial institutions are RUB 18,825 million and RUB 13,609 million (12% and 10% of Group Equity), respectively, that were due to three and two banks respectively, which represents a significant concentration.

Fair value of assets pledged and carrying value of loans under repurchase agreements as at 31 December 2018 and 2017 comprise:

	31 December 2018		31 December 2017	
	Carrying value of loans	**Fair value of collateral**	**Carrying value of loans**	**Fair value of collateral**
Bonds of the Russian Federation	547	547	33	32
Bonds of the Russian Federation purchased by reverse repurchases agreements	–	–	1,005	1,006
Total	**547**	**547**	**1,038**	**1,038**

18. Customer accounts

	31 December 2018 mRUB	31 December 2017 mRUB
Corporate		
Time deposits	258,578	256,197
Repayable on demand	192,993	139,744
Total corporate	**451,571**	**395,941**
Individuals		
Time deposits	139,826	148,906
Repayable on demand	149,134	103,177
Total individuals	**288,960**	**252,083**
Total customer accounts	**740,531**	**648,024**

As of 31 December 2018 and 2017 customer accounts amounting to RUB 1,129 million and RUB 910 million, respectively, were held as security against letters of credit issued and other transaction related contingent obligations. As of 31 December 2018 and 2017 customer accounts amounting to RUB 65 million and RUB 148 million, respectively, were held as security against guarantees issued (Note 35).

	31 December 2018 mRUB	31 December 2017 mRUB
Analysis by economic sector/customer type		
Individuals	288,960	252,083
Manufacturing and engineering	66,176	57,641
Oil and gas	65,102	67,656
Trade	55,044	55,407
Services	50,923	46,449
Finance	47,587	66,730
Precious metals and diamond extraction and manufacturing	32,168	17,698
Goverment	30,122	253
Energy industry	19,953	12,917
Transport	17,481	13,194
Real estate and construction	16,629	16,369
Telecommunications, media and information technology	10,238	16,654
Metallurgy	9,231	9,621
Defence industry	803	568
Other	30,114	14,784
Total customer accounts	**740,531**	**648,024**

19. Debt securities issued

	Annual coupon rates %	31 December 2018	Annual coupon rates %	31 December 2017
Bonds of Delta Credit Bank due in 2018-2026	5.00-12.40%	55,712	8.00-12.50%	72,627
Bonds of Rosbank due in 2020-2026	7.50-10.40%	17,639	7.50-10.40%	31,165
Bonds of Rusfinance Bank due in 2018-2026	2,00-10.00%	3,425	8.75-13.90%	20,549
Exchange structural bonds of Rosbank due in 2024	9.27-9.89%	10,164	9.89-11.52%	10,000
Discount bearing promissory notes	0.00-8.55%	12,968	0.00-8.55%	11,963
Total debt securities issued		**99,908**		**146,304**

During the period January-December 2018 the following bonds were redeemed:

Issuer	Issue date	Maturity date	Debt volume, mRUB	Annual coupon rate, %
DeltaCredit Bank	04.02.2015	04.02.2018	4,996	8.5%
DeltaCredit Bank	10.07.2013	04.07.2018	626	8.7%
DeltaCredit Bank	30.09.2015	18.12.2018	5,000	5.0%
Rusfinance Bank	29.09.2015	29.03.2018	200	8.8%
Rusfinance Bank	08.10.2014	04.04.2018	4,000	11.0%
Rusfinance Bank	24.04.2013	24.04.2018	143	8.9%
Rusfinance Bank	24.11.2015	24.05.2018	2,844	10.1%
Rusfinance Bank	10.06.2014	13.06.2018	3,593	10.1%
Rusfinance Bank	30.06.2015	02.07.2018	152	8.01%
Rusfinance Bank	24.07.2013	18.07.2018	1,665	9.9%
Rusfinance Bank	08.10.2013	02.10.2018	254	8.05%

Changes in the balances for the year ended 31 December 2018, were also due to a partly buyback of the bonds and operations with the bonds issued by its subsidiaries.

20. Other liabilities

	31 December 2018 mRUB	31 December 2017 mRUB
Other financial liabilities		
Accrued bonuses and salary	3,142	2,129
Accrued vacation payable	2,274	2,623
Settlements on other operations	2,898	3,109
Total other financial liabilities	**8,314**	**7,861**
Other non-financial liabilities		
Advances received from clients	1,292	545
Taxes, other than income tax, payable	973	882
Deposit insurance charge liability	404	289
Creditors on other operations	275	277
Other	417	455
Total other non-financial liabilities	**3,361**	**2,448**
Total other liabilities	**11,675**	**10,309**

21. Subordinated debt

	Currency	Interest rate, %	31 December 2018	Interest rate, %	31 December 2017
Societe Generale S.A. due in 2020-2023	USD	6.5-10.2%	31,077	6.5-9.3%	34,397
Total subordinated debt			**31,077**		**34,397**

In the event of bankruptcy or liquidation of the Group, repayment of this debt is subordinate to the repayments of the Group's liabilities to all other creditors.

22. Share capital

As of 31 December 2018 and 2017 the nominal share capital totaling RUB 17,587 million issued and fully paid comprised 1,551,401,853 ordinary shares with par value of RUB 10 each. All shares are ranked equally and carry one vote. The hyperinflation effect has been recorded in the amount of RUB 2,073 million.

As of 31 December 2018 and 2017 share premium totaling RUB 59,707 million represents an excess of contributions received in share capital over the nominal value of shares issued.

As at 31 December 2018 and 2017 the Group's share capital comprised the following number of shares of RUB 10 each:

	Share capital authorized	Share capital authorized but not issued	Share capital repurchased	Share capital issued and paid in
Number of ordinary shares	1,846,461,466	295,059,613	–	1,551,401,853

23. Perpetual subordinated debt

In March 2018 the terms of subordinated loan attracted by the Group from Societe General S.A. in June 2008 in the amount of USD 150 million and annual interest rate of 9.34% and maturity in June 2020 were modified. According to amended terms of the agreement Societe Generale S.A. granted to the Group perpetual subordinated loan in the amount of USD 150 million with an annual initial interest rate of 7.25% and annual interest payment. Rate of interest is to be reset every 5 years.

The Group accounts for the perpetual subordinated loan as an equity instrument in the consolidated statement of financial position due to undefined maturity and an option for cancellation of both the debt and the interest payment by the Group.

Interest payments may be cancelled in accordance with the terms of the perpetual subordinated loan.

Central Bank of Russian Federation has approved the inclusion of the perpetual subordinated loan in the regulatory capital calculation of the Bank.

24. Net interest income

	Year ended 31 December 2018 mRUB	Year ended 31 December 2017 mRUB
Interest income at effective interest rate		
Interest income on financial assets recorded at amortized cost		
Interest on loans to individuals	51,787	51,614
Interest on loans to corporate customers	19,414	21,150
Interest on due from banks	5,830	4,828
Interest on investments at amortised cost	4,511	–
Interest on investments held to maturity	–	3,767
Interest income on financial asssets recorded at fair value through other comprehensive income		
Interest income on investments at fair value through other comprehensive income	2,225	–
Interest on loans to individuals at fair value through other comprehensive income	115	–
Interest income on investments available-for-sale	–	549
Total interest income at effective interest rate	**83,882**	**81,909**
Other interest income		
Interest income on financial assets at fair value through profit and loss	216	283
Total other interest income	**216**	**283**
Total interest income	**84,098**	**82,191**
Interest expense		
Interest expense on financial liabilities recorded at amortized cost		
Interest on corporate customer accounts	15,512	13,610
Interest on debt securities issued	11,414	14,270
Interest on deposits from individuals	10,855	10,779
Interest on subordinated debt	2,311	2,759
Interest on deposits from banks	1,975	2,285
Interest on deposits of the Central Bank of the Russian Federation	6	16
Total interest expense	**42,073**	**43,719**
Net interest income before credit loss expense/provision for impairment losses	**42,025**	**38,472**

25. Credit loss expense and other provisions

As of 31 December 2018 and 2017 the amount of credit loss expenses / allowance for impairment losses in the consolidated statement of profit or loss comprises:

	Year ended 31 December mRUB 2017
Net allocations	3,687
Recoveries of loans written off	(356)
Write offs not covered by provisions	121
Allowance for impairment losses	**3,452**

	Year ended 31 December 2018 mRUB
Stage 1 net allocations	(834)
Stage 2 net allocations	577
Stage 3 net allocations	6,064
POCI net allocations	9
Recoveries of loans written off	(701)
Write offs not covered by provisions	72
Credit loss expenses	**5,187**

Write-offs not covered by provision in the amount of RUB 72 million and RUB 121 million as at 31 December 2018 and as at 31 December 2017, respectively, represent losses incurred by the Group from refinancing program at a decreased interest rate the difference between the fair value at initial recognition of new loan and the carrying value of the previous loan is recognized as a loss from refinancing of US dollar denominated mortgage loans to individuals in the consolidated statement of profit or loss.

The movements in allowance for impairment losses were as follows:

	Due from banks mRUB	Loans to customers mRUB	Total mRUB
31 December 2016	**–**	**53,737**	**53,737**
Net allocations	263	3,424	3,687
Forex effect on provision revaluation	(3)	(247)	(250)
Sales and write-offs of loans	(260)	(10,491)	(10,751)
Accounting transfer	–	(152)	(152)
31 December 2017	**–**	**46,271**	**46,271**

An analysis of changes in the ECLs for financial assets for 12 months ended 31 December 2018 is, as follows:

	Cash and cash equivalents and due from banks mRUB	Loans to Corporate business mRUB	Loans to Retail business mRUB	Investments at amortised cost mRUB	Investments at FVOCI mRUB	Total mRUB
Stage 1						
ECL as at 1 January 2018	**8**	**1,244**	**4,707**	**56**	**3**	**6,018**
Transfers to Stage 1	–	(3)	336	–	–	333
Transfers to Stage 2	–	–	(84)	–	–	(84)
Transfers to Stage 3	–	–	(75)	–	–	(75)
Allowance charge	31	254	5,487	16	3	5,791
Recoveries	(32)	(908)	(5,679)	(42)	(3)	(6,664)
Foreign exchange adjustments	–	14	146	4	–	164
ECL as at 31 December 2018	**7**	**601**	**4,838**	**34**	**3**	**5,483**
Stage 2						
ECL as at 1 January 2018	**3**	**74**	**1,051**	**–**	**–**	**1,128**
Transfers to Stage 1	–	3	(146)	–	–	(143)
Transfers to Stage 2	–	271	286	–	–	557
Transfers to Stage 3	–	(7)	(930)	–	–	(937)
Allowance charge	–	128	1,787	–	–	1,915
Recoveries	(3)	(436)	(845)	–	–	(1,284)
Foreign exchange adjustments	–	2	1	–	–	3
ECL as at 31 December 2018	**–**	**35**	**1,204**	**–**	**–**	**1,239**
Stage 3						
ECL as at 1 January 2018	**–**	**9,885**	**33,516**	**–**	**–**	**43,401**
Transfers to Stage 1	–	–	(190)	–	–	(190)
Transfers to Stage 2	–	(271)	(202)	–	–	(473)
Transfers to Stage 3	–	7	1,005	–	–	1,012
Allowance charge	–	3,350	7,739	–	–	11,089
Recoveries	–	(556)	(4,845)	–	–	(5,401)
Amounts written off	–	(2,529)	(10,013)	–	–	(12,542)
Foreign exchange adjustments	–	222	258	–	–	480
ECL as at 31 December 2018	**–**	**10,108**	**27,268**	**–**	**–**	**37,376**
POCI						
ECL as at 1 January 2018	**–**	**–**	**–**	**–**	**–**	**–**
Allowance charge	–	–	9	–	–	9
ECL as at 31 December 2018	**–**	**–**	**9**	**–**	**–**	**9**
Total at 1 January 2018	**11**	**11,203**	**39,274**	**56**	**3**	**50,547**
Total at 31 December 2018	**7**	**10,744**	**33,319**	**34**	**3**	**44,107**

For 12 months ended 31 December 2018 and 2017 the amount of other provision comprises:

	Year ended 31 December 2018 mRUB	Year ended 31 December 2017 mRUB
Net allocations	302	189
Recoveries of debtors receivables written off	(33)	(155)
Write offs not covered by provisions	64	22
Other provisions	**333**	**56**

The movements in other provisions were as follows:

	Other assets mRUB	Provisions for financial guarantees issued, claims and other commitments mRUB	Total mRUB
31 December 2016	**1,922**	**1,545**	**3,467**
Provision	521	(332)	189
Write-offs	(1,268)	(94)	(1,362)
Forex effect on provision revaluation	−	5	5
Accounting transfer	152	−	152
31 December 2017	**1,327**	**1,124**	**2,451**

The information about other provision of the Group disclosed in Note 33.

Allowance for impairment losses on assets are deducted from the respective assets. Allowance for impairment losses on financial guarantees issued, claims and other commitments are presented in liabilities.

An analysis of changes in the ECLs for other financial assets financial guarantees, credit lines, letters of credit and for 12 months ended 31 December 2018 is, as follows:

	Provisions for financial guarantees, credit lines, letters of credit mRUB	Provision for other assets mRUB	Total mRUB
Stage 1			
ECL as at 1 January 2018	**69**	**−**	**69**
Transfers to Stage 1	3	−	3
Transfers to Stage 2	−	−	−
Transfers to Stage 3	(7)	−	(7)
Allowance charge	202	−	202
Recoveries	(163)	−	(163)
Foreign exchange adjustments	3	−	3
ECL as at 31 December 2018	**107**	**−**	**107**
Stage 2			
ECLs as at 1 January 2018	**65**	**4**	**69**
Transfers to Stage 1	(3)	−	(3)
Transfers to Stage 2	15	−	15
Transfers to Stage 3	−	−	−
Allowance charge	29	1	30
Recoveries	(83)	(1)	(84)
Foreign exchange adjustments	−	−	−
ECL as at 31 December 2018	**23**	**4**	**27**
Stage 3			
ECLs as at 1 January 2018	**17**	**832**	**849**
Transfers to Stage 1	−	−	−
Transfers to Stage 2	(15)	−	(15)
Transfers to Stage 3	7	−	7
Accounting transfer	−	−	−
Allowance charge	1,018	263	1,281
Recoveries	(905)	−	(905)
Amounts written off	−	(143)	(143)
Foreign exchange adjustments	5	−	5
ECL as at 31 December 2018	**127**	**952**	**1,079**
Total at 1 January 2018	**151**	**836**	**987**
Total at 31 December 2018	**257**	**956**	**1,213**

The movements in provisions according to IAS 36 and IAS 37 were as follows:

	Provision for claims and other commitments mRUB	Provision for repossessed assets mRUB	Total mRUB
Provision as at 1 January 2018	**277**	**495**	**772**
Allowance charge	249	245	494
Recoveries	(119)	(73)	(192)
Amounts written off	(7)	(93)	(100)
Foreign exchange adjustments	26	–	26
Provision as at 31 December 2018	**426**	**574**	**1,000**

26. Net (loss)/gain on financial assets and liabilities at fair value through profit or loss, except forex swaps and forwards

Net loss on financial assets and liabilities at fair value through profit or loss, except forex swaps and forwards comprises:

	Year ended 31 December 2018 mRUB	Year ended 31 December 2017 mRUB
Net (loss)/gain on operations with financial assets and liabilities held-for-trading comprise:		
Realized gain/(loss) on trading operations	(72)	(18)
Unrealized revaluation of securities at fair value through profit or loss	(16)	60
Net (loss)/gain on operations with derivative financial instruments, except forex swaps and forwards	(718)	(1,337)
Total net (loss)/gain on operations with financial assets and liabilities at fair value through profit or loss, except forex swaps and forwards	**(806)**	**(1,295)**

27. Net gain/(loss) on foreign exchange operations

	Year ended 31 December 2018 mRUB	Year ended 31 December 2017 mRUB
Net gain on foreign exchange operations	3,862	4,473
Exchange differences	(66)	(31)
Effect of foreign currency swap instruments	(535)	708
Total net gain/(loss) on foreign exchange operations	**3,261**	**5,150**

28. Fee and commission income and expense

	Year ended 31 December 2018 mRUB	Year ended 31 December 2017 mRUB
Fee and commission income		
Agency operations	4,591	3,288
Plastic cards operations	3,893	2,863
Settlements	1,998	1,977
Documentary operations	1,134	1,024
SMS-informing	1,148	972
Internet bank	1,029	799
Cash operations	684	676
Other operations	1,126	1,048
Total fee and commission income	**15,603**	**12,647**
Fee and commission expense		
Plastic cards operations	2,290	1,856
Cash operations	403	444
Settlements	494	331
Agency operations	525	283
Documentary operations	55	69
Other operations	122	190
Total fee and commission expense	**3,889**	**3,173**

29. Other income

	Year ended 31 December 2018 mRUB	Year ended 31 December 2017 mRUB
Gain on sale of other assets	653	592
Rental income	121	198
Debts written off	58	78
Other	210	207
Total other income	**1,042**	**1,075**

30. Operating expenses

	Year ended 31 December 2018 mRUB	Year ended 31 December 2017 mRUB
Salary and bonuses	17,690	16,627
Unified social tax contribution	4,347	3,929
Operating lease expense	2,394	2,502
Repairs and maintenance expense	2,347	2,477
Depreciation charge on property and equipment and intangible assets	2,291	2,139
Professional services	1,512	1,724
Deposit insurance charge	1,581	1,111
Advertising and marketing expenses	992	907
Communications	987	835
Security	271	294
Transportation expenses	148	176
Other	2,522	2,898
Total operating expenses	**37,082**	**35,619**

31. Income tax

The Group measures and records its current income tax payable/(receivable) in its assets and liabilities in accordance with the tax regulations of RF and countries where the Group and its subsidiaries operate, which may differ from IFRS.

The Group is subject to certain permanent tax differences due to the non-tax deductibility of certain expenses and certain income being treated as non-taxable for tax purposes.

Deferred taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. Temporary differences as of 31 December 2018 and 31 December 2017 relate mostly to different methods/timing of income and expense recognition as well as to temporary differences generated by tax − book bases differences for certain assets.

The tax rate used for the reconciliations below is the corporate tax rate of 20% payable by corporate entities in the RF on taxable profits (as defined) under tax law in that jurisdiction.

Based on annual tax business planning exercise, the Group believes that it will generate sufficient taxable profits to recover the deferred tax assets recognized as of 31 December 2018 in the horizon till 2021 year from the date the loss was recorded.

Temporary differences as of 31 December 2018 comprise:

	Year ended 31 December 2017 mRUB	Origination and reversal of temporary differences			Year ended 31 December 2018 mRUB
		In the statement of profit or loss	In other comprehen-sive income	Effect of adoption of IFRS 9	
Deferred tax assets in relation to					
Loans and advances from banks and loans to customers	1,879	(1,191)	−	706	1,394
Other assets	674	(61)	−	−	613
Fair value through profit or loss financial assets	2	133	3	−	138
Investments at fair value through other comprehensive income	341	(1)	(65)	−	275
Other liabilities	1,492	118	−	−	1,610
Tax losses carried forward	3,337	1,411	−	−	4,748
Deferred tax assets	**7,725**	**409**	**(62)**	**706**	**8,778**
Deferred tax liabilities in relation to					
Loans and advances from banks and loans to customers	(1,701)	731	−	−	(970)
Other assets	(112)	(82)	−	−	(194)
Fair value through profit or loss financial assets	(249)	(483)	(40)	−	(772)
Investments at fair value through other comprehensive income	(96)	19	82	(286)	(281)
Debt securities issued	(62)	21	−	−	(41)
Investments at amortized cost	(2,290)	(1,577)	−	11	(3,856)
Property and equipment	(1,705)	(286)	−	−	(1,991)
Subordinated debt	−	(120)	−	−	(120)
Other liabilities	(90)	(234)	43	−	(281)
Deferred tax liabilities	**(6,305)**	**(2,011)**	**85**	**(275)**	**(8,506)**
Net deferred tax assets/(liabilities)	**1,420**	**(1,602)**	**23**	**431**	**272**
Deferred tax asset not recognized	**(83)**	**2**	**−**	**−**	**(81)**
Deferred tax assets/(liabilities)	**1,337**	**(1,600)**	**23**	**431**	**191**

Temporary differences as of 31 December 2017 comprise:

	Year ended 31 December 2016 mRUB	Origination and reversal of temporary differences		Year ended 31 December 2017 mRUB
		In the statement of profit or loss	In other comprehen-sive income	
Deferred tax assets in relation to				
Loans and advances from banks and loans to customers	2,294	(415)	–	1,879
Other assets	730	(56)	–	674
Fair value through profit or loss financial assets	230	(182)	(46)	2
Available-for-sale financial assets	451	(51)	(59)	341
Other liabilities	1,209	283	–	1,492
Tax losses carried forward	4,811	(1,474)	–	3,337
Deferred tax assets	**9,725**	**(1,895)**	**(105)**	**7,725**
Deferred tax liabilities in relation to				
Loans and advances from banks and loans to customers	(1,512)	(189)	–	(1,701)
Other assets	(34)	(78)	–	(112)
Fair value through profit or loss financial assets	(543)	297	(3)	(249)
Available-for-sale financial assets	(137)	42	(1)	(96)
Debt securities issued	(53)	(9)	–	(62)
Investments held to maturity	(3,166)	876	–	(2,290)
Property and equipment	(1,849)	13	131	(1,705)
Other liabilities	(409)	5	314	(90)
Deferred tax liabilities	**(7,703)**	**957**	**441**	**(6,305)**
Net deferred tax assets/(liabilities)	**2,022**	**(938)**	**336**	**1,420**
Deferred tax asset not recognized	**(345)**	**262**	**–**	**(83)**
Deferred tax assets/(liabilities)	**1,677**	**(676)**	**336**	**1,337**

The amount of tax losses carried forward as of 31 December 2018 and 2017 relates to the loss of the following fiscal years:

	31 December 2018 mRUB	31 December 2017 mRUB
Year ended 31 December 2010	–	–
Year ended 31 December 2011	–	–
Year ended 31 December 2012	–	–
Year ended 31 December 2013	–	–
Year ended 31 December 2014	16,685	16,685
Year ended 31 December 2015	–	–
Year ended 31 December 2016	–	–
Year ended 31 December 2017	–	–
Year ended 31 December 2018	7,055	–
Deferred tax asset	**23,740**	**16,685**

At 31 December 2018 and 31 December 2017, the aggregate amount of temporary differences associated with investments in subsidiaries and associates for which deferred tax liability has not been recognized was RUB 2,533 million and RUB 2,399 million, respectively.

Relationships between tax expenses and accounting profit for the years ended 31 December 2018 and 2017 are explained as follows:

	Year ended 31 December 2018 mRUB	Year ended 31 December 2017 mRUB
Profit/(loss) before income tax	**15,230**	**14,038**
Tax at the statutory tax rate (20%)	**3,046**	**2,808**
Change in deferred tax asset not recognized	–	(99)
Tax effect due to different tax rates	(383)	(220)
Tax effect of permanent differences	852	1,099
Other effects	(88)	54
Income tax expense	**3,427**	**3,642**
Current income tax expense	1,827	2,966
Deferred tax expense/(benefit)	1,600	676
Income tax expense	**3,427**	**3,642**
Deferred tax assets − beginning of the period	2,859	3,086
Deferred tax liabilities − beginning of the period	(1,522)	(1,409)
Changes in deferred income tax balances recognized in other comprehensive income and directly in equity	23	336
Deferred income tax effect of adoption of IFRS 9	431	–
Changes in deferred income tax balances recognized in consolidated profit or loss	(1,600)	(676)
Deferred tax assets − end of the period	1,272	2,859
Deferred tax liabilities − end of the period	(1,081)	(1,522)

32. Earnings per share attributable to equity holders of the parent

	Year ended 31 December 2018	Year ended 31 December 2017
Profit/(loss)		
Net profit/(loss) attributable to equity holders of the parent for the period (mRUB)	11,803	10,396
Weighted average number of ordinary shares		
For basic and diluted earnings per share	1,551,401,853	1,551,401,853
Earnings per share − basic and diluted (RUB)	**7.61**	**6.70**

33. Commitments and contingencies

In the normal course of business, the Group is a party to instruments which are reflected in financial statement as credit related contingent liabilities and commitments. The primary purpose of these instruments is to ensure that funds are available to a customer as required.

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

The Group uses the same credit control and risk management policies in undertaking credit related contingent liabilities and commitments as it does for credit related financial instruments. Extension of credit to customers within credit related commitments is approved by the Group on a case-by-case basis and depends on borrowers' financial performance, debt service and other conditions.

	31 December 2018 mRUB	31 December 2017 mRUB
Provision for losses on letters of credit and guarantees	257	848
Litigations and other provisions	426	276
Total other provisions	**683**	**1,124**

As of 31 December 2018 and 2017, letters of credit and other transactions related to contingent obligations covered by cash on customers' accounts amounted to RUB 1,129 million and RUB 910 million, respectively and guarantees issued covered by cash amounted to RUB 65 million and RUB 148 million, respectively.

As of 31 December 2018 and 2017, the nominal or contract amounts of contingent liabilities and credit commitments were:

	31 December 2018	31 December 2017
	Nominal amount mRUB	Nominal amount mRUB
Contingent liabilities and credit commitments		
Guarantees issued and similar commitments	110,822	102,835
Commitments on loans and unused credit lines	99,146	64,225
Letters of credit and other transaction related contingent obligations	24,642	15,386
Total contingent liabilities and credit commitments	**234,610**	**182,446**

The Group has commitments to provide funds under credit lines facilities. However, the Group has a right not to exercise such commitments due to certain conditions.

Commitments on lease activities **–** As of 31 December 2018 and 2017 the Group has commitments for capital expenditure on finance lease outstanding amounting to RUB 429 million and RUB 270 million, respectively.

Operating lease commitments **–** Where the Group is the lessee, the future minimum lease payments under non-cancellable operating leases of buildings and equipment are as follows:

	31 December 2018 mRUB	31 December 2017 mRUB
Not later than 1 year	1,772	2,041
Later than 1 year and not later than 5 years	3,191	2,907
Later than 5 years	2,133	2,209
Total operating lease commitments	**7,096**	**7,157**

Legal proceedings **–** From time to time and in the normal course of business, claims against the Group are received from customers and counterparties. Management is of the opinion that no material unaccrued losses will be incurred.

Taxation **−** The current provisions of the Russian laws and regulations affecting business continue to change rapidly. The implementation of Russian tax laws and regulations is often unclear or inconsistent. Historically, the system of tax collection in Russia has been relatively ineffective, resulting in the continual changes to the tax legislation, some of which apply retroactively and occur with little notice, as well as in interpretation of the existing laws and regulations by various authorities. Management's interpretation of such legislation as applied to the activity of the Group may be challenged by the relevant regional and federal authorities. Recent events suggest that Russian tax authorities are taking more assertive position in their interpretation of the legislation and, as a result, transactions and activities that have not been challenged in the past may be challenged in future tax audits.

Russian transfer pricing rules introduced additional reporting and documentation requirements. The Russian tax authorities may assess additional tax charges in respect of all controlled transactions (both domestic and cross-border), including but not limited to transactions with related parties, if they consider transactions to be priced not at arm's length. In light of the uncertainty and absence of extensive practice of application of the Russian transfer pricing legislation it cannot be fully excluded that the Russian tax authorities may try to challenge the methodology and the level of prices applied by the Group under the "controlled" transactions and accrue additional tax liabilities unless the Group is able to demonstrate the application of market prices in "controlled" transactions. The impact of the potential challenge of the Group's transfer pricing positions by the tax authorities cannot be reliably estimated.

Loan financing is one of the major parts Group's transactions. Management supposes that control procedure applied in the Group with respect to interest rates applied in intragroup loan financing mitigates potential transfer pricing tax risk.

Starting from 1 January 2015, new rules on taxation of controlled foreign companies were introduced into the Russian tax legislation, as well as the concept of determining the tax residency of organizations and the beneficial owner of income. The adoption of these rules in its entirety is associated with an increase in the administrative and, in some cases, tax burden on Russian taxpayers engaged in transactions with foreign companies. During 2018 the Group did not have foreign subsidiaries, in respect of which the Group could have significant tax liabilities in accordance with the rules on taxation of controlled foreign companies.

Since 1 January 2017, provisions of the Russian Tax Code regulating tax agent function execution in view of payments on certain types of income in favor of foreign recipients oblige tax agents to perform additional steps and collect documentary ground to ensure that the foreign company which receives income from the Group has an factual right to such income (is a beneficial owner of income). The Group has taken into account such legislative amendments and has started to perform procedures to receive from its counterparties documents confirming their actual right to income. The management believes that the procedures performed by the Group enable to mitigate potential tax risks arising from taxation of income in favor of counterparties.

Also starting from 1 January 2017 "losses carried forward" tax rule has been amended. In particular, the Bank may reduce its profits tax base of the current period by the amount of losses carried forward limited to 50% of profits tax base of the current period. This limitation is applicable till year 2021. Such tax law amendment leads to increase of tax payments of the Group. Management of the Group cannot exclude that new limitations in respect of tax losses carried forward may be introduced starting from 1 January 2021.

On 18 July 2017, the "unjustified tax benefit" concept was effectively introduced directly into the Russian Tax Code. Previously unjustified tax benefit concept was introduced only in the Russian court practice. The provisions of this article establish limits for possibility to qualify the transactions of taxpayers as transactions aimed at unjustified decrease of tax obligations. No assurance can currently be given as to what exact effect the above law may have on the Group.

Since 1 January 2018 the Russian Tax Code is supplemented with a new chapter setting forth the definitions of a multinational group of companies and members; it also would contains provisions regarding the submission of a notification of participation in a multinational group and country-by-country (CbC) reporting for a multinational group, such as the CbC report, the master file and local file.
Also since 1 January 2018 the Russian Tax Code is supplemented with a new section which establishes the rules on exchange of financial account information with foreign states and territories. Under the

requirements relating to the automatic exchange of financial account information, Russian financial organizations are now required to perform additional procedures for the identification of their clients and beneficiaries and (or) controlling persons of those clients with a view to identifying tax residents of foreign states, and to submit annual reports on the accounts of those persons to the Federal Tax Service.

Since 1 January 2018 the tax base with respect to income in the form of interest (coupon) from marketable Russian corporate bonds denominated in roubles and issued after 1 January 2017 is calculated as difference between the amount of interest or coupon payment and the amount of interest calculated based on the nominal value of bonds and the refinancing rate of the Bank of Russia, increased by five percentage points, valid for the period for which the coupon yield was paid.

Since 1 January 2018 income in the form of discount under marketable Russian corporate bonds denominated in roubles and issued after 1 January 2017is exempted from personal income tax.

Since 1 January 2019 VAT tax rate is increased up to 20%, immovable property is not subject to property tax, new VAT rules for electronic services rendered by foreign providers are implemented, criteria for treatment of deals as controlled transactions for transfer pricing purposes are changed.

The Federal Law dated 27 November 2018 # 424-FZ has introduced changes into the concept of beneficiary ownership of income. Inter alia, the following significant changes should be mentioned: the Tax Code clearly states that the “pass through” approach could be applied with respect to any type of income, not only to dividends; clarified application of the “pass through” approach for payment of income under securities during period of repo and similar transactions.

The introduction of these laws, as well as the interpretation of certain provisions of the Russian tax legislation combined with the latest trends in law enforcement indicate the possibility of increasing of the amount of taxes paid and the amount of penalties, including due to the fact that the Russian tax authorities and courts may be taking a more assertive position in their application of the legislation and assessments. At the same time the potential impact could not be reliably estimated, as well as the probability of an unfavorable outcome in the case of claims of the Russian tax authorities. Tax inspections may cover three calendar years immediately preceding the year of review. The longer periods may be reviewed under certain conditions. As such, additional taxes, penalties and late payment interest may be assessed by the relevant authorities.

Management believes that in 2018 the provisions of the tax laws were applicable to the Group companies and interpreted correctly in all material respects.

Operating environment **–** Emerging markets such as Russian Federation are subject to different risks than more developed markets, including economic, political and social, and legal and legislative risks. Laws and regulations affecting businesses in Russian Federation continue to change rapidly, tax and regulatory frameworks are subject to varying interpretations. The future economic direction of Russian Federation is heavily influenced by the fiscal and monetary policies adopted by the government, together with developments in the legal, regulatory, and political environment.

Because Russian Federation produces and exports large volumes of oil and gas, its economy is particularly sensitive to the price of oil and gas on the world market, which decreased significantly during 2015 and has shown significant degree of volatility over 2016-2018. Management is unable to reliably estimate the effects of any further price fluctuations on the Group’s financial position.

Starting from March 2014, sanctions have been imposed in several packages by the U.S. and the E.U. on certain Russian officials, businessmen and companies. At the same time, the US Federal Reserve System has accelerated the pace of interest rates hikes which should affect flows of capital to/from emerging economies such as Russian Federation. Global geopolitical landscape remains complicated due to stress around numerous regions.

As a consequence of these factors, Russian financial assets have suffered a material rise in volatility over the second half of 2018. These developments may result in reduced access of the Russian businesses to international capital and export markets, capital flight, weakening of the Russian rouble and other negative economic consequences. As a consequence of these trends, in September and December 2018 the Russian Central Bank delivered 25bp key rate hikes.

The impact of further political and economic developments in Russian Federation on future operations and financial position of the Group is at this stage difficult to determine.

Share-based payments **–** The Group engages in cash settled share-based payment transactions in respect of services received from certain employees. The fair value of the services received is measured by reference to the fair value of the shares initially on the date of the grant and then subsequently at each reporting date. The cost of the employee services received in respect of the shares granted is recognized in the consolidated statement of profit or loss within administrative expenses, over the period that the services are received, which is the vesting period. A liability equal to the portion of the goods and services received is recognized at the current fair value determined at each balance sheet date for cash settled payments.

34. Transactions with related parties

Transactions between the Bank and its subsidiaries, which are related parties of the Group, have been eliminated on consolidation and are not disclosed in this note. Details of transactions between the Group and other related parties are disclosed below:

	31 December 2018 mRUB		31 December 2017 mRUB	
	Related party transactions	**Total category as per financial statement caption**	**Related party transactions**	**Total category as per financial statement caption**
Cash and cash equivalents, gross	50,890	191,285	13,832	209,810
- shareholders	49,802		12,980	
- related parties under common control with the Group	1,088		852	
Financial assets at fair value through profit or loss	21,575	43,025	12,680	34,570
- shareholders	21,476		12,676	
- related parties under common control with the Group	99		4	
Loans to customers, gross	2,811	768,035	1,634	701,146
- key management personnel of the Group	4		5	
- related parties under common control with the Group	2,807		1,629	
Investments at fair value through other comprehensive income (previously classified as Investments available-for-sale)	–	46,180	79	15,160
- related parties under common control with the Group	–		79	

	31 December 2018 mRUB		31 December 2017 mRUB	
	Related party transactions	**Total category as per financial statement caption**	**Related party transactions**	**Total category as per financial statement caption**
Other assets	138	12,660	96	11,358
- shareholders	8		9	
- related parties under common control with the Group	130		87	
Financial liabilities at fair value through profit or loss	26,908	41,959	20,992	33,762
- shareholders	26,908		20,992	
- related parties under common control with the Group	–		–	
Due to banks and international financial institutions	7,523	72,445	3,899	32,089
- shareholders	5,273		2,659	
- related parties under common control with the Group	2,250		1,240	
Customer accounts	5,896	740,531	4,574	648,024
- key management personnel of the Group	268		298	
- related parties under common control with the Group	5,628		4,276	
Debt securities issued	93	99,908	–	146,304
- related parties under common control with the Group	93		–	
Other liabilities	444	11,675	609	10,309
- shareholders	428		585	
- related parties under common control with the Group	16		24	
Subordinated debt	31,077	31,077	34,397	34,397
- shareholders	31,077		34,397	
Perpetual subordinated debt	10,421	10,421	–	–
- shareholders	10,421		–	
Guarantees issued and similar commitments	4,567	110,822	–	102,835
- shareholders	708		–	
- related parties under common control with the Group	3,859		–	
Commitments on loans and unused credit lines	13,926	99,146	13,551	64,225
- shareholders	5,000		5,000	
- key management personnel of the Group	8		8	
- related parties under common control with the Group	8,918		8,543	
Guarantees received	4,385	310,879	3,326	270,157
- shareholders	4,185		2,856	
- related parties under common control with the Group	200	–	470	

The following amounts with related parties are included in the consolidated statements of profit or loss for the year ended 31 December 2018 and 2017:

	Year ended 31 December 2018 mRUB		Year ended 31 December 2017 mRUB	
	Related party transactions	**Total category as per financial statements caption**	**Related party transactions**	**Total category as per financial statements caption**
Interest income	447	84,098	391	82,191
- shareholders	325		296	
- key management personnel of the Group	–		1	
- related parties controlled by, or under common control with the Group	122		94	
Interest expense	(2,833)	(42,073)	(3,208)	(43,719)
- shareholders	(2,410)		(3,000)	
- key management personnel of the Group	(17)		(17)	
- related parties under common control with the Group	(406)		(191)	
Net (loss)/gain on financial assets and liabilities at fair value through profit or loss, except forex swaps and forwards	1,200	(806)	(5,246)	(1,295)
- shareholders	1,149		(5,455)	
- related parties under common control with the Group	51		209	
Net gain/(loss) on foreign exchange operations and on precious metals operations	(3,137)	3,227	(393)	5,163
- shareholders	(3,142)		(410)	
- related parties under common control with the Group	5		17	
Fee and commission income	3,445	15,603	2,435	12,647
- shareholders	149		148	
- related parties under common control with the Group	3,296		2,287	
Fee and commission expense	(64)	(3,889)	(75)	(3,173)
- shareholders	(64)		(73)	
- related parties under common control with the Group			(2)	
Operating expense (other than compensation)	(181)	(15,045)	(397)	(15,063)
- shareholders	(181)		(377)	
- related parties under common control with the Group	–		(20)	
Dividend income	489	489	511	511
- related parties under common control with the Group	489		511	

	Year ended 31 December 2018 mRUB		Year ended 31 December 2017 mRUB	
	Related party transactions	**Total category as per financial statements caption**	**Related party transactions**	**Total category as per financial statements caption**
Other income	122	1,042	94	1,075
- shareholders	110		84	
- related parties under common control with the Group	12		10	
Salary, bonuses and social security contribution	(649)	(22,037)	(827)	(20,556)
- key management personnel	(649)		(827)	
Share-based payment	(110)	–	(102)	–
- short-term employee benefits	(110)		(102)	

35. Fair value of financial instruments

Disclosures of financial instruments fair value are made in accordance with the requirements of IFRS 13 *Fair Value Measurement*. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions (ie an exit price) regardless of whether that price is directly observable or estimated using another valuation technique.

The fair values of financial assets and financial liabilities are determined as follows.

- The fair values of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices (includes listed redeemable notes, bills of exchange, debentures and perpetual notes).
- Unquoted equities and debt securities classified as available-for-sale are valued using models that use both observable and unobservable data. The non-observable inputs to the models include assumptions regarding the future financial performance of the investee, its risk profile, and economic assumptions regarding the industry and geographical jurisdiction in which the investee operates.
- For financial assets and liabilities that have a short term maturity (less than 3 months), it is assumed that the carrying amounts approximate to their fair value. This assumption is also applied to demand deposits and savings accounts without a maturity.
- For loans and advances to banks and customers and deposits from banks and customers and promissory notes issued at variable rates management believes that carrying amount may be assumed to be fair value.
- For loans and advances to banks and customers and deposits by banks and customers and promissory notes issued at fixed rates fair value has been estimated by reference to the market rates available at the balance sheet date for similar instruments of maturity equal to the remaining fixed period.
- The fair values of other financial assets and financial liabilities (excluding derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments.

- The fair values of derivative instruments are calculated using quoted prices. Where such prices are not available, a discounted cash flow analysis is performed using the applicable yield curve for the duration of the instruments for non-optional derivatives, and option pricing models for optional derivatives. Foreign currency forward contracts are measured using quoted forward exchange rates and yield curves derived from quoted interest rates matching maturities of the contracts. Interest rate swaps are measured at the present value of future cash flows estimated and discounted based on the applicable yield curves derived from quoted interest rates.

The fair value of financial assets and liabilities compared with the corresponding carrying amount in the consolidated statement of financial position of the Group is presented below:

	31 December 2018		31 December 2017	
	Carrying value, mRUB	**Fair value, mRUB**	**Carrying value, mRUB**	**Fair value, mRUB**
Cash and cash equivalents	191,279	191,279	209,810	209,810
Mandatory cash balances with the Central Bank of the Russian Federation	7,722	7,722	6,113	6,113
Financial assets at fair value through profit or loss				
- Derivative financial instruments	42,381	42,381	31,334	31,334
- Debt securities	453	453	3,236	3,236
- Shares	191	191	–	–
Due from banks	9,391	9,280	11,767	11,802
Loans to customers	723,972	731,287	654,875	672,673
Investments at fair value through other comprehensive income (previously classified as Investments available-for-sale)	46,180	46,180	15,160	15,160
Investments at amortised cost (previously classified as Investments held to maturity)	94,118	93,181	73,479	76,720
Other financial assets	2,516	2,516	1,840	1,840
Financial liabilities at fair value through profit or loss	41,959	41,959	33,762	33,762
Due to the Central Bank of the Russian Federation	25	25	207	207
Due to banks and international financial institutions	72,445	73,120	32,089	33,209
Customer accounts	740,531	739,985	648,024	648,493
Debt securities issued	99,908	98,518	146,304	147,380
Other financial liabilities	8,314	8,314	7,861	7,861
Subordinated debt	31,077	31,300	34,397	34,666

Assets and liabilities for which fair value approximates carrying value

For financial assets and liabilities that have a short term maturity (less than 3 months), it is assumed that the carrying amounts approximate to their fair value. This assumption is also applied to demand deposits and savings accounts.

Fair value measurements recognised in the consolidated statement of financial position

For the purpose of fair value hierarchy disclosure as at 31 December 2018 and 2017, the Group has categorized classes of assets and liabilities at fair value into Level 1 to 3 based on the degree to which their fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Balance sheet			**31 December 2018, mRUB**			**31 December 2017, mRUB**
Category	**Level 1**	**Level 2**	**Level 3**	**Level 1**	**Level 2**	**Level 3**
Cash and cash equivalents	–	125,807	65,472	–	172,679	37,131
Mandatory cash balances with the Central Bank of the Russian Federation	–	–	7,722	–	–	6,113
Financial assets at fair value through profit or loss						
- Derivative financial instruments	–	42,381	–	–	31,334	–
- Debt securities	453	–	–	3,236	–	–
- Shares	–	191	–	–	–	–
Due from banks	–	–	9,280	–	–	11,802
Loans to customers	–	–	731,287	–	–	672,673
Investments at fair value through other comprehensive income (previously classified as Investments available-for-sale)	46,180	–	–	14,969	191	–
Investments at amortised cost (previously classified as Investments held to maturity)	93,181	–	–	76,720	–	–
Property and equipment	–	–	12,513	–	–	13,525
Financial liabilities at fair value through profit or loss	1,002	40,957	–	1,906	31,856	–
Due to the Central Bank of the Russian Federation	–	25	–	–	207	–
Due to banks and international financial institutions	–	547	72,573	–	1,038	32,171
Customer accounts	–	–	739,985	–	–	648,493
Debt securities issued	85,550	12,968	–	135,417	11,963	,
Subordinated debt	–	–	31,300	–	–	34,666

Possibility of transfer from Level 1 to Level 2 category is assessed as low, as liquidity control is performed by Market Risk Department. Control period of liquidity assessment is 90 days from position opening. Market risk department performs liquidity analysis using position turnover, volumes of exchange trades, availability of exchange and brokers quotations. In case of position assessment as insufficient liquid the necessary actions to close position are taken.

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

Level 3 fair values of land and office buildings have been generally derived using the adjusted sales comparison approach, the income-based approach and the costs method. Unobservable inputs included in the calculations for sales comparison approach represent various adjustments considered to account for the difference between the compared properties in terms of size, location, bargain prices to which sellers are willing to go (ranging from 0% to -15%). The unobservable inputs included in the income-based approach calculations represent mainly the adjustments considered to account for the discounting rates (ranging from 10% to 12%) and capitalization rates (from 9% to 12.5%).

The sensitivity of the fair value measurement to changes in those unobservable inputs indicated above does not result in a significantly higher or lower fair value measurement.

36. Offsetting financial assets and liabilities

31 December 2018, mRUB	**Impact of offsetting on the statement of financial position**		**Net amount presented in the statement of financial position**			**Impact of Master Netting Agreements and similar agreements**	
	Gross amount	**Amounts offset**		**Financial instruments recognised in the statement of financial position**	**Cash collateral received**	**Financial instruments received as collateral**	**Net amount**
Assets subject to offsetting							
Derivative financial instruments	42,381	–	42,381	30,148	–	–	12,233
Due from banks under reverse repurchase agreements	7,655	–	7,655	–	–	7,655	–
Total assets subject to offsetting	**50,036**	**–**	**50,036**	**30,148**	**–**	**7,655**	**12,233**
Liabilities subject to offsetting							
Derivative financial instruments	40,957	–	40,957	30,148	–	–	10,809
Due to banks under repurchase agreements	547	–	547	–	–	547	–
Total liabilities subject to offsetting	**41,504**	**–**	**41,504**	**30,148**	**–**	**547**	**10,809**

31 December 2017, mRUB	**Impact of offsetting on the statement of financial position**		**Net amount presented in the statement of financial position**			**Impact of Master Netting Agreements and similar agreements**	
	Gross amount	**Amounts offset**		**Financial instruments recognised in the statement of financial position**	**Cash collateral received**	**Financial instruments received as collateral**	**Net amount**
Assets subject to offsetting							
Derivative financial instruments	31,334	–	31,334	19,502	–	–	11,832
Due from banks under reverse repurchase agreements	35,776	–	35,776	–	–	35,776	–
Loans to customers under reverse repurchase agreements	847	–	847	–	–	847	–
Total assets subject to offsetting	**67,957**	**–**	**67,957**	**19,502**	**–**	**36,623**	**11,832**
Liabilities subject to offsetting							
Derivative financial instruments	31,856	–	31,856	19,502	–	–	12,354
Due to banks under repurchase agreements	1,038	–	1,038	–	–	1,038	–
Total liabilities subject to offsetting	**32,894**	**–**	**32,894**	**19,502**	**–**	**1,038**	**12,354**

37. Regulatory matters

Quantitative measures established by regulation to ensure capital adequacy require the Group to maintain minimum amounts and ratios of total (8%) and tier 1 capital (4%) to risk weighted assets.

The ratio was calculated according to the principles Basel II employed by the Basel Committee.

The following table analyzes the Group's regulatory capital resources for capital adequacy purposes in accordance with the principles employed by the Basel Committee.

	31 December 2018 mRUB	31 December 2017 mRUB
Tier 1 capital	148,586	127,657
Tier 2 capital	29,176	32,555
Total capital	**177,762**	**160,212**

As at 31 December 2018 and 2017 the Group included in the computation of Total capital for Capital adequacy purposes the subordinated debt received, limited to 50% of Tier 1 capital. In the event of bankruptcy or liquidation of the Group, repayment of this debt is subordinate to the repayments of the Group's liabilities to all other creditors.

As at 31 December 2018 the Group's total capital amount for Capital Adequacy purposes was RUB 177,762 million and Tier 1 capital amount was RUB 148,586 million with ratios of 21.60% and 18.10%, respectively.

As at 31 December 2017 the Group's total capital amount for Capital Adequacy purposes was RUB 160,212 million and Tier 1 capital amount was RUB 127,657 million with ratios of 20.51% and 16.30%, respectively.

38. Capital risk management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximizing the return to stakeholders through the optimization of the debt and equity balance.

The Group is obliged to comply with CBR capital adequacy requirements.

The capital structure of the Group consists of debt, which includes subordinated debt disclosed in Note 21, and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings as disclosed in consolidated statement of changes in equity.

The Management Board reviews the capital structure on a semi-annual basis. As a part of this review, the Board considers the cost of capital and the risks associated with each class of capital. Based on recommendations of the Board, the Group balances its overall capital structure through the payment of dividends, new share issues as well as the issue of new debt or the redemption of existing debt.

The Group's overall capital risk management policy remains unchanged from 2017.

39. Segment reporting

The Group discloses information to enable users of its financial statements to evaluate the nature and financial effects of the business activities in which it engages and the economic environments in which it operates. This matter is regulated by IFRS 8 “Operating segments” and other standards that require special disclosures in the form of segmental reporting.

IFRS 8 defines an operating segment as a component of an entity:

- That engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity);
- Whose operating results are reviewed regularly by the entity’s chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance; and
- For which discrete financial information is available.

Information reported to the chief operating decision maker for the purposes of resource allocation and assessment of segment performance focuses on types of services delivered or provided. The Group’s reportable segments under IFRS 8 are therefore as follows:

- Retail banking − representing private banking services, private customer current accounts, savings, deposits, investment savings products, custody, credit and debit cards, consumer loans and mortgages.
- Corporate banking − representing direct debit facilities, current accounts, deposits, overdrafts, loan and other credit facilities, foreign currency and derivative products.
- Treasury and Financial institutions − representing all trading financial instruments recognized and measured at fair value through profit and loss as well as loans and borrowings initiated through interbank transactions.

The accounting policies of the operating segments are the same as those described in the summary of significant accounting policies. Transactions between the operating segments consist only of reallocating of funds. Funds are ordinarily reallocated between segments, resulting in funding cost transfers disclosed in operating income. Interest charged for these funds is based on the Group’s marginal funding price. There are no other material items of income or expense between the business segments. Segment assets and liabilities comprise operating assets and liabilities. Internal charges and transfer pricing adjustments have been reflected in the performance of each business.

The main business activity of the Group is concentrated in RF, thus no geographical segmentation is reported.

Segment information about these businesses is presented below.

	Retail banking	Corporate banking	Treasury and financial institutions	Unallocated	Year ended 31 December 2018
Net interest margin	25,943	9,402	1,252	5,428	42,025
Credit loss expense	(3,235)	(1,739)	(4)	(209)	(5,187)
Net gain/(loss) on financial transactions	535	125	2,381	(445)	2,596
Net fee and commission income	9,019	2,446	441	(192)	11,714
Other provisions	(25)	(232)	–	(76)	(333)
Dividend income	489	–	–	–	489
Other income	328	52	102	560	1,042
(Expense)/income from other segments	1,442	3,299	325	(5,066)	
Total operating income	**34,496**	**13,353**	**4,497**	**–**	**52,346**
Operating expenses	(30,665)	(4,261)	(1,924)	(232)	(37,082)
(Expense)/income from other segments	(152)	(56)	(24)	232	–
Other non-operating income/(expense)	(8)	(23)	(3)	–	(34)
Profit before income tax	3,671	9,013	2,546	–	15,230
Income tax expense	(784)	(2,379)	(264)	–	(3,427)
Net profit/(loss) for the period	**2,887**	**6,634**	**2,282**	**–**	**11,803**
Segment assets	**523,902**	**553,412**	**63,168**	**12,040**	**1,152,522**
Segment liabilities	**370,070**	**549,845**	**68,532**	**11,270**	**999,717**
Other segment items					
Depreciation charge on property and equipment	(1,512)	(538)	(241)	–	(2,291)
Cash and cash equivalents	45,472	133,539	12,268	–	191,279
Mandatory cash balances with the Central and National banks	1,728	5,490	504	–	7,722
Financial assets at fair value through profit or loss	999	3,173	38,853	–	43,025
Due from banks	–	9,391	–	–	9,391
Loans to customers	427,198	296,774	–	–	723,972
Investments at fair value through other comprehensive income	10,334	32,830	3,016	–	46,180
Investments at amortized cost	21,061	66,910	6,147	–	94,118
Property and equipment	12,490	4,440	1,992	–	18,922
Intangible assets	2,433	865	388	–	3,686
Other assets	2,187	–	–	12,040	14,227
Financial liabilities at fair value through profit or loss	26	81	41,852	–	41,959
Due to the Central Bank of the Russian Federation	–	25	–	–	25
Due to banks and international financial institutions	3,368	47,090	21,987	–	72,445
Customer accounts	288,960	451,571	–	–	740,531
Debt securities issued	68,260	28,985	2,663	–	99,908
Subordinated debt	6,954	22,093	2,030	–	31,077
Other liabilities	2,502	–	–	11,270	13,772
Capital expenditure	3,219	1,145	514	–	4,878

Segment information as at 31 December 2017 is presented below.

	Retail banking	Corporate banking	Treasury and financial institutions	Unallocated	Year ended 31 December 2017
Net interest margin	25,583	7,723	672	4,494	38,472
Provisions for impairment losses on interest bearing assets	(3,126)	(187)	(3)	(136)	(3,452)
Net gain/(loss) on financial transactions	351	16	2,075	1,426	3,868
Net fee and commission income	7,084	2,091	468	(169)	9,474
Other provisions	153	(108)	(3)	(98)	(56)
Dividend income	115	363	33	–	511
Other income	296	30	50	699	1,075
Expense)/income from other segments	1,422	4,313	481	(6,216)	
Total operating income	**31,878**	**14,241**	**3,773**	**–**	**49,892**
Operating expenses	(28,511)	(4,111)	(2,053)	(944)	(35,619)
(Expense)/income from other segments	(624)	(222)	(98)	944	–
Other non-operating income	(54)	(163)	(18)	–	(235)
Profit before income tax	**2,689**	**9,745**	**1,604**	**–**	**14,038**
Income tax expense	(832)	(2,530)	(280)	–	(3,642)
Net profit	**1,857**	**7,215**	**1,324**	**–**	**10,396**
Segment assets	**443,385**	**458,332**	**126,633**	**12,565**	**1,040,915**
Segment liabilities	**372,080**	**476,819**	**48,888**	**10,531**	**908,318**
Other segment items					
Depreciation charge on property and equipment	(1,411)	(503)	(225)	–	(2,139)
Cash and cash equivalents	33,274	89,487	87,049	–	209,810
Mandatory cash balances with the Central and National banks	1,368	4,346	399	–	6,113
Financial assets at fair value through profit or loss	868	2,758	30,944	–	34,570
Due from banks	–	11,048	719	–	11,767
Loans to customers	374,048	280,827	–	–	654,875
Investments available-for-sale	3,392	10,778	990	–	15,160
Investments held to maturity	14,903	54,226	4,350	–	73,479
Property and equipment	11,985	4,261	1,911	–	18,157
Intangible assets	1,696	603	270	–	2,569
Other assets	1,848	–	–	12,567	14,415
Financial liabilities at fair value through profit or loss	14	47	33,701	–	33,762
Due to the Central Bank of the Russian Federation	–	207	–	–	207
Due to banks and international financial institutions	4,218	18,401	9,470	–	32,089
Customer accounts	252,083	395,941	–	–	648,024
Debt securities issued	105,064	37,770	3,470	–	146,304
Subordinated debt	7,698	24,453	2,246	–	34,397
Other liabilities	3,004	–	–	10,531	13,535
Capital expenditure	1,857	660	296	–	2,813

For the purpose of the segment reporting disclosure the category “Net gain/(loss) on financial transactions” includes the following categories:

- Net (loss)/gain on financial assets and liabilities at fair value through profit or loss, except forex swaps and forwards;
- Net gain/(loss) on foreign exchange operations;
- Net gain/(loss) on precious metals operations.

40. Risk management policies

The risk management process is fundamental to the Grouping business and is an integral part of an overall risk and capital management strategy within the Group's internal capital adequacy assessment processes (ICAAP).

The whole ICAAP cycle takes a year and is composed by the following steps:

- Starts with the significant risk identification procedure and Risk Map report based on budget and forecast figures approved in the current year;
- Regular significant risks assessment of the Group;
- Assessment of internal available capital adequacy of the Group under normal and stressed conditions taking into account budget and forecast figures approved in the current year;
- Risk-appetite framework enhanced by stressed figures and set in line with the Group's Development Strategy;
- Incorporating of ICAAP into the operating Group's risk and capital management function via capital allocation and limits setting;
- Embedding in the budgeting process the ICAAP figures for the next year;
- Monitoring and reporting of the plan-fact analysis of allocated capital utilization during the whole year;
- ICAAP self-assessment;
- ICAAP results report preparation.

In accordance with Group's risk management strategy decision making process for a transaction takes place only after the complex assessment of risks related to such transaction.

All transactions are conducted in accordance with the internal regulations and set limits.

In case of new transactions, subject to significant risks without corresponding internal document and/or the relevant decision of the Management regulating such transactions, are not allowed.

The procedure for the identification of significant risks arising from the Group's activities in connection with business models existing in the Group is performed on a yearly basis and entails the following steps:

- Listing a comprehensive inventory of risks (all risks that the Group is or could be exposed to);
- Determining the inherent risk level based on the information available with regards to the Group's Development Strategy, current risk exposures and the professional judgment of its risk experts, expressed in terms of a combination of impact and likelihood;
- Identification and documentation of the existing risk controls implemented by the Group which reduce the inherent risk level (e.g. existence of dedicated risk management policies, KRIs, risk measures and limits, regular monitoring and reporting processes and other if the case);
- Prioritization of risk depending on the Group's risk-appetite;
- Determination the residual risk level of significant risks in terms of both likelihood and impact (after the consideration and analysis of the risk management and controls used by the Group).

Within its regular risk assessment process the Group takes into account the changes in the current risk profile, the emergence of new types of risks, significant changes in the organizational structure of the Group as well as from launching of new types of activities.

The Group takes into account the results of the significant risks identification procedure in the strategic planning process, in particular in the development of the target risk structure and risk appetite.

Considering the diversity and changes in the Group, the Parent Bank of the Group assesses and develops approaches to the management of all risks that were recognized as significant for 2017:

- Credit risk (including concentration risk and counterparty credit risk);
- Operational risk;
- Market risk;
- Structural interest rate risk;
- Structural foreign exchange risk (including concentration risk);
- Liquidity risk (including concentration risk);
- Strategic risk.

For all risks that have been identified as significant for the Group, the Parent Bank of the Group and subsidiaries of the Group develop appropriate risk management policies and procedures, as well as establish a limit control system of these risks, develop risk data measurement methodology and evaluation of the relevant capital requirements.

Methods for assessment of significant risks as well as risk management procedures have not changed significantly during the reporting year.

The description of the Group's general risk management principles is provided below.

Credit risk

Credit activities in Group are conducted in accordance with the regulatory framework set by the Central Bank of the Russian Federation as well as criteria and guidelines set by the Credit Policy is defined by the Parent Bank's Management Board.

The Parent company of the Group sets approaches to credit risk management at Group level (the Group standards) so that subsidiaries exposed to credit risk could develop its local risk management system in line with the Group standard, and perform regular control of the credit risk value at Group level and its maintenance within required limits.

Credit risk is managed for each client segment, including Factoring and Leasing, using the dedicated tools, including credit portfolio diversification, sound credit application assessment procedures, credit portfolio / loan quality monitoring systems, etc. Qualitative and quantitative credit risk management techniques for each segment are defined in corresponding credit policies.

The Group distinguishes the following client segments in its portfolio of credit risk-bearing products:

- Corporate clients;
- Retail clients;
- Financial institutions.

The Parent Bank of the Group distinguishes multiple client segments in its portfolio of credit risk-bearing products. Other subsidiaries have exposures primarily in the retail client segment.

The methods of credit risk management in the Group including concentration risk are designed to minimize and control credit risk of risk-associated transactions, and includes the following main areas:

- Maintenance of diversified structure of the Credit Product Portfolio by industry, region, currency, product types, maturity of Credit Products, and type of collateral;
- Setting risk limits on clients/related-client groups/portfolios, etc;
- Definition of industry strategies and qualitative criteria to manage credit risk per industry;
- Application of differentiated, multilevel, complex approach to evaluation of credit applications of clients;
- Usage centralized multilevel decision-making system during offering credit products by the Group;
- Monitoring the established limits and decisions;
- Obligatory continuous monitoring the quality of Credit Product Portfolio and risk-associated credits/transactions;
- Creation of allowances for possible losses on loans and other similar debts, allowances on transactions with offshore residents according to the procedure set by regulatory documents of the Group of Russia, and provisioning under the International Financial Reporting Standards. All loans issued by the Group are evaluated in terms of credit risk by the way of continuous complex analysis of the Clients' transactions, their financial standing, debt quality service, and collateral, based on all information available in the Group. When identifying any signs of loan impairment (i.e. loss of credit cost arising from a borrower's default or improper credit performance under terms and conditions of any agreement or any threat of default), the Group creates loan loss provisions.

A valuable tool to reduce the negative impact of credit risk realization on the financial results of the Group's is collateral management.

Collateral can consist of physical assets in form of property, commodities or precious metals, as well as financial instruments such as cash, high-quality investments, securities and insurance policies. Appropriate haircuts are applied to the value of collateral, depending on their quality and liquidity.

In addition to physical and financial collateral listed above the Group uses the standard instruments for credit risk mitigation such as non-financial covenants and guarantees as well as financial covenants being applied on individual basis depending on the transaction.

Impairment assessment

The ECL allowance is based on the credit losses expected to arise over the life of the asset (the lifetime expected credit loss or LTECL), unless there has been no significant increase in credit risk since origination, in which case, the allowance is based on the 12 months' expected credit loss (12mECL). The 12mECL is the portion of LTECL that represent the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date. Both LTECL and 12mECL are calculated on either an individual basis or a collective basis, depending on the nature of the underlying portfolio of financial instruments.

The Group has established a policy to perform an assessment, at the end of each reporting period, of whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument. Based on the above process, the Group groups its loans into Stage 1, Stage 2, Stage 3 and POCI, as described below:

Stage 1: When loans are first recognised, the Group recognises an allowance based on 12mECL. Stage 1 loans also include facilities where the credit risk has improved and the loan has been reclassified from Stage 2.

Stage 2: When a loan has shown a significant increase in credit risk since origination, the Group records an allowance for the LTECL. Stage 2 loans also include facilities, where the credit risk has improved and the loan has been reclassified from Stage 3.

Stage 3: Loans considered credit-impaired. The bank records an allowance for the LTECL.

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 income is subsequently recognised based on a credit-adjusted EIR. ECL are only recognised or released to the extent that there is a subsequent change in the expected credit losses.

The mechanics of the ECL calculations are outlined below and the key elements are as follows:

PD The *Probability of Default* is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the facility has not been previously derecognised and is still in the portfolio.

EAD The *Exposure at Default* 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, expected drawdowns on committed facilities, and accrued interest from missed payments.

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 realisation of any collateral. It is usually expressed as a percentage of the EAD.

When estimating the ECLs, the Group distinguishes homogeneous groups based on business-directions. Each of the scenarios is associated with different PDs, EADs and LGDs. In its ECL models, the Group relies on a broad range of forward looking information as economic inputs. Impairment losses and releases are accounted for and disclosed separately from modification losses or gains that are accounted for as an adjustment of the financial asset's gross carrying value.

The Group considers an exposure to have significantly increased in credit risk in case of any violation of financial covenants and conditions of the credit agreement, since initial recognition. The Group also applies a secondary qualitative method for triggering a significant increase in credit risk for an asset and forms a customer/facility watch list. Regardless of the change in other conditions, if contractual payments are more than 30 days past due, the credit risk is deemed to have increased significantly since initial recognition.

The Group considers a financial instrument defaulted and therefore Stage 3 (credit-impaired) for ECL calculations in all cases when the borrower becomes 90 days past due on its contractual payments or financial asset restructuration.

The Group calculates ECLs on an individual basis for the following assets: all stage 3 assets, the corporate lending portfolio, the treasury and interbank relationships (due from banks, REPO, debt investment securities at amortised cost/FVOCI), POCI resulted from restructuring.

The Group calculates ECL for Stage 3 based on a measure the expected cash shortfalls, discounted at an approximation to the EIR. A cash shortfall is the difference between the cash flows that are due to an entity in accordance with the contract and the cash flows that the entity expects to receive. The Group calculates ECL on a collective basis for all other classes of assets which it groups into smaller homogeneous portfolios, based on a combination of internal and external characteristics of the loans and applies to them homogeneous provisioning rates.

For financial assets for which the Group has no reasonable expectations of recovering either the entire outstanding amount, or a proportion thereof, the gross carrying amount of the financial asset is reduced. This is considered a (partial) derecognition of the financial asset.

The table below shows the credit quality by class of financial asset in the consolidated statement of financial position for 12 months ended 31 December 2018 is, as follows:

	Cash and cash equivalents and Due from banks mRUB	Loans to Corporate business mRUB	Loans to Retail business mRUB	Investments at amortised cost mRUB	Investments at FVOCI mRUB	Total mRUB
Stage 1						
Gross carrying value as at 1 January 2018	**79,128**	**273,121**	**356,603**	**74,906**	**14,969**	**798,727**
Net change of value of assets	(6,631)	17,580	73,396	23,913	31,211	139,469
Assets sold	–	–	(6,111)	(4,667)	–	(10,778)
Transfers to Stage 1	–	414	3,551	–	–	3,965
Transfers to Stage 2	–	(663)	(5,343)	–	–	(6,006)
Transfers to Stage 3	–	(305)	(3,877)	–	–	(4,182)
At 31 December 2018	**72,497**	**290,147**	**418,219**	**94,152**	**46,180**	**921,195**
Stage 2						
Gross carrying value as at 1 January 2018	**1,301**	**6,223**	**10,322**	**–**	**–**	**17,846**
Net change of value of assets	(1,301)	274	(1,871)	–	–	(2,898)
Transfers to Stage 1	–	(411)	(3,003)	–	–	(3,414)
Transfers to Stage 2	–	791	7,537	–	–	8,328
Transfers to Stage 3	–	(1,628)	(3,622)	–	–	(5,250)
At 31 December 2018	**–**	**5,249**	**9,363**	**–**	**–**	**14,612**
Stage 3						
Gross carrying value as at 1 January 2018	**–**	**13,723**	**41,154**	**–**	**–**	**54,877**
Net change of value of assets	–	(158)	(3,283)	–	–	(3,441)
Assets sold	–	(3,242)	(5,795)	–	–	(9,037)
Transfers to Stage 1	–	(2)	(548)	–	–	(550)
Transfers to Stage 2	–	(128)	(2,194)	–	–	(2,322)
Transfers to Stage 3	–	1,932	7,499	–	–	9,431
Amounts written off	–	(7)	(4,139)	–	–	(4,146)
At 31 December 2018	**–**	**12,118**	**32,694**	**–**	**–**	**44,812**
POCI						
Gross carrying value as at 1 January 2018	**–**	**–**	**–**	**–**	**–**	**–**
Net change of value of assets	–	–	245	–	–	245
At 31 December 2018	**–**	**–**	**245**	**–**	**–**	**245**
Total at 1 January 2018	**80,429**	**293,067**	**408,079**	**74,906**	**14,969**	**871,450**
Total at 31 December 2018	**72,497**	**307,514**	**460,521**	**94,152**	**46,180**	**980,864**

As of 31 December 2017 unimpaired loans to customers comprise:

Category	Neither past due nor impaired	Past due but not impared					31 December 2017
		Past due up to 1 month	Past due 1-3 months	Past due 3-6 months	Past due 6 months and over	Total past due but not impaired	Total not impaired mRUB
Loans to individuals	360,917	9,603	1,716	–	–	11,319	372,236
Loans to legal entities	272,521	17	–	–	–	17	272,538
Total loans to customers not impared	**633,438**	**9,620**	**1,716**	**–**	**–**	**11,336**	**644,774**

Internal and external ratings

The Group's rating system makes a key distinction between retail customers and corporate, bank and sovereign clients: for retail customer portfolios, internal models are used to measure credit risks. The Group uses calculated borrower's probability of default (PD) within one year and the percentage loss if the counterparty defaults (Loss Given Default, LGD) for credit risk assessment.

In both cases a set of procedures defines the rules and roles relating to ratings (scope, frequency of rating review, rating approval procedure, etc.), split between Rosbank and SG respectively. Among other things, these procedures facilitate human judgement, which provides a critical view of the results and is an essential complement to the models for these portfolios. The Group's internal models thus enable a quantitative assessment of credit risks based on the probability of default of the counterparty and the loss given default. The final Obligor rating is included in the credit applications and incorporated in credit limit delegation policy. Thus, Obligor ratings are one of the criteria for determining the approval limits granted to operational staff and the risk function.

The Group's risks estimates are not excessively sensitive to changes in the economic environment, while being able to detect any deterioration of risks. The PD modelling for large corporates has also been calibrated against long-term default statistics obtained from an external rating agency.

The criteria for determining internal rating category are as follows:

SG OG category	Criteria
1-2	High level of creditworthiness. Financial position is assessed as good and stable in the long term.
3	High level of creditworthiness. Financial position is assessed as good and stable in the long term. Some financial indicators are below 2nd category.
4	Relatively high level of creditworthiness. Financial position is assessed as satisfactory and stable in the long term.
5	Average level of creditworthiness. Financial position is assessed as satisfactory and stable in the short term.
6	Creditworthiness below average. Key financial indicators are assessed as satisfactory and stable in the short term.
7	Creditworthiness below average. Key financial indicators are assessed as satisfactory, but their stability is doubtful.
8	Significant deterioration in the counterparty's financial situation with or without unpaid amount.
9	At least one default on payment has been recorded and a recovery procedure has been initiated.
10	The counterparty is the subject of a legal procedure.

Financial assets are graded according to the current credit rating they have been issued by an internationally regarded agency. The highest possible rating is AAA. Investment grade financial assets have ratings from AAA to BBB. Financial assets which have ratings lower than BBB are classed as speculative grade.

The following table details the credit ratings of financial assets (except loans to customers) that are neither past due nor impaired held by the Group:

	AAA	AA	A	BBB	<BBB	Not rated	31 December 2018 Total mRUB
Financial assets at fair value through profit or loss	–	–	26,046	6	16,315	467	42,834
Due from banks	–	–	–	–	3,271	6,120	9,391
Investments available-for-sale	–	–	–	–	46,180	–	46,180
Investments held to maturity	–	–	–	–	94,118	–	94,118

	AAA	AA	A	BBB	<BBB	Not rated	31 December 2017 Total mRUB
Financial assets at fair value through profit or loss	–	–	17,095	154	16,747	574	34,570
Due from banks	–	–	–	689	6,478	4,600	11,767
Investments available-for-sale	–	–	–	–	5,877	9,092	14,969
Investments held to maturity	–	–	–	754	72,725	–	73,479

As of 31 December 2018 and 2017 the Balances with the Central Bank of the Russian Federation amounted to RUB 99,221 million and RUB 111,521 million, respectively. As of 31 December 2018 and 2017 the credit rating of the Russian Federation according to the international rating agencies corresponded to investment level BBB- and BB+, respectively.

As of 31 December 2018 and 2017 the credit quality of loans to corporate customers that are neither past due nor impaired is presented below:

Internal rating category	**31 December 2018 mRUB**	**31 December 2017 mRUB**
1-2	720	4,840
3	4,164	14,089
4	65,435	34,324
5	146,869	142,645
6	73,025	75,073
7-10	5,183	1,550
Total	**295,396**	**272,521**

In respect to loans to individuals, the management of the Group bases its judgement for decision-making purposes on information on overdue periods for those loans.

Credit risk on government grants is closely linked with credit risk of the borrower. In case the loan is not redeemed the grant will not be receved as well.

The Group industry is generally exposed to credit risk through its financial assets. Credit risk exposure of the Group is concentrated within the Russian Federation. The exposure is monitored on a regular basis to ensure that the credit limits and credit worthiness guidelines established by the Group’s risk management policy are not breached.

Collateral management

Collateral can consist of physical assets in the form of property, commodities or precious metals, as well as financial instruments such as cash, high-quality investments and securities and also insurance policies. Appropriate haircuts are applied to the value of collateral, reflecting its quality and liquidity.

The Group proactively manages its risks by diversifying guarantees: physical collateral, personal guarantees and others. In addition, the Group has strengthened its policies relating to the acceptance and management of guarantees and collateral as well as their valuation (data collection on guarantees and collateral, deployment of operational procedures).

During the credit approval process, an assessment of the value of guarantees and collateral, their legal enforceability and the guarantor's ability to meet its obligations is undertaken.

The Credit Risk Department is responsible for validating the operating procedures established by the business divisions for the regular valuation of guarantees and collateral, either automatically or based on an expert opinion, both during the approval phase for a new loan or upon the annual renewal of the credit application.

Renegotiated loans and advances

Loans and advances are generally renegotiated either as part of an ongoing customer relationship or in response to an adverse change in the circumstances of the borrower. In the latter case, renegotiation can result in an extension of the due date of payment or repayment plans under which the Group offers a concessionary rate of interest to genuinely distressed borrowers. This will result in the asset continuing to be overdue and will be individually impaired where the renegotiated payments of interest and principal will not recover the original carrying amount of the asset. In other cases, renegotiation will lead to a new agreement, which is treated as a new loan.

The Grouping industry is generally exposed to credit risk through its loans to customers and inter bank deposits. With regard to the loans to customers this risk exposure is concentrated within the Russian Federation. The exposure is monitored on a regular basis to ensure that the credit limits and credit worthiness guidelines established by the Group's risk management policy are not breached.

Operational risk

Operational risk is defined as the risk of loss due to unreliability of the internal procedures of the Group, negligence of the employees, failure of information systems or due to the influence of external events on the activities of the Group. Legal risk is a part of operational risk.

Bank and all the subsidiaries accept operational risk in their activities.

The Group cannot eliminate all operational risks, but it endeavors to manage these risks. Policies and procedures governing operational risk management are developed and implemented in the Group. The Group use an operational risk assessment method established by the Central Bank of Russia Regulation dated 3 November 2009 # 346-P *Operational Risk Amount Calculating Procedure*, Regulation # 509-P dated 3 December 2015 *On the Calculation of Own Funds (Capital), Mandatory Ratios and Open Currency Positions (Limits) of the Grouping Groups* (hereinafter − Regulation # 509-P), procedures for risk monitoring, and also the measures for its limitation are developed and implemented.

The Group use the following identification and assessment instruments of operational risk: KRI, collect data on internal and external losses, implement scenario analysis, conduct an annual risk and control procedures (RCSA) self-assessment. The Group have developed business continuity plans and (or) restoration of activities and action plans in crisis situations. Despite all the measures taken, the operational risk remains a significant one due to its characteristic features to affect the realization of other risks.

Controls measures include effective segregation of duties, access, authorization and reconciliation procedures, staff education and assessment processes.

Bank as a Parent company approves approaches to operational risk management of subsidiaries and performs regular control of the operational risk value at Group level.

Market risk

Banking group is exposed to market risk due to impact of market indicators changes on the fair-falue of instruments in portfolio. Interest and FX risks are the most noticeable among others.

For management purposes leading Bank of the Banking Group recognizes next types of market risk in trading book:

- Interest rate risk − risk of getting financial losses from change of market instruments fair-value in trading portfolio due to changes of market interest rates;
- FX risk − risk of getting financial losses from change of market instruments fair-value in trading portfolio due to changes of market FX rates;
- Commodity risk − risk of getting financial losses from change of market instruments fair-value in trading portfolio due to changes of market commodity prices (including precious metals);
- Fund risk − risk of getting financial losses from change of market instruments fair-value in trading portfolio due to changes of market shares prices and derivatives on the shares and indices.

Banking Group has conservative policy in the management of market risk. Risk management units are independent from business-lines which take risk.

Market risk management system includes analysis of risk exposure, calculation of risk metrics, limits on risk metrics and their control and preparation of reporting to Management of the Group on daily basis. All financial instruments at the beginning before trade are implemented via New Product approval procedure thet includes risk exposure assessment, completeness of active limits system and capacity of used IT-systems to process financial instrument. Limit system covers all risk market risk types that Group is exposed to. Business-lines take market risk in the frame of approved limits.

For management of Interest Rate risk sensitivity and stress-test risk metrics to general risk and basis risks are used with the most accurate methodology of calculation via full repricing.

For management of FX and fund risks position limits and stress-test limits are used.

Limits utilization is calculated for all financial instruments exposed to market risk.

To test the accuracy of calculation methods Group performs historical tests of models and methodologies on the market data samples and financial results from market operations. IFRS principles are used for fair-falue definition of financial instruments.

Approved limit on stress-test for market risk less than 3% of Bank’s capital.

Structural interest rate risk

Structural interest rate risk − it is the risk of potential losses, income or asset value decrease as a result of changes in market interest rates.

Banking Group implements conservative interest rate risk management policy, aimed to reduce negative impact of market conditions on financial performance of the Group, including minimization of the Group’s interest result reduction possibility due to a sharp change in interest rates and also on the compliance with regulatory requirements.

The main indicator of the evaluation and structural interest rate risk management system is the sensitivity of economic value of capital to interest rate changes. The economic value of capital when calculating the value of the interest rate risk is determined by the present value of future cash flows of the Bank. As the sensitivity measure of the economic value of capital to changes in interest rates the change in NPV of cash flows of each of the Group's member is used. It is calculated on a given time horizon and in a given currency in case of the interest change scenario realization. NPV is calculated by discounting cash flows at the risk-free curve. As the discount factors specific curves are used, constructed on the basis of the interest rate swap and money market data. In case of the basic scenario realization an instantaneous parallel shift of the yield curve by + 1% is used. The data on the contractual terms, terms of rates revision are used in the interest rate risk indicator construction process as well as statistical behavioral models in case of their applicability.

Banking Group accepts an interest rate risk within the limits according to risk-appetite. The limit of possible risk level is set as maximum value of future cash flows sensitivity to the interest rate change.

The interest rate limits are set for each of the banking group participants and as a sum for the whole Group; for each of the significant currency and in total for all currencies; by periods of maturity.

Additional to the interest rate limits, possible thresholds (within the current limits) are set. Achieving thresholds means the need for implementing balance sheet structure adjusting and risk reduction measures.

Structural interest rate risk control and management are carried out on a monthly basis.

Structural risk exposure should not exceed the determined value of 3% of the capital.

During (the reporting period) the Group's interest rate risk was within the established limits and thresholds.

Sensitivity to interest rate variations of the Group is presented below:

	Year ended 31 December 2018	**Year ended 31 December 2017**
Short term	(13)	138
Medium term	(106)	(822)
Long term	169	1,727
Total sensitivity to interest rate risk	**50**	**1,043**

Sensitivity calculation of net interest margin to interest rate variations of the Group for the one year horizon is presented below:

Year ended 31 December 2018, mRUB	**Carring amount**	**Interest rates fluctuation**			
		Down -2%	**Down -1%**	**Up 1%**	**Up 2%**
Due from banks*	179,439	(6,351)	(3,175)	3,175	6,351
Loans to customers	723,972	(5,311)	(2,660)	2,660	5,320
Debt securities	140,751	(791)	(395)	395	791
Total interest bearing assets	**1,044,163**	**(12,453)**	**(6,230)**	**6,230**	**12,462**
Due to banks and international financial institutions	72,445	(4,135)	(2,068)	2,068	4,135
Customer accounts	740,531	(7,020)	(3,578)	3,752	7,549
Debt securities issued and subordinated debt	130,985	(452)	(226)	226	452
Total interest bearing liabilities	**943,961**	**(11,607)**	**(5,872)**	**6,046**	**12,136**

Year ended 31 December 2017, mRUB	Carring amount	Interest rates fluctuation			
		Down -2%	Down -1%	Up 1%	Up 2%
Due from banks*	198,063	(5,288)	(2,647)	2,647	5,293
Loans to customers	654,875	(4,721)	(2,415)	2,414	4,827
Debt securities	91,684	(245)	(123)	123	245
Total interest bearing assets	**944,623**	**(10,254)**	**(5,185)**	**5,184**	**10,365**
Due to banks and international financial institutions	32,089	(2,078)	(1,039)	1,039	2,078
Customer accounts	648,024	(5,547)	(2,983)	3,179	6,359
Debt securities issued and subordinated debt	180,701	(536)	(268)	268	536
Total interest bearing liabilities	**860,814**	**(8,161)**	**(4,290)**	**4,486**	**8,973**

* includes term deposits in banks, loans under reverse repurchase agreements, balances with the Central Bank of the Russian Federation and Mandatory cash balances with the Central Bank of the Russian Federation.

Structural currency risk

Structural currency risk arises due to adverse changing in exchange rates on the positions opened by the Group in foreign currencies of structural book.

Certain Group’s subsidiaries accept structural currency risk in their activities.

The Group assesses structural currency risk of the Group by calculating open currency position in different currencies.

In accordance with structural currency risk management strategy the Group aims to close open currency positions based on IFRS. Due to differences between RAS and IFRS the Group could have open currency positions based on RAS. For this purpose the Group establishes the limits for open currency position for structural currency risk of the Group in each currency.

The Group's exposure to foreign currency exchange rate risk is presented in the table below:

	mRUB	USD 1 USD = 69.4706 RUB	EUR 1 EUR = 79.4605 RUB	Precious metals	Other currency	31 December 2018 Total
ASSETS						
Cash and cash equivalents	119,094	63,831	6,948	494	912	191,279
Mandatory cash balances with the Central Bank of ther Russian Federation	7,722	–	–	–	–	7,722
Financial assets at fair value through profit or loss	26,531	–	61	–	16,433	43,025
Due from banks	6,057	–	3,334	–	–	9,391
Loans to customers	591,591	74,237	58,144	–	–	723,972
Investments at fair value through other comprehensive income	46,180	–	–	–	–	46,180
Investments at amortized cost	53,116	41,002	–	–	–	94,118
Other financial assets	2,481	35	–	–	–	2,516
TOTAL FINANCIAL ASSETS	**852,772**	**179,105**	**68,487**	**494**	**17,345**	**1,118,203**
Property and equipment	18,922	–	–	–	–	18,922
Intangible assets	3,686	–	–	–	–	3,686
Current income tax assets	295	–	–	–	–	295
Deferred income tax asset	1,272	–	–	–	–	1,272
Other non-financial assets	10,006	80	25	–	33	10,144
TOTAL NON-FINANCIAL ASSETS	**34,181**	**80**	**25**	**–**	**33**	**34,319**
TOTAL ASSETS	**886,953**	**179,185**	**68,512**	**494**	**17,378**	**1,152,522**
LIABILITIES						
Financial liabilities at fair value through profit or loss	25,102	340	121	–	16,396	41,959
Due to CBR	25	–	–	–	–	25
Due to banks and international financial institutions	52,925	10,955	8,538	–	27	72,445
Customer accounts	527,303	143,360	55,584	632	13,652	740,531
Debt securities issued	99,908	–	–	–	–	99,908
Other provisions	428	57	198	–	–	683
Other financial liabilities	7,605	66	643	–	–	8,314
Subordinated debt	–	31,077	–	–	–	31,077
TOTAL FINANCIAL LIABILITIES	**713,296**	**185,855**	**65,084**	**632**	**30,075**	**994,942**
Current income tax liabilities	333	–	–	–	–	333
Deferred income tax liabilities	1,081	–	–	–	–	1,081
Other non-financial liabilities	3,023	141	17	–	180	3,361
TOTAL NON-FINANCIAL LIABILITIES	**4,437**	**141**	**17**	**–**	**180**	**4,775**
TOTAL LIABILITIES	**717,733**	**185,996**	**65,101**	**632**	**30,255**	**999,717**
OPEN BALANCE SHEET POSITION	**169,220**	**(6,811)**	**3,411**	**(138)**	**(12,877)**	

The fair value of derivative financial instruments and spot contracts are included in the currency analysis presented above and the following table presents a further analysis of currency risk by types of derivative financial instruments and spot contracts as of 31 December 2018:

	mRUB	USD 1 USD = 69.4706 RUB	EUR 1 EUR = 79.4605 RUB	Precious metals	Other currency	31 December 2018 Total
Receivables on spot and derivative contracts	236,060	426,544	168,892	138	150,597	982,231
Payables on spot and derivative contracts	(261,510)	(410,416)	(172,503)	–	(137,618)	(982,047)
NET POSITION ON SPOT AND DERIVATIVE CONTRACTS	**(25,450)**	**16,128**	**(3,611)**	**138**	**12,979**	
TOTAL OPEN POSITION	**143,770**	**9,317**	**(200)**	**–**	**102**	

	mRUB	USD 1 USD = 57.6002 RUB	EUR 1 EUR = 68.6886 RUB	Precious metals	Other currency	31 December 2017 Total
ASSETS						
Cash and cash equivalents	165,966	33,998	7,267	469	2110	209,810
Mandatory cash balances with the Central Bank of ther Russian Federation	6,113	–	–	–	–	6,113
Financial assets at fair value through profit or loss	21,347	8	675	–	12,540	34,570
Due from banks	7,215	290	4,262	–	–	11,767
Loans to customers	525,282	91,294	38,299	–	–	654,875
Investments available-for-sale	15,159	–	1	–	–	15,160
Investments held to maturity	27,597	44,839	1,043	–	–	73,479
Other financial assets	1,799	41	–	–	–	1,840
TOTAL FINANCIAL ASSETS	**770,478**	**170,470**	**51,547**	**469**	**14,650**	**1,007,614**
Property and equipment	18,157	–	–	–	–	18,157
Intangible assets	2,569	–	–	–	–	2,569
Current income tax assets	198	–	–	–	–	198
Deferred income tax asset	2,859	–	–	–	–	2,859
Other non-financial assets	9,071	122	300	–	25	9,518
TOTAL NON-FINANCIAL ASSETS	**32,854**	**122**	**300**	**–**	**25**	**33,301**
TOTAL ASSETS	**803,332**	**170,592**	**51,847**	**469**	**14,675**	**1,040,915**
LIABILITIES						
Financial liabilities at fair value through profit or loss	20,740	49	433	–	12,540	33,762
Due to CBR	207	–	–	–	–	207
Due to banks and international financial institutions	21,490	5,321	5,268	–	10	32,089
Customer accounts	479,512	134,905	31,740	564	1,303	648,024
Debt securities issued	146,304	–	–	–	–	146,304
Other provisions	691	189	172	–	72	1,124
Other financial liabilities	6,974	22	862	–	3	7,861
Subordinated debt	–	34,397	–	–	–	34,397
TOTAL FINANCIAL LIABILITIES	**675,918**	**174,883**	**38,475**	**564**	**13,928**	**903,768**
Current income tax liabilities	580	–	–	–	–	580
Deferred income tax liabilities	1,522	–	–	–	–	1,522
Other non-financial liabilities	1,988	261	58	–	141	2,448
TOTAL NON-FINANCIAL LIABILITIES	**4,090**	**261**	**58**	**–**	**141**	**4,550**
TOTAL LIABILITIES	**680,008**	**175,144**	**38,533**	**564**	**14,069**	**908,318**
OPEN BALANCE SHEET POSITION	**123,324**	**(4,552)**	**13,314**	**(95)**	**606**	

The fair value of derivative financial instruments and spot contracts are included in the currency analysis presented above and the following table presents a further analysis of currency risk by types of derivative financial instruments and spot contracts as of 31 December 2017:

	mRUB	USD 1 USD = 57.6002 RUB	EUR 1 EUR = 68.6886 RUB	Precious metals	Other currency	31 December 2017 Total
Receivables on spot and derivative contracts	114,799	200,136	57,052	95	116,367	488,449
Payables on spot and derivative contracts	(104,852)	(196,709)	(69,691)	–	(117,004)	(488,256)
NET POSITION ON SPOT AND DERIVATIVE CONTRACTS	**9,947**	**3,427**	**(12,639)**	**95**	**(637)**	
TOTAL OPEN POSITION	**133,271**	**(1,125)**	**675**	**–**	**(31)**	

Currency risk sensitivity

The following table details the Group's sensitivity to a 30% increase and decrease in the RUB against the relevant foreign currencies (2017: 30%). The sensitivity analysis includes only outstanding foreign currency denominated monetary items and their translation at the period end is adjusted for a 30% change in foreign currency rates. The sensitivity analysis includes external loans as well as loans to foreign operations with the Group where the denomination of the loan is in a currency other than the functional currency of the lender or the borrower. A positive number below indicates an increase in profit and other equity where the RUB weakens 30% against the relevant currency. A negative number below indicates an decrease in profit and other equity where the RUB weakens 30% against the relevant currency. For a 30% strengthening of the RUB against the relevant currency, there would be a comparable impact on the profit and other equity, and the balances below would be negative.

	USD impact		**EUR impact**	
	2018	**2017**	**2018**	**2017**
Profit before tax	2 795	(338)	(60)	203
Other equity	2 236	(270)	(48)	162

Limitations of sensitivity analysis

The above tables demonstrate the effect of a change in a key assumption while other assumptions remain unchanged. In reality, there is a correlation between the assumptions and other factors. It should also be noted that these sensitivities are non-linear, and larger or smaller impacts should not be interpolated or extrapolated from these results.

The sensitivity analyses do not take into consideration that the Group's assets and liabilities are actively managed. Additionally, the financial position of the Group may vary at the time that any actual market movement occurs. For example, the Group's financial risk management strategy aims to manage the exposure to market fluctuations. As investment markets move past various trigger levels, management actions could include selling investments, changing investment portfolio allocation and taking other protective action. Consequently, the actual impact of a change in the assumptions may not have any impact on the liabilities, whereas assets are held at market value in the statement of financial position. In these circumstances, the different measurement bases for liabilities and assets may lead to volatility in shareholder equity.

Other limitations in the above sensitivity analyses include the use of hypothetical market movements to demonstrate potential risk that only represent the Group's view of possible near-term market changes that cannot be predicted with any certainty; and the assumption that all interest rates move in an identical fashion.

Liquidity risk

Liquidity risk is the risk of non-fulfillment or untimely settlements with customers and counterparties due to the Group's inability to attract resources of the required volume and period. This inability can be expressed in the form of direct constraint of available sources of liquidity, or in a high cost of refinancing liquidity in sufficient amounts, which may have a negative impact on the Group's financial strategy.

The Group has a conservative policy aimed at maintaining sufficient liquidity to meet its obligations in a timely and complete manner.

The main elements of the liquidity risk assessment and management system are the following risk parameters: the value of the forecast amount of mandatory liquidity ratios established by the Central Bank of the Russian Federation, the size of liquidity gaps and cumulative liquidity gaps (these figures represent an analog of the CBR's recommended ratios representing liquidity deficit/excess); the value of a short-term liquidity stress test.

To manage the risk of instant liquidity and manage the cashflow position, the Group uses a set of financial indicators: internal (in particular, the current payment position for Nostro accounts); statistical (in particular, the average amount of funds received to the Group's account opened with the CBR, per day) and forecasted (in particular, the level of interest rates on the market). This aggregated information is sent to the Central Bank of the Russian Federation on a weekly basis.

The Group sets limits on cumulative liquidity gaps and as well as thresholds for cumulative liquidity gaps, which serve as a warning indicator and involves the implementation of measures to restore the required level of liquidity in accordance with the contingency liquidity plan in the event of a crisis situation and mandatory standards established by the Central Bank of Russian Federation. The approved threshold values correspond to the no-deficit level.

The Group conducts stress testing of liquidity and ensures a constant availability of funds − a buffer sufficient to fully and promptly meet the cash settlements with customers, counterparties and ensure the normal operation of the Group on the established survival horizon.

Early detection of systemic and specific crises is carried out through regular monitoring of both quantitative indicators and qualitative indicators. Regular monitoring of early warning indicators allows the Group to recognize the crisis at an early stage. Exceeding the threshold of at least one of the indicators is a sufficient reason for initiating the Contingency Funding Plan. For the purpose of early detection, three quantitative indicators are used: liquidity gap for terms up to 1 year; liquidity stress test on the established survival horizon and the forecast of liquidity standards. As an indicator, the forecast values of regulatory liquidity ratios are used at the horizon of 3 months.

In accordance with the expected increase in liquidity requirements, the contingency funding plan has three levels: warning, preventive and crisis, characterized by a amount of violations of regulations, limits and indicators. For each level, a list of measures to restore liquidity has been developed. The measures include: an increase in the base rates for deposits, issuance of bonds, an increase in the volume of REPO transactions with a liquidity buffer, the sale of securities, and the introduction of restrictions on business activity.

The Group manages its liquidity risk by analyzing the term structure of cash flows and controlling the execution of limits on individual and cumulative liquidity gaps. Analysis of the Group's liquidity gaps is aggregated across all currencies and for each currency separately. Positive values of liquidity gap indicate the excess liquidity of the Group, negative values − about the liquidity deficit of the Group.

The limits of liquidity gaps in the Group are set at values not exceeding 5% of the balance sheet volume.

At the end 2018 both for the Group as a whole and for each Bank separately, all regulatory and internal liquidity ratios at all times were met without violations.

The stress test indicators were within the established threshold values.

The analysis of liquidity risk is presented in the following table:

	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	31 December 2018 mRUB Total
ASSETS						
Cash and balances with the Central Bank of the Russian Federation	153,045	5,188	8,498	15,827	8,721	191,279
Mandatory cash balances with the Central Bank of ther Russian Federation	2,283	1,266	1,728	1,892	553	7,722
Financial assets at fair value through profit or loss	43,025	–	–	–	–	43,025
Due from banks	789	3,241	2,025	3,336	–	9,391
Loans to customers	54,236	90,955	202,367	314,716	61,698	723,972
Investments at fair value through other comprehensive income	46,180	–	–	–	–	46,180
Investments at amortized cost	94,041	–	77	–	–	94,118
Property and equipment	273	431	1,934	7,511	8,773	18,922
Intangible assets	33	70	314	1,694	1,575	3,686
Current income tax asset	295	–	–	–	–	295
Deferred income tax asset	90	55	227	900	–	1,272
Other assets	7,411	1,445	957	2,847	–	12,660
TOTAL ASSETS	**401,701**	**102,651**	**218,127**	**348,723**	**81,320**	**1,152,522**
LIABILITIES						
Financial liabilities at fair value through profit or loss	41,959	–	–	–	–	41,959
Due to the Central Bank of the Russian Federation	–	–	–	25	–	25
Due to banks and international financial institutions	53,707	16,063	1,653	1,022	–	72,445
Customer accounts	241,953	110,410	130,681	190,201	67,286	740,531
Debt securities issued	604	5,597	28,282	45,452	19,973	99,908
Other provisions	683	–	–	–	–	683
Current income tax liabilities	333	–	–	–	–	333
Deferred income tax liabilities	76	47	193	765	–	1,081
Other liabilities	8,682	1,798	1,144	50	1	11,675
Subordinated debt	510	–	–	30,567	–	31,077
TOTAL LIABILITIES	**348,507**	**133,915**	**161,953**	**268,082**	**87,260**	**999,717**
Liquidity gap	53,194	(31,264)	56,174	80,641	(5,940)	
Cumulative liquidity gap	**53,194**	**21,930**	**78,104**	**158,745**	**152,805**	

As at 31 December 2018 the period of maturity for Cash and balances with the Central Bank of the Russian Federation is allocated according to internal model of the Group. The mandatory reserves in the Central Bank of the Russian Federation are allocated according to the maturity of the underlying provisioned liabilities.

	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	31 December 2017 mRUB Total
ASSETS						
Cash and balances with the Central Bank of the Russian Federation	177,674	2,974	6,914	13,755	8,493	209,810
Mandatory cash balances with the Central Bank of ther Russian Federation	2,109	706	1,417	1,420	461	6,113
Financial assets at fair value through profit or loss	34,570	–	–	–	–	34,570
Due from banks	1,472	4,573	4,118	1,604	–	11,767
Loans to customers	49,019	83,373	207,802	247,340	67,341	654,875
Investments available-for-sale	14,968	–	8	32	152	15,160
Investments held to maturity	69,473	809	2,111	1,086	–	73,479
Property and equipment	300	397	1,778	7,211	8,471	18,157
Intangible assets	38	54	241	1,126	1,110	2,569
Current income tax asset	198	–	–	–	–	198
Deferred income tax asset	134	140	528	1,730	327	2,859
Other assets	3,633	1,630	3,630	2,465	–	11,358
TOTAL ASSETS	**353,588**	**94,656**	**228,547**	**277,769**	**86,355**	**1,040,915**
LIABILITIES						
Financial liabilities at fair value through profit or loss	33,762	–	–	–	–	33,762
Due to the Central Bank of the Russian Federation	–	–	122	85	–	207
Due to banks and international financial institutions	20,636	7,346	663	3,444	–	32,089
Customer accounts	228,565	65,742	128,657	163,686	61,374	648,024
Debt securities issued	1,102	5,544	42,120	83,482	14,056	146,304
Other provisions	1,124	–	–	–	–	1,124
Current income tax liabilities	580	–	–	–	–	580
Deferred income tax liabilities	221	160	422	538	181	1,522
Other liabilities	6,757	2,301	1,201	50	–	10,309
Subordinated debt	412	–	–	17,281	16,704	34,397
TOTAL LIABILITIES	**293,159**	**81,093**	**173,185**	**268,566**	**92,315**	**908,318**
Liquidity gap	60,429	13,563	55,362	9,203	(5,960)	
Cumulative liquidity gap	**60,429**	**73,992**	**129,354**	**138,557**	**132,597**	

Asset and liability maturity periods and the ability to replace interest bearing liabilities at an acceptance cost when they mature are crucial in determining the Group's liquidity and its fluctuation of interest and exchange rates.

The maturity of time deposits of individuals is based on contractual terms. However, time deposits can be withdrawn by individuals on demand.

The equity investments available-for-sale and the equity investments at fair value through profit or loss have no contractual maturity and are classified based on management's intentions.

Currently, a considerable part of customer deposits are repayable on demand. However, the fact that these deposits are diversified by the number and type of customers and the Group's previous experience indicate that deposits are a stable and long-term source of financing for the Group.

The table below presents the cash flow payable by the Group under financial liabilities by remaining contractual maturities at the reporting date. The amounts disclosed in the table are the contractual undiscounted cash flows of all financial liabilities (i.e. nominal values), whereas the Group manages the inherent liquidity risk based on discounted expected cash inflows.

	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	31 December 2018 mRUB Total
LIABILITIES						
Gross settled derivative financial liabilities at fair value through profit or loss						
- inflow	(153,854)	(57,362)	(43,320)	(11,362)	(37,562)	(303,460)
- outflow	158,835	59,132	46,113	10,862	39,191	314,133
Net settled financial liabilities at fair value through profit or loss (liabilities)	52	388	1,396	2,591	29,771	34,198
Due to the Central Bank of the Russian Federation	–	–	–	25	–	25
Due to banks and international financial institutions	53,863	16,324	1,607	997	–	72,791
Customer accounts	473,116	108,425	127,814	55,485	7,688	772,528
Debt securities issued	603	5,726	30,268	54,976	26,558	118,131
Other provisions	683	–	–	–	–	683
Other financial liabilities	6,766	814	593	(40)	181	8,314
Subordinated debt	111	748	1,562	38,562	–	40,983
Contingent liabilities and credit commitments	19,097	30,220	82,454	92,793	10,047	234,611
Total financial liabilities and commitments	**559,272**	**164,415**	**248,487**	**244,889**	**75,874**	**1,292,937**

	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	31 December 2017 mRUB Total
LIABILITIES						
Gross settled derivative financial liabilities at fair value through profit or loss						
- inflow	(34,859)	(4,479)	(45,902)	(24,936)	(19,478)	(129,654)
- outflow	37,022	4,649	51,748	30,363	23,787	147,569
Net settled financial liabilities at fair value through profit or loss (liabilities)	247	178	38	80	21,948	22,491
Due to the Central Bank of the Russian Federation	2	2	128	92	–	224
Due to banks and international financial institutions	20,560	7,524	874	4,390	–	33,348
Customer accounts	414,643	72,283	125,721	55,127	4,688	672,462
Debt securities issued	1,032	6,588	50,954	98,430	19,475	176,479
Other provisions	1,124	–	–	–	–	1,124
Other financial liabilities	5,797	1,337	698	28	–	7,860
Subordinated debt	169	702	1,861	26,559	16,889	46,180
Contingent liabilities and credit commitments	16,287	22,860	82,251	54,930	6,118	182,446
Total financial liabilities and commitments	**462,024**	**111,644**	**268,371**	**245,063**	**73,427**	**1,160,529**

As at 31 December 2018 and 2017 contingent liabilities and credit commitments included financial guarantee contracts in the amount of RUB 110,822 million and RUB 102,835 million, respectively. These are the maximum amounts the Group could be forced to settle under the arrangement for the full guaranteed amount if that amount is claimed by the counterparty to the guarantee. Based on expectations at the end of the reporting period, the Group considers that it is more likely than not that no amount will be payable under the arrangement. However, this estimate is subject to change depending on the probability of the counterparty claiming under the guarantees which is a function of the likelihood that the financial receivables held by the counterparty which are guaranteed suffer credit losses.

Strategic risk

Strategic risk emerges in the Group as a result of errors (failures) in the processes of decision-making, defining the strategy of activities and development for the Group (strategic management), improper execution of the decisions and inability of the Group management bodies to take into account changes in external factors.

In the process of its activity the Group follows Development Strategy for a three-year period approved by the Board of Directors of the Group which shows its main long-term objectives, in accordance with the shareholders' and management's point of view; the main competitive advantages of the Group in key market segments, and also a program for achieving these objectives; qualitative and quantitative benchmarks of the Group economic development.

Tasks and goals defined in the Development Strategy are taken into account in decision-making process at all levels of corporate management and in the current activity of the Group.

To minimize strategic risk the Group monitors the implementation of Development Strategy, macroeconomic and market conditions that were taken into account in the Development Strategy, and analyzes all the current trends. Achieving strategic objectives is embedded in the KPI system and thus is taken into account in Management assessment.

Management and control of this risk is indirectly carried out in the frames of other risks management, which realization directly affects the realization of strategic risk.

Identification of concentration risk

Within significant risks identification process the assessment procedure of the materiality of the Group inherent concentrations is carried out on an annual basis in accordance with the Policy for Determination of Significant Risks of PJSC ROSBANK with support of responsible departments of Risk Management Service (hereinafter – "RMS"). This assessment is based on the results of the identification and comprehensive analysis of the concentration factors. By default the Group does not determine concentration risk as a separate type of risk and considers it under corresponding significant risk management.

To ensure a complex analysis of Group's susceptibility to concentration risk, the process of identification of other significant concentrations covers all Group's activities and all types of assets and liabilities exposed to risks.

The scope of inherent concentration is reviewed and taken into consideration when Risk Map is developed/updated as well as in case of a new product/business line launch in order to identify all potentially material and significant concentrations and ensure that corresponding management procedures are in place.

Credit risk concentration

To identify the credit risk concentration the responsible departments of RMS within their operational activity in accordance with Methodology on counterparty credit risk assessment and definition of risk limits per one borrower (group of related borrowers), risk limits by industry types, carry out an analysis of the asset structure of the Group, as well as per individual business lines, on the following concentration factors:

- Granting large loans to an individual borrower or group of related borrowers;
- Exposure concentration in certain segments of economy, industries, portfolios or geographical regions;
- Concentration of investments in securities issued by issuers belonging to the particular sectors or geographic regions;
- The existence of other assets and commitments that are vulnerable to the same economic factors;
- Exposure concentration by one type of product etc.

The responsible departments of RMS perform subsequent analysis at portfolio level and assess materiality and significance level of identified concentrations in accordance with Policy for Determination of significant risks of PJSC ROSBANK, and then reflect the results in Risk Map of the Group for further planning and development of corresponding management tools.

Liquidity risk concentration

Liquidity risk concentration risk is caused by the likelihood of a significant deterioration of physical or regulatory liquidity due to imbalances in the structure of assets and liabilities.

Factors that increase liquidity risk are dependence on borrowing from a limited number of funding sources.

The procedures for identification liquidity risk concentration are based on the analysis of the assets and liabilities structure of the Group as well as off-balance accounts.

Business units and responsible departments of RMS within their operational activity perform analysis of the Group's assets and liabilities for the purpose of identification of:

- The largest sources of funding (per product/instrument, maturity and currency);
- Significant volumes of cash flows from one counterparty or group of connected counterparties (per product/instrument, maturity and currency);
- Diversification level of high-liquid assets portfolio (per product/instrument, maturity and currency) etc.

The responsible departments of RMS perform subsequent analysis at portfolio level and assess materiality and significance level of identified concentrations in accordance with Policy for Determination of significant risks of PJSC ROSBANK and ROSBANK Group, and then reflect the results in Risk Map of the Group for further planning and development of corresponding management tools.

Structural currency risk concentration

To identify structural currency risk concentration business units and responsible departments of RMS within their operational activity perform analysis of assets and liabilities of the Group on the existence of significant open positions in one currency.

The responsible departments of RMS perform subsequent analysis at portfolio level and assess materiality and significance level of identified concentrations in accordance with Policy for Determination of significant risks of PJSC ROSBANK, and then reflect the results in Risk Map of the Group for further planning and development of corresponding management tools.

Other concentration

To disclose other concentrations the responsible department of RMS jointly with the Parent Bank's units involved in significant risks identification procedure identifies other important concentration factors within Bank's assets and liabilities structure including the following areas:

- Types/subtypes of risks;
- Business lines, up to the level of the individual Manager;
- Products;
- Regions, etc.

Decision to assign identified concentration to significant risk in Risk Map and initiate further development of corresponding management techniques is made depending on the materiality and significance level of the identified concentration factors as well as their link with significant risks.

Geographical concentration

The geographical concentration of assets and liabilities is set out below:

	Russia	Other CIS countries	OECD countries	Other non-OECD countries	31 December 2018 Total
ASSETS					
Cash and balances with the Central Bank of the Russian Federation	133,504	22	57,747	6	191,279
Mandatory cash balances with the Central Bank of ther Russian Federation	7,722	–	–	–	7,722
Financial assets at fair value through profit or loss	16,994	–	26,031	–	43,025
Due from banks	9,391	–	–	–	9,391
Loans to customers	708,674	–	4,349	10,949	723,972
Investments at fair value through other comprehensive income	46,180	–	–	–	46,180
Investments at amortized cost	94,118	–	–	–	94,118
Other financial assets	2,384	–	132	–	2,516
TOTAL FINANCIAL ASSETS	**1,018,967**	**22**	**88,259**	**10,955**	**1,118,203**
Property and equipment	18,922	–	–	–	18,922
Intangible assets	3,686	–	–	–	3,686
Current income tax assets	295	–	–	–	295
Deferred income tax asset	1,272	–	–	–	1,272
Other non-financial assets	10,113	–	31	–	10,144
TOTAL NON-FINANCIAL ASSETS	**34,288**	**–**	**31**	**–**	**34,319**
TOTAL ASSETS	**1,053,255**	**22**	**88,290**	**10,955**	**1,152,522**
LIABILITIES					
Financial liabilities at fair value through profit or loss	14,835	–	27,124	–	41,959
Due to the Central Bank of the Russian Federation	25	–	–	–	25
Due to banks and international financial institutions	46,691	1,181	23,954	619	72,445
Customer accounts	727,699	1	6,612	6,219	740,531
Debt securities issued	99,908	–	–	–	99,908
Other provisions	683	–	–	–	683
Other financial liabilities	7,878	–	436	–	8,314
Subordinated debt	–	–	31,077	–	31,077
TOTAL FINANCIAL LIABILITIES	**897,719**	**1,182**	**89,203**	**6,838**	**994,942**
Current income tax liabilities	333	–	–	–	333
Deferred income tax liabilities	1,081	–	–	–	1,081
Other non-financial liabilities	3,181	–	180	–	3,361
TOTAL NON-FINANCIAL LIABILITIES	**4,595**	**–**	**180**	**–**	**4,775**
TOTAL LIABILITIES	**902,314**	**1,182**	**89,383**	**6,838**	**999,717**
NET POSITION	**150,941**	**(1,160)**	**(1,093)**	**4,117**	

	Russia	Other CIS countries	OECD countries	Other non-OECD countries	31 December 2017 Total
ASSETS					
Cash and balances with the Central Bank of the Russian Federation	197,894	12	11,900	4	209,810
Mandatory cash balances with the Central Bank of the Russian Federation	6,113	–	–	–	6,113
Financial assets at fair value through profit or loss	17,474	–	17,096	–	34,570
Due from banks	8,310	–	3,457	–	11,767
Loans to customers	626,430	–	9,549	18,896	654,875
Investments available-for-sale	15,159	–	1	–	15,160
Investments held to maturity	73,479	–	–	–	73,479
Other financial assets	244	–	1,596	–	1,840
TOTAL FINANCIAL ASSETS	**945,103**	**12**	**43,599**	**18,900**	**1,007,614**
Property and equipment	18,157	–	–	–	18,157
Intangible assets	2,569	–	–	–	2,569
Current income tax assets	198	–	–	–	198
Deferred income tax asset	2,859	–	–	–	2,859
Other non-financial assets	9,493	–	25	–	9,518
TOTAL NON-FINANCIAL ASSETS	**33,276**	**–**	**25**	**–**	**33,301**
TOTAL ASSETS	**978,379**	**12**	**43,624**	**18,900**	**1,040,915**
LIABILITIES					
Financial liabilities at fair value through profit or loss	12,488	–	21,274	–	33,762
Due to the Central Bank of the Russian Federation	207	–	–	–	207
Due to banks and international financial institutions	20,719	416	10,729	225	32,089
Customer accounts	626,709	–	4,485	16,830	648,024
Debt securities issued	146,304	–	–	–	146,304
Other provisions	1,124	–	–	–	1,124
Other financial liabilities	7,368	–	493	–	7,861
Subordinated debt	–	–	34,397	–	34,397
TOTAL FINANCIAL LIABILITIES	**814,919**	**416**	**71,378**	**17,055**	**903,768**
Current income tax liabilities	580	–	–	–	580
Deferred income tax liabilities	1,522	–	–	–	1,522
Other non-financial liabilities	2,296	–	152	–	2,448
TOTAL NON-FINANCIAL LIABILITIES	**4,398**	**–**	**152**	**–**	**4,550**
TOTAL LIABILITIES	**819,317**	**416**	**71,530**	**17,055**	**908,318**
NET POSITION	**159,062**	**(404)**	**(27,906)**	**1,845**	

Information on capital requirements

Risk aggregation and diversification

The Group applies a conservative approach and does not include diversification: for calculation purposes it is assumed that all significant risks of the Group are perfectly correlated and realization of one significant risk will cause the realization of other significant risks. To avoid double counting of the same risk realization under different risks types Group may apply some adjustments to the calculated values of certain risks types in their aggregation.

Stress-testing

Stress-testing is a key risk management technique used to evaluate the potential effects on an institution's financial condition of an exceptional but likely event due to changes in macroeconomic parameters.

Available internal capital adequacy under enterprise-wide stress is estimated at least once a year during the ICAAP cycle to assess the budget forward-looking internal capital figures as well as by request of the Management Board or Regulator In case 80% of stress-scenarios is realized the Group recalculates stress-test.

Enterprise-wide stress-testing consists of stress tests of certain types of significant risks of the Group. The final output of EWST is evaluation of Risk-Taking Capacity by comparison stressed required Internal capital and stressed available internal capital.

In the context of internal capital adequacy assessment, stress-testing is considered:

- As a diagnostic tool to improve the Group's Management understanding of its risk profile and capital adequacy level at Group level.
- As a forward-looking tool within the ICAAP: stress-testing is used to assess the adequacy of internal capital of the Group and to compare the outcome of the stress-testing against the Development Strategy and take the necessary measures considering these results.
- To set risk-appetite thresholds of the Group.

Target risk structure

Risk-Taking Capacity metric is used for purpose of risk and capital management and fixed through the risk-appetite framework:

- On a yearly basis during the ICAAP cycle of the Group in parallel to the budgeting process a responsible unit of RMS jointly with Finance defines the levels of Risk-Appetite (Bank, subsidiaries, Group), proposes the metrics (for example capital adequacy, business lines, significant risks, etc) and values of the thresholds based on stress-test figures of internal and available capital (derived from stressed capital adequacy ratio) and RTC through the surplus/deficit (residual difference between required and available internal capital) for further approval by the Management Board.
- Developed and approved threshold levels are fixed in risk-appetite framework of the Group for upcoming year and submit to the Board of Directors for further approval.

RTC analysis provides a better outstanding about imbalances between risk types, their concentrations and capital coverage as well as points out where changes in the Group's actual risk structure are necessary.

The set level of Risk-Taking Capacity can be maintained if risks will be within their thresholds. Therefore, on a yearly basis the Group develop/review its target risk structure through the limits setting in line with the planned business goals and capital structure.

Principles of capital allocation through the limit setting

Once the thresholds indicators for the Group risk appetite are approved, proposals for risk-appetite at the Parent Bank and subsidiaries of the Group levels are generated and being cascaded down to the corresponding limits on operational level.

Thresholds should ensure a safety margin for the Parent Bank/Group/subsidiaries taking into account new operations, potential fluctuations in balance sheet, the volatility in the financial markets and the forecast of Group's equity. The Group follows the principles below when designing the Group limit system:

- Utilization of unified definition for the available internal capital;
- Assignment of limit or qualitative limitation to each significant risk;
- Limits on the risks have to be set up wherever they arise;
- Limits should reflect the appropriate risk level of the transaction and/or portfolio;
- If the limit cannot be obviously set considering the risk level, alternative approaches should be applied (for example, qualitative limitations for concentration risks can be designed);
- The Group should follow the principle "as much as necessary" in relation to setting up of limits in order to ensure an appropriate level of hedging and at the same time to optimize the applicable tools for risks management.

A certain portion of internal available capital remains not allocated at the Group's level due to the following reasons:

- To ensure the availability of the required buffer for risks that can not be assessed by quantitative methods;
- To ensure the required level of Group's flexibility in case of changes in internal and external conditions;
- To ensure the possibility for utilization most of the available limits, if it is required to achieve the desired level of profitability.

A limit system which is cascaded to the the Parent Bank of the Group and subsidiaries of the Group business-lines allows maintaining Risk-Taking Capacity at the specified level and is subject of regular monitoring. It indicates when the appropriate countermeasures should be taken once risks begin to approach to their defined limits.

Internal capital adequacy monitoring

After the limit system is developed a follow-up control takes a place.

Risk-Taking Capacity control should ensure the coverage of required internal capital at all times.

For this purpose, internal capital adequacy is monitored regularly within Group's ICAAP, in particular via comparison of the Group's target and actual risk and capital structures.

In case of significant unexpected losses, the internal capital adequacy is subject to analysis regardless the regular schedule.

While target/actual structure comparisons provide monitoring of established limits and are related mostly to quantitative risks, in case of other risks process-related requirements and other qualitative indicators are analyzed.

Information on the content and frequency of risks reporting of the credit institution.

The Group regularly prepares risks reporting within ICCAP. Risk reporting includes the following information:

- ICAAP execution report including compliance of capital adequacy, planned capital structure and target risk profile;
- Stress testing results;
- Significant risks;
- Compliance with CBR requirements on banks' obligatory ratios.

The processes of preparation of ICAAP reporting are based on the following principles:

- ICCAP reporting is carried out by units independent from risk-taking divisions. Units can be considered as independent if they have different reporting manager, except Chief Executive Officer. ICCAP reporting is prepared by units, whose activity does not involve the assumption of risk.
- Contribution of relevant information by involved departments of the Group. Responsible departments of the Group provide with necessary data for ICAAP reporting preparation by the required deadlines and adhere to established requirements to data.
- Compliance with established data quality requirements. Within ICAAP reporting preparation all involved departments adhere to the established data quality standards.
- Correspondence of frequency of preparation of ICAAP reporting to the recipient's needs and the content of reports. Frequency of preparation of ICAAP reporting is defined considering recipients' requests to the required information and to the content of reports.
- Reporting format standardization. ICAAP reporting follows standardized format to enable the aggregation of information on significant risks and subsidiaries for comprehensive analysis of the consolidated risk profile of the Group, assessment of current and expected capital adequacy and timely information of the management bodies of the Group about the capital adequacy level.

ICAAP reporting is prepared by responsible units of RMS. ICAAP reports results are submitted to the Board of Directors and the Management Board of the Group annually.

Report on Significant risks of the Group includes the following information:

- An aggregated values of significant risks taken by the Parent Bank of the Group and subsidiaries of the Group, as well as the values of each type of significant risk, significant risks dynamics and the impact of these changes on capital adequacy;
- Limits utilizations by structural units;
- Violation of established limits by structural units of the Group, as well as the measures to be taken to eliminate the violations.

Reports on aggregated values of significant risks of the Parent Bank of the Group and subsidiaries of the Group, regulatory ratios compliance report and capital adequacy assessment report are submitted to the Board of Directors of the Parent Bank/subsidiaries of the Group on a quarterly basis, the Management Board− on a monthly basis. Stress-testing results reports are submitted to the Board of Directors of the Parent Bank/subsidiaries of the Group and the Management Board − on a yearly basis. Information on approaching/violation of established triggers / limits is brought down to the Board of Directors of the Parent Bank/subsidiaries of the Group and the Management Board as soon as it was discovered.

Information on the structure and work organization of units engaged in risk management

Risk management in the Group is carried out by the Management Board of the Parent Bank under the supervision of the Board of Directors of the Parent Bank of the Group and subsidiaries' management bodies. The Board of Directors of the Parent Bank of the Group defines the principles and approaches to risk management and internal control system, examines and approves strategies and policies for capital and risk management, as well as carries the control out their application, while the Management Board is responsible for their implementation into the operational and current economic activities of the Bank.

Within the framework of risk management and internal control systems organization of the Parent Bank of the Group Risk Management Service (RMS) and committees under the Board of Directors and the Management Board of the Parent Bank of the Group are acted, including the the Risk committee, the Audit Committee, the Employees and Remuneration Committee, Assets and Liabilities Committee, Credit committees system and other committees.

Risk management function within the RMS is organized taking into account the requirements on the absence of conflict of interests and the separation of roles and responsibilities between the Management, units and responsible employees in decision making and risk management.

Parts of RMS functions can also be delegated to other structural units of the Parent Bank of the Group. Distribution of the functions among structural units of the Parent Bank of the Group is set in internal documents of the Parent Bank of the Group.

The Risk Management Service is responsible for:

- The organization of the risk management;
- The organization of the development and implementation of risk analysis methodology;
- Coordination of measures to minimize the impact of risks on economic activity and business reputation of the Group;
- Development of training programs and ensuring the employees training on the management of different types of risks;
- Implementation of procedures for the identification, analysis, evaluation and management of all significant risks;
- Creation of regulatory framework for significant risks management, proposals for its improvement, ensuring its exhaustive completeness, the usage in the Group, the timely revision and updating;
- Daily collection of information about the level of significant risks relevant to the preparation of management reporting;
- Daily monitoring the level of the Group's significant risks and the initiation of escalation process to the appropriate management level, if necessary;
- Reporting preparation within risk management;
- Reasonableness assessment of the key assumptions used in measurement of significant risks;
- Fulfillment of other functions in accordance with the laws, the Central Bank of Russia regulations and − internal documents of the Group.

The Risk Management Service is based on:

- Coverage of all significant risks of the Group;
- Strong managerial involvement, throughout the entire Group, from the Management Board down to the operational level;
- A tight framework of internal procedures and guidelines;
- Information disclosure via regularly risk reports submission to the Management, governing bodies, Regulator and external reporting;
- Continuous supervision, risks monitoring, compliance with established rules and procedures by an independent from business body;
- Participation of RMS responsible units in embedding of Risk and Capital Management Strategy into the strategic goals and business-planning of the Group.

The list of information that is a trade secret

The list of information which is a trade secret of the Parent Bank of the Group includes:

- Issues on banking policy, strategic and tactical plans of the Parent Bank of the Group (prior to their publication in public sources and/or sales);
- Information describing the planned and actual economic condition of the Bank, its ability to pay (up to the moment such information is published in public sources and preparation official reports);
- Information on solvency, incomes, transactions, accounts and deposits of shareholders, customers, correspondents and business partners of the Bank;
- Information about the assets and liabilities management of the Bank, accounting and tax data, except for the accounting (financial) statement, which is open in accordance with the legislation of Russian Federation;
- Information on the personal data and income of employees of the Bank.

Due to the fact that the above information constitutes a trade secret, it is presented in this report in aggregated form.

41. Subsequent events

In January 2019 the following new bonds were issued:

Issuer	Issue date	Maturity date	Debt volume, mRUR	Annual coupon rate, %
ROSBANK	29.01.2019	31.01.2022	10,000	8.95%

In January 2019 the terms of subordinated loan attracted by the Group from Societe General S.A. in August 2012 in the amount of USD 150 million and annual interest rate of 10.2% and maturity in December 2022 were modified. According to amended terms of the agreement Societe Generale S.A. granted to the Group perpetual subordinated loan in the amount of USD 150 million with an annual initial interest rate of 9.724% and half year interest payment. Rate of interest is to be reset every half year.

Chairman of the Management Board
I.A. Polyakov

Member of the Management Board – Chief Financial Officer
A.A. Ovchinnikov

РОСБАНК

19 March 2019
Moscow