PJSC “BANK SAINT PETERSBURG” Group

International Financial Reporting Standards
Consolidated Financial Statements and
Independent Auditors’ Report

31 December 2018

CONTENTS

KPMG

Independent Auditors' Report

To the Shareholders and Supervisory Board of PJSC "Bank Saint Petersburg"

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of PJSC "Bank Saint Petersburg" (the "Bank") and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2018, the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

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

Basis for Opinion

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

Key Audit Matters

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

Expected credit losses ('ECL') for loans to customers	
Please refer to Notes 4 and 10 in the consolidated financial statements.	
The key audit matter	**How the matter was addressed in our audit**
Loans to customers represent 50% of assets and are stated net of allowance for expected credit losses ('ECL') that is estimated on a regular basis and is sensitive to assumptions used. From 1 January 2018 the Group has implemented a new ECL valuation model, which requires management to apply professional judgement and to make assumptions related to timely identification of significant increase in credit risk and default events related to loans to customers, assessment of probability of default (PD) and loss given default (LGD), assessment of forward-looking information adjustment, expected cash flows forecast for Stage 3 loans. Due to the significant volume of loans to customers, adoption of the new ECL model and the related estimation uncertainty, this area is a key audit matter.	We analyzed the key aspects of the Group's methodology and policies related to ECL estimate for compliance with the requirements of IFRS 9, including involvement of our own specialists in financial risks management. To analyze adequacy of professional judgement and assumptions made by the management in relation to allowance for ECL estimate, we performed the following procedures: • For loans to corporate clients we assessed and tested the design and operating effectiveness of the controls over allocation of loans into Stages. • For a sample of loans to corporate clients, we tested whether Stages are correctly assigned by the Group by analyzing financial and non-financial information, as well as assumptions and professional judgements, applied by the Group. • For a sample of loans to corporate clients, we tested the correctness of data inputs for PD and LGD calculation. • For a sample of Stage 3 loans to corporate clients, where ECL are assessed individually we critically assessed assumptions used by the Group to forecast future cash flows, including estimated proceeds from realizable collateral and their expected disposal terms based on our understanding and publicly available market information. • For loans to individuals we tested the design and operating effectiveness of controls over completeness and accuracy of data inputs into ECL calculation models, timely reflection of delinquency events and loan repayments in the underlying systems and allocation of loans into Stages. We agreed input data to supporting documents on a sample basis. • We assessed predictive capability of the Group's methodology by analyzing models validation results. We also assessed whether the consolidated financial statements disclosures appropriately reflect the Group's exposure to credit risk.

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

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

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

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

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

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

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

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

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

Report of findings from procedures performed in accordance with the requirements of Federal Law No. 395-1, dated 2 December 1990, *On Banks and Banking Activity*

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

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

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

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

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

Our findings from the procedures performed are reported below.

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

  We have not performed any procedures on the accounting records maintained by the Group, other than those which we considered necessary to enable us to express an opinion as to whether the Group's consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2018, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with the International Financial Reporting Standards.

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

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

methodologies, and recommendations for improvement;

- as at 31 December 2018, the Supervisory Board and Executive Management of the Bank had responsibility for monitoring the Group's compliance with the risk limits and capital adequacy ratios established in the Bank's internal documentation. In order to monitor the effectiveness of the Group's risk management procedures and their consistent application during 2018, the Supervisory Board and Executive Management of the Bank periodically discussed the reports prepared by the risk management and internal audit functions, and considered the proposed corrective actions.

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

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

АКЦИОНЕРНОЕ ОБЩЕСТВО ОГРН 1027700125628 КПМГ KPMG МОСКВА

Lukashova N.V.
JSC "KPMG"
Moscow, Russian Federation
18 March 2019

(In thousands of Russian Roubles)	Note	2018	2017
ASSETS			
Cash and cash equivalents	6	37 189 219	39 198 510
Mandatory reserve deposits with the Central Bank of the Russian Federation		3 705 423	3 020 485
Trading securities, including securities pledged under sale and repurchase agreements	7	80 647 485	64 483 953
Reverse sale and repurchase agreements	8	88 118 488	67 809 093
Derivative financial assets		6 877 095	1 217 534
Due from banks	9	32 368 148	34 939 256
Loans and advances to customers			
- loans and advances to legal entities	10	252 761 437	245 238 842
- loans and advances to individuals	10	86 022 149	72 977 068
Investment securities, including securities pledged under sale and repurchased agreements	11	56 772 409	48 950 719
Investment property	12	7 311 932	8 102 997
Property, equipment and intangible assets	13	14 182 855	14 670 596
Other assets	14	7 036 447	5 704 305
Long-term assets held-for-sale	15	410 402	546 013
TOTAL ASSETS		**673 403 489**	**606 859 371**
LIABILITIES			
Due to banks	16	147 818 484	148 924 730
Customer accounts	17	406 788 833	352 972 148
Financial liabilities at fair value	8	12 116 372	12 511 033
Derivative financial liabilities		2 939 196	1 661 351
Bonds issued	18	13 806 545	7 137 892
Promissory notes and deposit certificates issued	19	7 977 065	7 253 345
Other borrowed funds	20	1 465 719	1 903 744
Other liabilities	21	4 837 620	3 584 999
TOTAL LIABILITIES		**597 749 834**	**535 949 242**
EQUITY			
Share capital	22	3 781 734	3 781 734
Share premium	22	24 513 878	24 513 878
Treasury shares	22	(659 991)	-
Revaluation reserve for property and equipment		3 651 455	3 651 455
Revaluation reserve for investment securities		374 497	1 264 691
Foreign currency translation reserve		2 047	(1 451)
Retained earnings		42 903 490	37 109 430
TOTAL EQUITY ATTRIBUTABLE TO:			
SHAREHOLDERS OF THE BANK		**74 567 110**	**70 319 737**
NON-CONTROLLING INTEREST		**1 086 545**	**590 392**
TOTAL EQUITY		**75 653 655**	**70 910 129**
TOTAL LIABILITIES AND EQUITY		**673 403 489**	**606 859 371**

Approved for issue and signed on behalf of the Management Board on 18 March 2019.

A.V. Savelyev
Chairman of the Management Board

N.G. Tomilina
Chief Accountant

The notes are an integral part of these consolidated financial statements.

(In thousands of Russian Roubles)	**Note**	**2018**	**2017**
Interest income calculated using the effective interest method	23	40 848 123	44 036 964
Other interest income	23	5 190 449	3 132 954
Interest expense	23	(22 892 996)	(26 621 953)
Contributions to the deposit insurance system	23	(1 250 311)	(890 444)
Net interest income	**23**	**21 895 265**	**19 657 521**
Allowance for expected credit losses from debt financial assets	30	(7 713 605)	(9 574 834)
Net interest income after allowance for expected credit losses		**14 181 660**	**10 082 687**
Net losses from trading securities		(2 263 269)	(238 461)
Net gains from investment securities		323 166	1 198 694
Net gains from trading in foreign currencies, foreign exchange revaluation and from transactions with derivatives		5 913 128	5 285 076
Fee and commission income	24	7 325 637	6 607 079
Fee and commission expense	24	(1 472 433)	(1 396 006)
Allowance for credit related commitments and non-financial liabilities	14,21	(203 156)	(460 278)
Net gains from revaluation of loans measured at fair value		586 511	-
Losses from early debt repayment		(47 635)	-
Allowance for impairment of fixed premises, equipment and intangible assets		-	(29 487)
Allowance for impairment of long-term assets held for sale and investment property	12,15	(1 164 457)	(308 993)
Other net operating income		1 075 386	979 670
Administrative and other operating expenses:			
- Staff costs	25	(5 942 001)	(5 970 557)
- Costs related to premises and equipment		(1 960 338)	(1 775 543)
- Other administrative and operating expenses		(5 145 150)	(4 618 562)
Profit before tax		**11 207 049**	**9 355 319**
Income tax expense	26	(2 160 121)	(1 864 263)
Profit for the year attributable to:			
Shareholders of the Bank		8 937 041	7 429 077
Non-controlling interest		109 887	61 979
Profit for the year		**9 046 928**	**7 491 056**

(In thousands of Russian Roubles)	**Note**	**2018**	**2017**
Other comprehensive loss			
Items of comprehensive loss that are or will be reclassified subsequently to profit or loss			
Revaluation result and allowance for expected credit losses from investment securities measured at fair value through other comprehensive income transferred to profit or loss upon disposal		(409 972)	(1 198 694)
Net result from revaluation of investment securities measured at fair value through other comprehensive income		(879 540)	538 135
Deferred income tax recognised in equity related to components of other comprehensive loss		241 791	132 112
Exchange difference on translation		3 498	(1 451)
Components of comprehensive loss, that will not be reclassified to profit or loss			
Change in premises revaluation reserve		-	(205 831)
Deferred income tax recognised in equity related to components of other comprehensive loss		-	41 166
Other comprehensive loss for the year after tax		**(1 044 223)**	**(694 563)**
Total comprehensive income for the year attributable to:			
Shareholders of the Bank		7 892 818	6 734 514
Non-controlling interest		109 887	61 979
Total comprehensive income for the year		**8 002 705**	**6 796 493**
Basic and diluted earnings per share (in Russian Roubles per share)	27	**17,98**	**15,95**

A.V. Savelyev
Chairman of the Management Board

N.G. Tomilina
Chief Accountant

(In thousands of Russian Roubles)	Note	Share capital	Share premium	Revaluation reserve for premises and equipment	Revaluation reserve for investment securities	Foreign currency translation reserve	Retained earnings	Total equity attributable to shareholders of the Bank	Non-controlling interest	Total equity
Balance as at 1 January 2017		**3 721 734**	**21 393 878**	**3 820 496**	**1 793 138**	**-**	**30 139 720**	**60 868 966**	**-**	**60 868 966**
Other comprehensive loss recognised directly in equity		-	-	(169 041)	(528 447)	(1 451)	4 376	**(694 563)**	-	**(694 563)**
Profit for the year		-	-	-	-	-	7 429 077	**7 429 077**	61 979	**7 491 056**
Total comprehensive income for 2017		**-**	**-**	**(169 041)**	**(528 447)**	**(1 451)**	**7 433 453**	**6 734 514**	**61 979**	**6 796 493**
Issue of shares	22	60 000	3 120 000	-	-	-	-	**3 180 000**	-	**3 180 000**
Dividends declared	28	-	-	-	-	-	(461 532)	**(461 532)**	-	**(461 532)**
- ordinary shares										
- preference shares	28	-	-	-	-	-	(2 211)	**(2 211)**	-	**(2 211)**
Acquisition of a subsidiary	35	-	-	-	-	-	-	**-**	528 413	**528 413**
Balance as at 31 December 2017		**3 781 734**	**24 513 878**	**3 651 455**	**1 264 691**	**(1 451)**	**37 109 430**	**70 319 737**	**590 392**	**70 910 129**

(In thousands of Russian Roubles)	Note	Share capital	Share premium	Treasury shares	Revaluation reserve for premises and equipment	Revaluation reserve for investment securities	Foreign currency translation reserve	Retained earnings	Total equity attributable to shareholders of the Bank	Non-controlling interest	Total equity
Balance as at 31 December 2017		**3 781 734**	**24 513 878**	**-**	**3 651 455**	**1 264 691**	**(1 451)**	**37 109 430**	**70 319 737**	**590 392**	**70 910 129**
Effect of transition to IFRS 9	5	-	-	-	-	157 527	-	(2 331 493)	(2 173 966)	-	(2 173 966)
Restated balance as at 1 January 2018 after transition to IFRS 9		**3 781 734**	**24 513 878**	**-**	**3 651 455**	**1 422 218**	**(1 451)**	**34 777 937**	**68 145 771**	**590 392**	**68 736 163**
Other comprehensive loss recognised directly in equity		-	-	-	-	(1 047 721)	3 498	-	**(1 044 223)**	-	**(1 044 223)**
Profit for the period		-	-	-	-	-	**-**	8 937 041	**8 937 041**	109 887	**9 046 928**
Total comprehensive income for 2018		**-**	**-**	**-**	**-**	**(1 047 721)**	**3 498**	**8 937 041**	**7 892 818**	**109 887**	**8 002 705**
Treasury shares	22	-	-	(659 991)	-	-	**-**	-	**(659 991)**	-	**(659 991)**
Dividends declared											
- ordinary shares	28	-	-	-	-	-	**-**	(809 277)	**(809 277)**	-	**(809 277)**
- preference shares	28	-	-	-	-	-	**-**	(2 211)	**(2 211)**	-	**(2 211)**
Acquisition of a subsidiary		-	-	-	-	-	**-**	-	**-**	432 757	**432 757**
Sale of a subsidiary		-	-	-	-	-	**-**	-	**-**	(46 491)	**(46 491)**
Balance as at 31 December 2018		**3 781 734**	**24 513 878**	**(659 991)**	**3 651 455**	**374 497**	**2 047**	**42 903 490**	**74 567 110**	**1 086 545**	**75 653 655**

A.V. Savelyev
Chairman of the Management Board

N.G. Tomilina
Chief Accountant

(In thousands of Russian Roubles)	Note	2018	2017
Cash flows from operating activities			
Interest received on loans and correspondent accounts		34 579 252	36 136 932
Interest received on securities		8 305 595	7 765 881
Interest received on reverse sale and repurchase agreements		2 652 016	3 127 780
Interest paid on due to banks		(8 643 310)	(10 098 135)
Interest paid on customer accounts		(13 034 930)	(14 928 913)
Contributions to the deposit insurance system		(1 250 311)	(890 444)
Interest paid on other debt securities issued		(286 491)	(355 842)
Net losses from trading securities		(1 271 343)	(768 694)
Net (losses) gains from trading in foreign currencies and from transactions with derivatives		(4 381 549)	4 053 602
Fees and commissions received		7 277 614	6 616 968
Fees and commissions paid		(1 472 433)	(1 396 006)
Other operating income		1 359 712	1 200 383
Loyalty program costs		(374 004)	(233 100)
Staff costs		(6 126 528)	(6 159 151)
Premises and equipment costs		(919 405)	(595 272)
Administrative and other operating expenses		(4 578 377)	(5 087 877)
Income tax paid		(475 955)	(1 837 045)
Cash flows from operating activities before changes in operating assets and liabilities		**11 359 553**	**16 784 167**
Changes in operating assets and liabilities			
Net (increase) decrease in mandatory reserve deposits with the Central Bank of the Russian Federation		(684 938)	200 318
Net increase in trading securities, including securities pledged under sale and repurchased agreements		(14 129 021)	(24 239 906)
Net increase under reverse sale and repurchase agreements		(16 560 035)	(9 735 240)
Net decrease (increase) in due from banks		2 874 768	(1 591 109)
Net increase in loans and advances to customers		(14 198 469)	(16 553 898)
Net increase in other assets		(1 586 432)	(1 122 180)
Net (decrease) increase in due to banks		(6 952 159)	18 922 824
Net increase in customer accounts		40 412 082	4 253 714
Net (decrease) increase in financial liabilities at fair value		(394 661)	8 287 869
Net decrease in other debt securities issued		(24 847)	(510 015)
Net increase (decrease) in other liabilities		589 784	(80 138)
Net cash received from (used in) operating activities		**705 625**	**(5 383 594)**
Cash flows from investing activities			
Acquisition of premises, equipment and intangible assets	13	(736 580)	(928 020)
Proceeds from disposal of premises, equipment and intangible assets		17 046	20 271
Net (increase) decrease in investment securities, including securities pledged under sale and repurchased agreements		(6 612 121)	15 095 330
Net proceeds from disposal of investment securities		263 050	1 198 694
Acquisition of investment property		-	(373 443)
Proceeds from sale of investment property		907 119	-
Proceeds from sale of long-term assets held-for-sale		84 137	895 833
Net cash paid for acquisition of a subsidiary		(1 260 782)	(407 844)
Proceeds from sale of a subsidiary		17 949	-
Net cash paid for acquisition of associates		-	(395 798)
Dividends received		9 872	5 488
Net cash received from (used in) investing activities		**(7 310 310)**	**15 110 511**

(In thousands of Russian Roubles)	Note	2018	2017
Cash flows from financing activities			
Treasury shares	22	(659 991)	-
Issue of ordinary shares	22	-	3 180 000
Repayment of other borrowed funds		(444 556)	(629 748)
Bonds issued		7 601 137	-
Redemption of bonds issued		(1 901 696)	(8 127 057)
Interest paid on bonds issued		(839 649)	(1 369 725)
Interest paid on other borrowed funds		(100 358)	(119 260)
Other repayment		(47 635)	-
Dividends paid	28	(811 995)	(463 233)
Net cash received from (used in) financing activities		**2 795 257**	**(7 529 023)**
Effects of exchange rate changes on cash and cash equivalents		**1 800 137**	**3 119 412**
Net (decrease) increase in cash and cash equivalents		**(2 009 291)**	**5 317 306**
Cash and cash equivalents at the beginning of the year		39 198 510	33 881 204
Cash and cash equivalents at the end of the year	6	**37 189 219**	**39 198 510**

A.V. Savelyev
Chairman of the Management Board

N.G. Tomilina
Chief Accountant

1 Background

These consolidated financial statements are prepared in accordance with International Financial Reporting Standards for the year ended December 31, 2018 for PJSC “Bank Saint Petersburg” (the “Bank”) and its subsidiaries, together referred to as the “Group” or “PJSC “Bank Saint Petersburg” Group””. A list of subsidiaries is disclosed in note 35.

The Bank was formed in 1990 as an open joint stock company under the Laws of the Russian Federation as a result of the corporatisation process of the former Leningrad Regional Office of Zhilsotsbank. In 2014 the Bank was reorganised from Open Joint-Stock Company “Bank Saint Petersburg” to Public Joint-Stock Company “Bank Saint Petersburg” following the resolution of the extraordinary Shareholders’ Meeting.

As at December 31, 2018, management of the Bank controls 50.61% of the ordinary shares of the Bank (2017: 50.64%), including: 24.95% of the ordinary shares of the Bank are controlled by Mr. A.V. Savelyev (2017: 24.95% of the ordinary shares), 25.66% are controlled by management of the Bank, including 25.53% of the ordinary shares of the Bank owned by LLC "Vernye Druzya" Management Company” (2017: 25.69% of the ordinary shares are controlled by management of the Bank, including 25.53% of the ordinary shares of the Bank owned by LLC "Vernye Druzya” Management Company”). NOROYIA ASSETS LIMITED, ZERILOD HOLDINGS LIMITED and CARISTAS LIMITED companies own 26.58% of the share capital of LLC "Vernye Druzya" Management Company” each (2017: NOROYIA ASSETS LIMITED, ZERILOD HOLDINGS LIMITED and CARISTAS LIMITED own 26.58% of the share capital of LLC "Vernye Druzya" Management Company” each).

Ms. O.A. Savelyeva indirectly owns 19.95% of LLC "Vernye Druzya" Management Company” and has a perpetual option to purchase a 100% interest in NOROYIA ASSETS LIMITED, ZERILOD HOLDINGS LIMITED and CARISTAS LIMITED companies (2017: Ms. O.A. Savelyeva indirectly owned 19.95% of LLC "Vernye Druzya" Management Company” and had a perpetual option to purchase a 100% interest in NOROYIA ASSETS LIMITED, ZERILOD HOLDINGS LIMITED and CARISTAS LIMITED companies). The ultimate owners of NOROYIA ASSETS LIMITED, ZERILOD HOLDINGS LIMITED and CARISTAS LIMITED are the representatives of the Bank’s management: K.B. Mironova, P.V. Filimonenok, V.G. Reutov (2017: the ultimate owners of NOROYIA ASSETS LIMITED, ZERILOD HOLDINGS LIMITED and CARISTAS LIMITED companies were the representatives of the Bank’s management: K.B. Mironova, P.V. Filimonenok, V.G. Reutov).

The remaining ordinary shares of the Bank are owned as follows: 5.84% of the ordinary shares are owned by East Capital Group (2017: 6.69%), 4.83% of the ordinary shares are owned by the EUROPEAN BANK FOR RECONSTRUCTION AND DEVELOPMENT (EBRD) (2017: 4.83%).

The remaining 36.32% of the ordinary shares are widely held (2017: 37.84%).

Own ordinary shares acquired by the Bank by decision of the Supervisory Board of 2 August 2018 in accordance with Art. 72 of the Federal Law "On Joint-Stock Companies" comprise 2.40% of the total ordinary shares (2017: none). The shares purchased by the Bank do not provide the right to vote and are not taken into account when counting votes.

Principal activity. The Bank’s principal business activity is commercial banking operations within the Russian Federation. The Bank has operated under a general banking license issued by the Central Bank of the Russian Federation (the “CBR”) since 1997. The Bank participates in the state deposit insurance system introduced by Federal Law No.177-FZ dated December 23, 2003 “On Retail Deposit Insurance in the Russian Federation”. The state deposit insurance system guarantees payment in the amount of 100% of total deposits placed with a bank, but limited to RR 1 400 000, in the event the bank’s license is revoked or the CBR imposes a moratorium on payments.

As at December 31, 2018, the Bank had 4 branches within the Russian Federation: 3 branches located in the North-West region of Russia, 1 branch in Moscow and 60 outlets (2017: 4 branches within the Russian Federation: 3 branches located in the North-West region of Russia, 1 branch in Moscow and 63 outlets).

1 Background (continued)

Registered address and place of business. The Bank’s registered address and place of business is 64A Malookhtinsky Prospect, 195112, Saint Petersburg, Russian Federation.

Presentation currency. These consolidated financial statements are presented in thousands of Russian Roubles (RR thousands).

2 Operating Environment of the Group

2018 for Russian economy was characterised by moderate recovery of economic activity, enhancement of positive processes in manufacturing industry. In September-November there was a slight slowdown in economic growth in both developed and developing countries due to changes in trade agreements, risks of introducing export duties and worsening economic expectations. Nevertheless, by the end of 2018 the growth of the Russian economy in annual terms was 2.3% as compared to 1.5% in 2017.

In the first half of the year, inflation remained close to historic lows, but already in the third quarter it began to accelerate and by the end of the year it will be 4.3% y / y. The effect of the low base of the previous year, as well as the devaluation of the ruble put pressure on prices. In addition, the planned increase of VAT from 18 to 20% from January 1, 2019 led to an increase in inflation expectations.

While in the first half of 2018 the CBR began a gradual transition from a "moderately tough" to a "neutral" monetary policy, reducing the key rate from 7.75% at the end of 2017 to 7.25% in June 2018, in the second half of the year the policy began to tighten. The crisis in emerging markets, the tightening of monetary policy by the US Federal reserve and Central banks of developing countries, combined with an increase in inflation risks associated with an increase of VAT in 2019 and the weakening of the ruble, forced the CBR to tighten the monetary policy in the second half of the year. The key rate was raised twice – at the meetings in September and December to 7.75%.

The sanctions imposed by the U.S. on Russian companies and individuals in April 2018 contributed to the reduction of foreign investments into Russian assets, which resulted in a capital outflow from the financial account of the balance of payment and devaluation of Russian rouble. However local market players compensating demand was observed, supporting FLB (federal loan bonds) prices. The imposition of new sanctions by the United States after the incident in Salisbury provoked the next round of weakening of the ruble. Further downward pressure on the Russian rouble rate was caused by the overall trend of a decreasing appetite for developing countries assets.

The Ministry of Finance of the Russian Federation remained a significant player on foreign exchange market all the time. In order to reduce the dependence of budget income from changes in oil prices the Ministry of Finance developed a budgetary rule under which the Central Bank of the Russian Federation shall buy foreign currency in favour of the Ministry amounting to additional oil and gas income of the federal budget in case URALS oil price exceeds 40.8 dollars per barrel. But due to the rapid growth of the ruble against the US dollar, in August the Central Bank suspended purchases at the market until the end of the year, which helped to stabilize the situation. At the same time, the Central Bank gave the currency from its own reserves within the budget rule to the Ministry of Finance, which led to a decrease in the ruble liquidity surplus.

The situation in the domestic financial markets stabilized after an episode of a significant increase in volatility in August - the first half of September. In 2018, the U.S. dollar was within 55.7-70.6 rouble/U.S. dollar range, the average URALS oil price amounted to 70.1 dollars per barrel. Owing to oil prices growth the MOEX index increased by 12.3% in 2018, at the same time, due to the weakening of the ruble, the RTS index decreased by 7.4%.

2 Operating Environment of the Group (continued)

The legal, tax and regulatory frameworks continue development, but are subject to varying interpretations and frequent changes which together with other legal and fiscal impediments contribute to the challenges faced by entities operating in the Russian Federation. In addition, the recent contraction in the capital and credit markets has further increased the level of economic uncertainty. In general, the current economic environment the Group operates in is characterised by significant growth of risks of different nature and general uncertainty bounding the strategic horizon for market participants and aggregated risk appetite.

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

Management of the Group believes that it makes all the necessary efforts to support the economic stability of the Group in the current environment.

3 Basis of Preparation of Consolidated Financial Statements and Significant Accounting Policies

The information presented below reflects the Basis for the Preparation of Consolidated Financial Statements and a Significant Accounting Policies that came into effect on January 1, 2018. The summary of Significant Accounting Policies effective till January 1, 2018 is presented in Note 36.

Basis of Preparation . These consolidated financial statements are prepared in accordance with International Financial Reporting Standards (the "IFRS") based on the historical cost accounting rules, followed by fair value accounting of financial instruments at fair value and revaluation of premises, trading securities, investment securities measured at fair value through other comprehensive income, financial liabilities recorded at fair value and derivative financial instruments. The principle accounting policies applied in the preparation of these consolidated financial statements are set out below. These principles have been consistently applied to all periods presented in the consolidated financial statements, except for changes in accounting policies related to changes related to implementation of IFRS 9, described below, except for changes in the presentation of comparative information, regarding the insurance payments to the Deposit Insurance Agency using a separate line in the interest income part of the statement of comprehensive income. In the Consolidated Financial Statements, the Group reclassified trading and investment securities reflected under "Securities pledged Under sale and Repurchased Agreements" to the "Trading Securities, including Pledged under Sale and Repurchased Agreements" and "Investment Securities, including Securities Pledged Under Sale and Repurchased Agreements".

Consolidation. Subsidiaries are investees controlled by the Group. The Group controls an investee when it is exposed to, or has rights to, variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. In particular, the Group consolidates investees that it controls on the basis of de facto circumstances, including cases when protective rights arising from collateral agreements on lending transactions become significant. The financial statements of subsidiaries are included in the consolidated financial statements from the date when control commences until the date when control ceases.

The Group measures goodwill at the acquisition date as the fair value of the consideration transferred (including the fair value of any previously-held equity interest in the acquiree if the business combination is achieved in stages) and the recognised amount of any non-controlling interest in the acquiree, less the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed. If the amount is negative ("negative goodwill") it is recognised in profit or loss after the management has assessed whether all acquired assets and all assumed liabilities and contingencies are identified and analysed correctness of their estimate.

3 Basis of Preparation of Consolidated Financial Statements and Significant Accounting Policies (continued)

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

Intercompany transactions, balances and unrealised gains arising from intercompany transactions are eliminated.

Unrealised losses are also eliminated unless the cost cannot be recovered. The Bank and all of its subsidiaries use uniform accounting policies consistent with the Group’s policies.

Change in accounting policy related to IFRS 9 Financial instruments.

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

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

When calculating the effective interest rate for financial instruments that are not credit-impaired assets the Group assesses future cash flows taking into account all contractual terms of this financial instrument but without considering expected credit losses. For credit-impaired financial assets the effective interest rate adjusted for credit risk is calculated using the amount of expected future cash flows including expected credit losses.

The effective interest rate calculation includes transaction costs as well as fees and charges paid or received that form an integral part of the effective interest rate. Transaction costs include additional expenses directly attributable to the acquisition or issue of the financial asset or liability.

Amortised cost and gross carrying amount. Amortised cost of a financial asset or liability is the value of the financial asset or liability at initial recognition less any principal repayments, plus or minus accumulated depreciation of the difference between the initial amount and payable amount at maturity calculated using the effective interest rate method and, with regard to financial assets, adjusted for estimated expected credit loss allowance (or impairment allowance before January 1, 2018).

Gross carrying amount of a financial asset measured at amortised cost is the amortised cost of the financial asset before adjustment for the amount of expected credit loss allowance.

Interest income and expenses calculation. When calculating interest income and expenses the effective interest rate is applied to the amount of the asset gross carrying amount (when the asset is not credit-impaired) or amortised cost of the liability. The effective interest rate is revised as a result of periodic revaluation of cash flows on instruments with a floating interest rate to reflect changes in market interest rates.

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

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

For information on when financial assets are credit-impaired, see Credit-Impaired Financial Assets.

3 Basis of Preparation of Consolidated Financial Statements and Significant Accounting Policies (continued)

Presentation of information. Interest income and expenses presented in the consolidated statement of profit or loss and other comprehensive income include:

- interest income and expenses on financial assets and financial liabilities measured at amortised cost calculated using the effective interest method;
- interest income on debt instruments measured at fair value through other comprehensive income (FVOCI) calculated using the effective interest basis;
- interest income on non-derivative debt financial instruments measured at fair value through profit or loss (FVTPL) is presented separately as “Other interest income”;
- interest expense on financial liabilities measured at amortised cost; and
- interest expenses on non-derivative debt financial liabilities measured at fair value through profit or loss

Classification of financial instruments. From January 1, 2018, at initial recognition a financial asset is classified as measured at amortised cost, FVOCI or FVTPL.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL based on the Group’s assessment:

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

A debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVTPL based on the Group’s assessment:

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

On initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

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

- interest income calculated using the effective interest rate method;
- expected credit losses (ECL) and their reversal; and
- foreign exchange gains and losses.

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

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

Gains and losses on such equity instruments are never reclassified to profit or loss and no impairment is recognised in profit or loss. Dividends are recognised in profit or loss unless they clearly represent a recovery of part of the cost of the investment, in which case they are recognised in other comprehensive income. Cumulative gains and losses recognised in other comprehensive income are transferred to retained earnings on disposal of an investment.

3 Basis of Preparation of Consolidated Financial Statements and Significant Accounting Policies (continued)

All other financial assets are classified as measured at FVTPL.

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

- the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management’s strategy focuses on earning contractual income, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of assets;
- how the performance of the portfolio is evaluated and reported to the Group’s management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated (e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected);
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Group’s stated objective for managing the financial assets is achieved and how cash flows are realised.

Financial assets that are held for trading or managed and whose performance is evaluated on a fair value basis are measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

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

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

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Group’s claim to cash flows from specified assets (e.g. non-recourse asset arrangements);
- features that modify consideration for the time value of money - e.g. periodic reset of interest rates.

The Group holds a portfolio of long-term fixed rate loans, for which the Group has the option to revise the interest rate following the change in the key rate set by the CBR. Borrowers have an option to either accept the revised rate or repay the loan at face value without paying significant penalties. The Group has determined that contractual cash flows of these loans are solely payments of principal and interest because this option leads to the change of the interest rate in a way that is the consideration for the time value of money, credit risk, other basic lending risks and costs associated with the outstanding principal amount. Instead, the Group considers these loans as in essence floating rate loans.

3 Basis of Preparation of Consolidated Financial Statements and Significant Accounting Policies (continued)

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

Financial liabilities are not reclassified subsequent to their initial recognition.

Modification terms of financial assets and financial liabilities. If the terms of a financial asset are modified, the Group evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different (referred to as 'substantial modification'), then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised and a new financial asset is recognised at fair value plus related transaction costs. Changes in cash flows on existing financial assets are not considered as modification, if they result from existing contractual terms, e.g. changes in interest rates initiated by the Group due to changes in the CBR key rate, if the loan contract entitles the Group to do so.

The Group performs a quantitative and qualitative evaluation of whether the modification is substantial, i.e. whether the cash flows of the original financial asset and the modified or replaced financial asset are substantially different. The Group assesses whether the modification is substantial based on quantitative and qualitative factors in the following order: qualitative factors, quantitative factors, combined effect of qualitative and quantitative factors. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In making this evaluation the Group analogises to the guidance in IFRS 9 on the derecognition of financial liabilities.

If the cash flows of the modified asset carried at amortised cost are not substantially different, then the modification does not result in derecognition of the financial asset. In this case, the Group recalculates the gross carrying amount of the financial asset and recognises the amount arising from adjusting the gross carrying amount as a modification gain or loss in profit or loss. The gross carrying amount of the financial asset is recalculated as the present value of the renegotiated or modified contractual cash flows that are discounted at the financial asset's original (initial) effective interest rate which adjusts in order to reflect current market conditions at the time of the modification. For floating-rate financial assets, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of the modification. Any costs or fees incurred adjust the carrying amount of the modified financial asset and are amortised over the remaining term of the modified financial asset. If such a modification is carried out because of financial difficulties of the borrower, then the gain or loss is presented together with impairment losses. In other cases, it is presented as interest income calculated using the effective interest method.

For loans, where the borrower has an option to repay the loan at par without significant penalty, the Group treats the modification of an interest rate to a current market rate using the guidance on floating-rate financial instruments. This means that the effective interest rate is adjusted prospectively.

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

Financial liabilities. The Group derecognises a financial liability when its conditions change in such a way that the cash flows of the modified liability change significantly. In this case, a new financial liability with modified terms is recognised at fair value. The difference between the carrying amount of the previous financial liability and the value of the new financial liability with modified terms is recognised in profit or loss. The consideration paid includes transferred non-financial assets, if any, and liabilities incurred, including a new modified financial liability.

3 Basis of Preparation of Consolidated Financial Statements and Significant Accounting Policies (continued)

The Group conducts a quantitative and qualitative assessment of the significance of modifying the conditions, analysing the qualitative factors, quantitative factors and the cumulative effect of qualitative and quantitative factors. The Group concludes that the modification of the conditions is significant, based on the following qualitative factors:

• change in the currency of the financial liability;

• changing the type of collateral or other means of improving the quality of the obligation;

• add conversion condition;

• change in the subordination of a financial liability.

For the purpose of quantification, conditions are considered to be significantly different if the present value of cash flows in accordance with new conditions, including payments of commissions minus received commissions, discounted at the original effective interest rate, differs by at least 10% of the discounted present value remaining cash flows from the original financial liability.

If a modification of a financial liability does not result in derecognition, the amortised cost of the liability is recalculated by discounting the modified cash flows at the original effective interest rate and the resulting difference is recognised as a gain or loss on the modification in profit or loss. For financial liabilities with a floating interest rate, the initial effective interest rate used in calculating the profit or loss from the modification is adjusted to reflect the current market conditions at the time of the modification. Costs incurred or fees paid as a result ofmodifications are recognised as adjustments to the carrying amount of the liability and amortised over the remaining term of the modified financial liability by recalculating the effective interest rate of the instrument.

Impairment. The Group recognises an allowance for expected credit losses (ECL) on the following financial instruments that are not measured at FVTPL:

- financial assets that are debt instruments;
- financial guarantee contracts issued; and
- loan commitments issued.

No impairment loss is recognised on equity investments.

The Group recognises estimated ECL allowances at an amount equal to lifetime ECL, except in the following, for which they are measured as 12-month ECL:

- debt investment securities that are determined to have low credit risk at the reporting date; and
- other financial instruments (other than lease receivables) on which credit risk has not increased significantly since their initial recognition (Note 4).

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

12-month ECL are the portion of ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date. Financial instruments that are subject to a 12-month expected credit loss are classified as Stage 1 financial instruments.

The expected credit losses for the entire term are defined as the expected credit losses as a result of all possible events of default on the financial instrument throughout the entire expected period of validity. Financial instruments that are not acquired or created credit-impaired assets that recognise expected credit losses over the entire term relate to the financial instruments of Stage 2 (if the credit risk of a financial instrument has increased significantly since its initial recognition, but financial instrument not credit-impaired) and Stage 3 (in case the financial instrument is credit-impaired).

3 Basis of Preparation of Consolidated Financial Statements and Significant Accounting Policies (continued)

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

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

The calculation of expected credit losses is performed on an individual basis (for legal entities) or collective basis (for individuals). In order to calculate ECL the Group assesses the probability of default, exposure at default and loss given default. In case of an individual calculation, the assessment of the probability of default, exposure at default and loss given default is performed individually at each financial instrument level. In case of a collective calculation, the assessment of the probability of default and loss given default is similar for all financial instruments classified as the same class and at the same impairment stage, the assessment of exposure at default is performed at the financial instrument level.

Credit-impaired financial assets. At each reporting date, the Group assesses whether financial assets measured at amortised cost and debt financial assets measured at FVOCI are credit-impaired. A financial asset is 'credit-impaired' when one or more events have a negative impact on the expected future cash flows from the financial asset.

Evidence that a financial asset is credit-impaired includes factors stated in Note 4.

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

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

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

3 Basis of Preparation of Consolidated Financial Statements and Significant Accounting Policies (continued)

Presentation of an allowance for expected credit losses in the consolidated statement of financial position

Estimated allowance amounts for expected credit losses are presented in the consolidated statement of financial position as follows:

• financial assets measured at amortised cost: as a decrease in the gross book value of these assets;

• loan commitments and financial guarantee agreements: generally, as a reserve;

• if the financial instrument contains both a claimed and unclaimed component and the Group cannot determine the expected credit losses on the loan commitment made separately from the expected credit losses on the already claimed part (loan issued): the Group represents the aggregate estimated loss allowance for both components. The cumulative amount is presented as a decrease in the gross book value of the claimed part (loan disbursed). Any excess of the value of the allowance for losses over the gross book value of the loan issued is presented as an allowance; and

• debt instruments measured at fair value through other comprehensive income: the allowance for losses is not recognised in the consolidated statement of financial position because the carrying amount of these assets is their fair value. However, the amount of the allowance for losses is disclosed and recognised as part of the fair value change allowance.

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

Foreign currency translation. The functional currency of the Group is the currency of the primary economic environment in which the Group operates. The Bank's and the majority of its subsidiaries' functional currency and the presentation currency of the Group's consolidated financial statements is the national currency of the Russian Federation, i.e. Russian Rouble.

Monetary assets and liabilities are translated into Russian Roubles at the official CBR exchange rate at the respective reporting date. Foreign exchange gains and losses on monetary assets and liabilities translated at the CBR official exchange rate as at the end of the year are included in the profit or loss for the year (as foreign exchange translation gains less losses). Non-monetary items are translated at historical rates. Effects of exchange rate differences on the fair value of equity securities are recorded as part of the fair value translation gain or loss.

As at December 31, 2018, the official rates of exchange used for translating foreign currency balances were USD 1 = RR 69.4706 and EURO 1 = RR 79.4605 (2017: USD 1 = RR 57.6002 and EURO 1 = RR 68.8668).

Cash and cash equivalents. Cash and cash equivalents are items which can be converted into cash within a day and are subject to insignificant change in value. All short term interbank placements, including overnight deposits, are included in cash and cash equivalents, all other interbank placements are recognised in due from banks. Amounts that relate to funds that are of a restricted nature are excluded from cash and cash equivalents. Cash and cash equivalents are carried at amortised cost.

Mandatory reserve deposits with the CBR. Mandatory reserve deposits with the CBR are carried at amortised cost and represent non-interest bearing deposits in the CBR that are not available to finance day to day operations and hence are not considered as part of cash and cash equivalents for the purposes of the consolidated statement of cash flows.

3 Basis of Preparation of Consolidated Financial Statements and Significant Accounting Policies (continued)

Trading securities. Trading securities that are acquired for generating a profit from short-term fluctuations in price or trader's margin, or securities included in a portfolio in which a pattern of short-term trading exists. The Group classifies securities as trading securities if it has a goal to manage the asset by sale and the securities correspond to the business model “other”. The reclassification of trading securities is carried out exclusively in cases of a change in the business model for managing this financial asset.

Trading securities are carried at FVTPL. Interest earned on trading securities is presented as other interest income in profit or loss for the year. Dividends are included in other operating income when the Group’s right to receive the dividend payment is established and provided the dividend is likely to be received. All other elements of the changes in the fair value and gains or losses on derecognition are recorded in profit or loss for the year as gains less losses from trading securities in the period in which they arise.

Due from banks. Amounts due from banks are recorded when the Group advances money to counterparty on fixed or determinable dates, at the same time the Group has no intention to carry out trade operations with the purpose of acquiring or rising accounts receivable which are not related to derivative financial instruments and have no quotation at the open market.

After initial recognition, due from banks are recognised at amortised cost if the business model for managing this financial asset meets the criteria of the asset retention business model for obtaining contractual cash flows and the SPPI test criteria. Due from banks can be recorded at fair value through profit or loss if the business model for managing this financial asset meets the criteria of the asset retention business model of asset retention for obtaining contractual cash flows and sales, but SPPI test criteria are not met.

Due from banks measured at amortised cost are initially measured at fair value plus additional direct transaction costs and subsequently at amortised cost using the effective interest method.

Loans and advances to customers. Loans and advances to customers caption in the consolidated statement of financial position includes:

- loans and advances to customers measured at amortised cost, they are initially measured at fair value plus incremental direct transactional costs and subsequently at their amortised cost using the effective interest method;
- loans and advances to customers mandatorily measured at FVTPL due to the non-conformance with SPPI test criteria, with changes recognised immediately in profit or loss.

Investment securities. Investment securities caption in the consolidated statement of financial position includes:

- debt investment securities measured at amortised cost, which are initially measured at fair value plus additional direct transaction costs and subsequently at amortised cost using the effective interest method;
- debt investment securities measured at fair value through other comprehensive income; and
- equity investment securities classified at the Group's discretion as at fair value through other comprehensive income.

The Group includes investment securities that the Group intends to hold for an indefinite period of time and which may be sold depending on the requirements for maintaining liquidity or as a result of changes in interest rates, exchange rates or stock prices into the category of investment securities measured at fair value through other comprehensive income if at the time of the acquisition they correspond to the business model of holding the asset to obtain contractual cash flows and sales and SPPI test.

3 Basis of Preparation of Consolidated Financial Statements and Significant Accounting Policies (continued)

Changes in the fair value of debt investment securities measured at fair value through other comprehensive income are recognised directly in equity until the investment is derecognised, and the cumulative gain or loss is transferred from other comprehensive income to profit or loss for the year.

Dividends on equity securities at fair value through other comprehensive income are recognised in profit or loss when the Group’s right to receive payment is established and it is probable that the dividends will be collected.

The Group includes investment securities that the Group intends to hold during contractual terms in order to obtain contractual cash flows into the category of investment securities measured at amortised cost if they meet the criteria of the business model of asset retention for obtaining contractual cash flows and SPPI tests criteria. Investment securities measured at amortised cost are initially measured at fair value plus additional direct transaction costs and subsequently at amortised cost using the effective interest method.

Allowances for expected losses related to investment securities are recognised in profit or loss.

Advances. Advances are recognised if the Group makes a prepayment under a contract for services that are not yet provided, and are recorded at amortised cost.

Sale and repurchase agreements. Sale and repurchase agreements (“repo agreements”), which in fact provide a lender’s return to the counterparty, are treated as secured financing transactions. Securities sold under such sale and repurchase agreements are not derecognised. In such cases they are classified within “Trading securities, including securities pledged under sale and repurchased agreements” ” and “Investment securities, including securities pledged under sale and repurchased agreements”. The respective liabilities are recognised within “Due to banks” or “Customer accounts” line items depending on the counterparty.

Securities purchased under agreements to resell (“reverse repo agreements”), which provide the Group with a creditor’s return, are recorded as “Reverse sale and repurchase agreements”. The difference between the sale and repurchase price is treated as interest income and accrued over the life of the reverse repo agreements using the effective interest method.

If the assets purchased under a sale and repurchase agreement are sold to third parties, the obligation to return the securities is recorded as a financial liability at fair value in the consolidated statement of financial position.

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

3 Basis of Preparation of Consolidated Financial Statements and Significant Accounting Policies (continued)

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

When the Group has transferred financial assets to another entity, but has retained substantially all the risks and rewards relating to the transferred assets, the transferred assets are recognised in the Group‘s consolidated statement of financial position.

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

Promissory notes purchased. Promissory notes purchased are included in due from banks or loans and advances to customers, based on their economic substance and are recorded and subsequently remeasured and accounted in accordance with the accounting policies for this category of assets.

Property and equipment. Property and equipment are stated at cost, adjusted to the equivalent of purchasing power of the Russian Rouble at December 31, 2002 for assets acquired prior to January 1, 2003, or revalued amounts, as described below, less accumulated depreciation and impairment, where required.

Buldings and facilities of the Group are subject to revaluation on a regular basis. The frequency of revaluation depends upon the movements in the fair values of the buildings being revalued. Any increase in the carrying value as a result of revaluation is recognised in other comprehensive income and in revaluation reserve in equity. Any decrease in value accounted against previous increases of the same asset is recognised in other comprehensive income and reduces the revaluation reserve previously recognised in equity. All other decreases in value are recognised in profit or loss for the year. The revaluation reserve for property and equipment included in equity is transferred directly to retained earnings when the surplus is realised, i.e. either on the retirement or disposal of the asset.

Construction in progress is carried at cost less impairment where required. Upon completion, assets are transferred to property and equipment at their carrying amount. Construction in progress is not depreciated until the asset is available for use.

All other items of property and equipment are stated at cost less accumulated depreciation and impairment losses, if any.

Costs of minor repairs and maintenance are recognised when incurred. Costs of replacing major parts or components of property and equipment are capitalised and the replaced part is retired.

If there are indicators of impairment, the management evaluates the recoverable amount, which is the greater of the asset’s fair value less costs to sell and value in use. The decrease in carrying amount is charged to profit or loss to the extent it exceeds the previous revaluation surplus in equity. An impairment loss recognised for an asset in prior years is reversed if there has been a change in the estimates used to determine the asset’s value in use or fair value less costs to sell.

Gain or loss on disposal is the difference between the amount of revenue and the carrying value and is recognised in profit or loss for the year.

Depreciation. Land is not depreciated. Depreciation on other items of property and equipment is calculated using the straight-line method to allocate their cost or revalued amounts to their residual values over their estimated useful lives:

Buildings: 50 years

Office and computer equipment: 5 years

Leasehold improvements: over the term of the underlying lease.

3 Basis of Preparation of Consolidated Financial Statements and Significant Accounting Policies (continued)

The residual value of an asset is the estimated amount that the Group would currently obtain from disposal of the asset less the estimated costs of disposal, if the asset was already of the age and in the condition expected at the end of its useful life. The residual value of an asset is nil if the Group expects to use the asset to the end of its physical life. The assets’ residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

Intangible assets. All intangible assets have definite useful lives and primarily include capitalised computer software.

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. Capitalised computer software is amortised on a straight line basis over expected useful lives of 3 to 4 years. All other costs associated with computer software, e.g. its maintenance, are recognised when incurred.

Investment property. Investment property is property not occupied by the Group and held either to earn rental income or for capital appreciation or for both.

Investment property is stated at acquisition cost less accumulated amortisation and impairment (if necessary). In case of indications of impairment of investment property the Group evaluates its recoverable amount, which is calculated as the higher of its value in use and fair value less disposal costs. A decrease in carrying value of investment property to its recoverable amount is recognised in profit or loss. Impairment loss recognised in previous years is recovered if there was a change in estimates used to evaluate the recoverable amount of the asset.

Subsequent expenditure is capitalised only when the Group receives the related future economic benefits and the cost can be reliably measured. All other repair and maintenance costs are recognised as an expense as incurred. If the owner occupies the investment property, it is transferred to the category “Property and Equipment”.

Operating leases. Where the Group is a lessee in a lease which does not transfer substantially all the risks and benefits incidental to ownership from the lessor to the Group, the total lease payments are charged to profit or loss on a straight-line basis over the period of the lease.

Long-term assets held for sale. Long-term assets and disposal groups (which may include both long term and short term assets) are presented in the consolidated statement of financial position as long-term assets held for sale if their carrying amount will be recovered principally through a sale transaction within twelve months after the reporting date. These assets are classified as held for sale when all of the following conditions are met: (a) assets are available for immediate sale in their present condition; (b) management approved and initiated an active programme to find a buyer; (c) the assets are actively marketed for a sale at a reasonable price; (d) the sale is expected within one year and (e) it is unlikely that significant changes to the plan to sell will be made or that the plan will be withdrawn.

Long-term assets and disposal groups held-for-sale are measured at the lower of carrying amount and fair value less costs to sell. Held-for-sale property and equipment (included in the disposal group) are not depreciated or amortised.

Liabilities directly associated with the disposal groups that will be transferred in the disposal transaction are presented separately in the consolidated statement of financial position.

Due to banks. Amounts due to banks are recorded when cash or other assets are advanced to the Group by counterparty banks. Non-derivative financial liabilities are carried at amortised cost.

Customer accounts. Customer accounts are non-derivative financial liabilities to individuals, state or corporate customers and are carried at amortised cost.

3 Basis of Preparation of Consolidated Financial Statements and Significant Accounting Policies (continued)

Debt securities issued. Debt securities issued include bonds, promissory notes and certificates of deposit issued by the Group. Debt securities are stated at amortised cost. If the Group purchases its own debt securities in issue, they are removed from the consolidated statement of financial position and the difference between the carrying amount of the liability and the consideration paid is included in other income.

Other borrowed funds. Other borrowed funds include liabilities to credit and corporate entities and financial institutions attracted for target financing and are carried at amortised cost.

Derivative financial instruments. Derivative financial instruments are carried at their fair value.

All derivative instruments are carried as assets when fair value is positive and as liabilities when fair value is negative. Changes in the fair value of derivative instruments are recognised as gains less losses in accordance with the nature of transaction in profit or loss. The Group does not apply hedge accounting.

Income taxes. Tax expenses are provided for in the consolidated financial statements in accordance with the effective Russian legislation using tax rates and legislative regulations enacted or substantively enacted by the reporting date. The income tax charge comprises current tax charge and deferred tax and is recognised in profit or loss for the year except if it is recognised as other comprehensive income or directly in equity because it relates to transactions that are also recognised, in the same or a different period, as other comprehensive income or directly in equity.

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

Deferred income tax is calculated on the basis of balance sheet liability method for temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability if the transaction, when initially recorded, affects neither accounting nor taxable profit. Deferred tax assets and liabilities are measured at tax rates enacted or substantively enacted at the reporting date which are expected to apply in the period when the temporary differences or deferred tax losses will be realised. Deferred tax assets and liabilities are netted only within the individual companies of the Group. Deferred tax assets for deductible temporary differences are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

Uncertain tax positions. Uncertain tax positions are reassessed by management at every reporting date. The assessment is based on the interpretation of tax laws that have been enacted or substantively enacted by the reporting date and any known court or other rulings on such issues. Liabilities for penalties, interest and taxes other than on income are recognised based on management's best estimate of the expenditure required to settle the obligations at the reporting date.

Provisions for liabilities and future expenses. Provisions for liabilities and future expenses are non-financial liabilities of uncertain timing or amount. Related provisions are provided for in the consolidated financial statements where the Group has liabilities (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

Payables. Payables are recognised when the counterparty performed its obligations under the contract and are carried at amortised cost.

Credit and non-credit related commitments. The Group enters into credit related commitments, including commitments to provide loans, letters of credit and financial guarantees.

3 Basis of Preparation of Consolidated Financial Statements and Significant Accounting Policies (continued)

Financial guarantees and letters of credit represent irrevocable commitments to make payments in the event that a customer cannot meet its obligations to third parties and carry the same credit risk as loans. Financial guarantees and letters of credit are initially recognised at their fair value, which is normally evidenced by the amount of fees received. Documentary letters of credit, which are written obligations of the Group to make payments on behalf of clients within a specified amount when certain conditions are met, are secured by appropriate supplies of goods or cash deposits and, accordingly, have a lower risk level than direct lending.

Loan commitments include the unused portion of the loan amounts. With respect to loan commitments, the Group is potentially exposed to credit risk, but the likely amount of loss is less than the total amount of unused commitments, since most loan commitments depend on clients ’compliance with certain credit requirements. The Group controls the term remaining until the repayment of credit commitments, since usually more long-term liabilities have a higher level of credit risk than short-term liabilities.

Liabilities of non-credit nature mainly include performance guarantees - these are contracts that provide for receiving compensation if the other party does not fulfill the obligation specified in the contract. Such contracts do not transfer credit risk. Guarentee contract represents the probability of insured accident (that is failure to fulfill the liabilities stipulated by the contract by the other party under the contract). Performance guarantees are initially recognised at fair value, confirmed, as a rule, by the amount of the consideration received. This amount is amortised on a straight-line basis over the life of the contract. At the end of each reporting period, the performance guarantee contracts are measured at the higher of (i) the unamortised balance of the amount at initial recognition and (ii) the best estimate of expenditure required to settle the contract at the end of each reporting period, discounted to present value. Where the Bank has the contractual right to revert to its customer for recovering amounts paid to settle the performance guarantee contracts, such amounts will be recognised as loans and receivables within other assets upon transfer of the loss compensation to the guarantee’s beneficiary. In cases where the amount of consideration is received on a periodic basis, the remuneration received is recognised in revenue on a straight-line basis over the life of the contract.

The Group does not have issued commitments to provide loans at fair value through profit or loss. From January 1, 2018, the Group recognises an allowance for losses on other loan commitments.

Share premium. When shares are issued, the excess of contributions received, net of transaction costs, over the nominal value of the shares issued is recorded as share premium in equity.

Preference shares. Preference shares that are not mandatorily redeemable and with discretionary dividends, are classified as equity.

Dividends. Dividends in relation to own equity instruments are recorded in equity in the period in which they are declared. Dividends declared after the reporting date and before the consolidated financial statements are approved for issue are disclosed in the events after the reporting period note. The statutory accounting reports are the basis for payment of dividends and other profit distribution. Russian legislation identifies the basis of profit distribution as the current year net profit.

Income and expense recognition except interest income and expense. A contract with a customer that results in a recognised financial instrument in the consolidated financial statements of the Group may be partially within the scope of IFRS 9 and partly with the scope of IFRS 15. In this case, the Group first applies IFRS 9, to separate and evaluate the part of the contract that falls within the scope of IFRS 9, and then applies IFRS 15 to the remainder of this contract.

All other fees, commissions and other income and expense items are generally recorded on an accrual basis by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

3 Basis of Preparation of Consolidated Financial Statements and Significant Accounting Policies (continued)

Fiduciary assets. Assets held by the Group in its own name, but as requested by and at the expense of third parties, are not reported in the consolidated statement of financial position. The analysis of such balances and transactions is presented in Note 32. Commissions received from fiduciary activities are shown in fee and commission income.

Offsetting. Financial assets and liabilities are offset and the net amount is reported in the consolidated statement of financial position only when there is a legally enforceable right to offset the recognised amounts, and there is an intention to either settle on a net basis, or to realise the asset and settle the liability simultaneously.

The Group has a legal right to offset the recognised amounts if this right is not due to a future event and is legally enforceable both in the ordinary course of business and in the event of default, insolvency or bankruptcy of the Group or any of its counterparties.

Accounting for the effects of hyperinflation. The Russian Federation previously experienced relatively high levels of inflation and was considered to be hyperinflationary as defined by IAS 29 “Financial Reporting in Hyperinflationary Economies” (IAS 29). IAS 29 requires that the financial statements prepared in the currency of a hyperinflationary economy be stated in terms of the measuring unit effective at the reporting date.

The characteristics of the economic environment of the Russian Federation indicate that hyperinflation ceased from January 1, 2003. Restatement procedures of IAS 29 are therefore only applied to assets acquired or revalued and liabilities incurred or assumed prior to that date. For these balances, the amounts expressed in the measuring unit effective as at December 31, 2002 are the basis for the carrying amounts in these consolidated financial statements. The restatement was calculated using the conversion factors derived from the Russian Federation Consumer Price Index, published by the Russian Statistics Agency, and from indices obtained from other sources for years prior to 1992.

Staff costs and related contributions. Wages, salaries, contributions to insurance funds, paid annual leave and sick leave, bonuses, and non-monetary benefits are accrued in the year in which the associated services are rendered by employees.

Segment reporting. Segment reporting is prepared based on the internal management reports regularly reviewed by the chief operating decision maker. Segments with a majority of revenue, financial result or assets equal to at least ten percent of those from all the segments are reported separately.

4 Significant Accounting Estimates and Judgments in Applying Accounting Policies

The Group makes estimates and assumptions that affect the amounts of assets and liabilities recognised in the consolidated financial statements. Estimates and judgments are continually reassessed and are based on management’s experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes professional judgments and estimates in the process of applying the accounting policies. Judgments that have the most significant effect on the amounts recognised in the consolidated financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

Expected credit losses. Amounts of allowance for expected credit losses are presented in the consolidated statement of financial position in the following way:

- *financial assets measured at amortised cost*: as a decrease of the gross carrying amount of such assets;
- *loan commitments and financial guarantee agreements*: generally, as a provision;

4 Signnificant Accounting Estimates and Judgments in Applying Accounting Policies (continued)

- *debt instruments measured at FVOCI*: an expected credit loss allowance is not recognised in the consolidated statement of financial position since the carrying amount of such assets is their fair value. However, the amount of the expected credit loss allowance is disclosed and recognised in the revaluation reserve for changes in fair value.

The key inputs into the measurement of ECLs are the term structures of the following variables:

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

These parameters will be derived from internally developed statistical models.

Expected credit losses for positions subject to credit risk related to Stage 1 are calculated by multiplying the 12-month PD by the LGD and the EAD value.

PD estimates are estimates at a certain date, which are calculated based on statistical rating models and assessed using rating tools tailored to the various categories of counterparties. These statistical models are based on internally compiled data comprising both quantitative and qualitative factors. If a counterparty migrates between rating classes, then this will lead to a change in the estimate of the associated PD. PDs are estimated considering the contractual maturities of financial instruments.

The Group estimates LGD parameters based on the history of recovery rates with regard to impaired financial assets. The LGD models consider the structure of the financial instruments, types of counterparties and collateral.

With regard to financial assets originating during transactions in financial markets international rating agencies' statistics is used to assess PD and LGD.

EAD represents the expected exposure in the event of default. The Group will derive the EAD from the current exposure as at the reporting date considering expected changes to the current amount allowed under the contract, including amortisation. The EAD of a financial asset will be the gross carrying amount. For lending commitments, the EAD will consider the amount drawn, as well as potential future amounts that may be drawn or repaid under the contract, which will be estimated based on historical observations and forward-looking forecasts. The Group reasonably believes that this right limits exposure to credit losses, EAD is assumed to be zero if the contract does not provide for such a possibility, or this right does not fully limit exposure to credit losses, EAD represents expected amounts that can be claimed under the contract, evaluation of which is carried out on the basis of historical observations and forecasts. For financial guarantee contracts, the EAD value is the amount payable at the time the financial guarantee is executed.

The Group assumes that probability of default forecasts and amounts of loss given default can differ from historical figures. Due to this the Group adjusts historical PD and LGD figures for the most likely macroeconomic scenario.

The Group includes forward-looking information both in the assessment for a significant increase in credit risk since the initial recognition of the financial instrument, and in the assessment of expected credit losses. The Group considers two economic scenarios: the baseline scenario and the pessimistic scenario. The baseline scenario is based on information used by the Group in strategic planning and budgeting. External information taken into account includes economic data and forecasts published by the CBR.

The Group identified a list of key factors affecting the assessment of credit risk and credit losses for each portfolio of financial instruments and, using historical data analysis, assessed the relationship between macroeconomic variables, credit risk and credit losses.

As a key factor, the forecast of GDP is defined. The projected ratios between the key indicator and default events, and the levels of losses for various portfolios of financial assets were developed based on the analysis of historical data for the last 8 years.

4 Signnificant Accounting Estimates and Judgments in Applying Accounting Policies (continued)

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

Credit risk ratings are defined and calibrated such that the risk of default occurring increases exponentially as the credit risk deteriorates – e.g. the difference in the risk of default between credit risk ratings 1 and 2 is smaller than the difference between credit risk rating 2 and 3.

A credit risk rating for each corporate client is allocated at initial recognition. Exposures will be subject to ongoing monitoring, which may result in an exposure being moved to a different credit risk rating as compared to that assigned on initial recognition.

For financial assets of individuals the risk estimate is revised only if information about overdue amounts appears or when the customer requests renegotiation of loan agreements.

The monitoring usually includes the analysis of the following data.

Factors influencing the credit risk rating of a financial instrument and accounted for when determining a significant increase of credit risk with regard to corporate clients	Factors accounted for when determining a significant increase of credit risk with regard to corporate and individual clients
• Data obtained as a result of a regular analysis of information about borrowers – for example, audited financial statements, management information, budgets, forecasts and plans. Examples of indicators that are given particular attention are: sectoral affiliation of the borrower, debt burden, profitability, liquidity ratios, the business model of the borrower, compliance with restrictive conditions ("covenants"), management quality	• Information about payments, including information about the status of overdue amounts
• Data of credit rating agencies, publications in press, information about changes of external credit ratings	• Requests for the renegotiation of loan agreements and satisfaction of such requests
• Actual and expected significant changes in political, regulatory and technological environment of the borrower or its business	• Current and expected changes of financial, economic conditions and business environment

For financial assets originated from transactions in financial markets medium credit risk ratings, issued by international rating agencies for several subsequent periods are used.

The Group considers that the credit risk related to a financial instrument has increased significantly since its initial recognition if, based on modelling methods used by the Group, it has been determined that the PD figure for the remaining life increased more than 3 times since initial recognition. The actual value of the change in the probability of default in 2018 did not exceed 2 times since initial recognition. When assessing for a significant increase of credit risk remaining lifetime expected credit losses are adjusted for the change of repayment term.

Grades of credit risk. To assess expected credit losses the Group classifies financial instruments into one of the following stages depending on the change of the credit quality of a financial asset since its initial recognition:

- Stage 1. Financial instruments with no significant increase of credit risk after their initial recognition. The amount of impairment is determined as the amount of expected credit losses over 12 months;

4 Signnificant Accounting Estimates and Judgments in Applying Accounting Policies (continued)

- Stage 2. Financial instruments with significant increase of credit risk after their initial recognition but with no impairment indicators. The amount of impairment is determined as the amount of expected credit losses over the life time of the instrument.
- Stage 3. Impaired financial instruments. For impaired financial instruments of corporate clients expected credit losses are measured on an individual basis based on expected cash flows from debts collection. For impaired financial instruments of individual clients expected credit losses are measured based on expected cash flows as per historical figures of losses given default depending on the term of delinquency.

Analysis for indicators of a significant increase of credit risk and impairment of loans and credit related commitments is performed at each reporting date.

- if indicators of a significant increase in credit risk are identified with no indicators of impairment, loans and credit related commitments classified into Stage 1 are transferred into Stage 2;
- if indicators of impairment are identified, loans and credit related commitments classified into Stage 1 are transferred into Stage 3;
- if indicators of impairment are identified, loans and credit related commitments classified into Stage 2 are transferred into Stage 3;
- if indicators of impairment disappear, loans and credit related commitments are transferred from Stage 3 into Stage 2;
- if indicators of a significant increase in credit risk disappear, loans and credit related commitments are transferred from Stage 2 into Stage 1;
- in exceptional cases, when indicators of impairment disappear and there are no indicators of a significant increase in credit risk, loans and credit related commitments can be transferred from Stage 3 into Stage 1.

For the loans that were impaired at initial recognition the expected credit loss allowance is measured based on expected credit losses over the lifetime of the loan.

Significant increase in credit risk. Occurrence of at least one of the following events is an indicator of a significant increase in credit risk:

- delinquency by 31 to 90 days;
- significant decrease of the external or internal rating of a corporate borrower since the initial recognition of a financial instrument;
- modification of a financial instrument in the form of the prolongation for the principal amount or the grace period for interest payments performed due to financial distress of the client;
- delinquency by 6 to 30 days for interbank loans.

Occurrence of at least one of the following events is an indicator of impairment:

- delinquency by 90 or more days;
- bankruptcy or liquidation of the borrower;
- modification in the form of a decrease of the interest rate to a level significantly lower compared to the market one due to financial distress of the client;
- other indicators of financial difficulties of the borrower and an actual threat of non-fulfillment or improper fulfillment by the borrower of its obligations towards the Bank;
- delinquency by 30 or more days for interbank loans.

4 Signnificant Accounting Estimates and Judgments in Applying Accounting Policies (continued)

Default. The fact of recognition of a financial asset as impaired.

Revaluation of buildings. The fair values of buildings are determined by using valuation methods and are based on their market value. Market values of buildings are estimated by an independent appraiser, who holds a recognised and relevant professional qualification and who has recent experience in valuation of buildings of similar location and category. The market value is assessed using sales comparison approach, i.e. comparison with other buildings that were sold or are offered for sale. Direct capitalisation or cost methods were used for unique objects.To the extent that the assessed fair value of buildings differs by 10%, the effect of the revaluation adjustment would be RR 1 234 447 thousand (before deferred tax) as at December 31, 2018 (2017: RR 1 233 449 thousand).

5 Adoption of New or Revised Standards and Interpretations

A number of new standards and interpretations came into force starting from January 1, 2018.The Group adopted these amendments and interpretations after they became effective.

IFRS 9 Financial Instruments. The Group adopted IFRS 9 “Financial instruments” issued in July 2014 on January 1, 2018 when the standard came into force. IFRS 9 requirements significantly differ from those of IAS 39 “Financial instruments: Recognition and Measurement”. The new standard introduces fundamental changes to financial assets accounting and certain features of financial liabilities accounting.

The main changes in the accounting policy of the Group attributed to the adoption of IFRS 9 are as follows:

- Financial assets must be classified into three categories: measured subsequently at amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL).
- The classification of debt instruments depends on the entity’s business model for financial assets management and on whether the contractual cash flows include solely payments of principal and interest (SPPI). If a debt instrument is held in order to receive contractual cash flows, it can be measured at amortised cost if it meets the SPPI criteria. Debt instruments that meet the SPPI criteria and are held as part of a portfolio in order to both collect cash flows from assets and the sale of assets are classified into the category of carried at FVOCI. Financial assets that do not contain cash flows meeting the SPPI criteria must be measured at FVTPL (for example, derivatives). Embedded derivatives are not separated from financial assets and instead included into the category of financial assets when assessing for whether SPPI criteria is met. Methods of classifying financial assets under IFRS 9 are presented below in this Note.
- Investments into equity instruments are always measured at fair value. However, the management can irrevocably decide to recognise changes of fair value in other comprehensive income if the relevant instrument is not classified as held for trading. If an equity instrument is classified as held for trading,changes of fair value are presented in profit or loss.
- Most of IAS 39 requirements with regard to the classification and measurement of financial liabilities were included into IFRS 9 without changes. The main difference is the requirement that the entity must disclose the effect of changes in the credit risk of financial liabilities classified as measured at FVTPL in other comprehensive income.

  Methods of classifying financial liabilities under IFRS 9 are presented below in this Note.

5 Adoption of New or Revised Standards and Interpretations (continued)

- IFRS 9 replaces the 'incurred loss' model with an 'expected credit loss' model (ECL). The model introduces a "three stage" approach based on the change of financial assets credit quality after their initial recognition. In practice these new rules require the Group to recognise an allowance equal to 12-months expected credit losses (or lifetime expected credit losses for trade receivables) upon initial recognition of financial assets that are not credit-impaired. In those cases when there has been a significant increase in credit risk impairment is measured using lifetime credit losses. The new impairment model is also applied to certain credit-related commitments and financial guarantee contracts. Explanations of how the Group applies IFRS 9 impairment requirements are given in Note 4.

- Adjustments that allow a more accurate matching of accounting with risk management have been made to hedge accounting requirements. IFRS 9 includes an accounting policy choice to continue to apply the hedge accounting requirements of IAS 39 or to adopt hedge accounting requirement of IFRS 9 as the standard currently does not explicitly address macro hedge accounting. The Group has no hedge transactions.

Transition to the new standard (IFRS 9). Changes in accounting policies resulting from the adoption of IFRS 9 were applied retrospectively, except as described below.

- Previous periods figures have not been restated. Differences between the carrying amount of financial assets and that of financial liabilities arising due to the adoption of IFRS 9 are recognised in retained earnings and allowances as at January 1, 2018. Thus, information at December 31, 2017 does not reflect the requirements of IFRS 9 and, consequently, is not comparable to the information presented for 2018 in accordance with IFRS 9.

- The following assessments have been performed based on facts and circumstances that existed as at the date of initial application:
  - The determination of the business model within which a financial asset is held;
  - The designation of certain investments in equity instruments not held for trading both as at FVOCI and FVTPL.

- For debt securities with low credit risk as at the date of initial application of IFRS 9 the Group determined that the credit risk on the asset has not increased significantly since initial recognition. A financial instrument has a low credit risk if the average credit rating of the borrower is BBB- and higher (as per Moody's, S&P and Fitch ratings).

5 Adoption of New or Revised Standards and Interpretations (continued)

Classification categories of financial assets and liabilities in accordance with IAS 39 and new classification categories in accordance with IFRS 9 as at January 1, 2018 are presented in the table below:

(in thousands of Russian roubles)	**Original classification as per IAS 39**	**New classification as per IFRS 9**	**Original carrying amount as per IAS 39**	**Reclassi-fication**	**Change of the measure-ment base (ECL)**	**Change of the measure-ment base (other)**	**New carrying amount as per IFRS 9**
Financial assets							
Cash and cash equivalents	Loans and receivables	At amortised cost	39 198 510	-	0	-	39 198 510
Mandatory reserve deposits with the Central Bank of the Russian Federation	Loans and receivables	At amortised cost	3 020 485	-	-	-	3 020 485
Trading securities	Fair value through profit or loss	Fair value through profit or loss (mandatory)	17 372 259	-	-	-	17 372 259
Trading securities pledged under sale and repurchase agreements and loaned	Fair value through profit or loss	Fair value through profit or loss (mandatory)	47 111 694	-	-	-	47 111 694
Investment securities debt securities	Available-for-sale	Fair value through other comprehensive income	21 711 087	-	-	-	21 711 087
Investment securities equity securities	Available-for-sale	Fair value through other comprehensive income	-	520 707	-	-	520 707
Investment securities equity securities	Available-for-sale	Fair value through profit or loss	801 687	(520 707)	-	-	280 980
Investment securities debt securities pledgedunder sale and repurchase agreements and loaned	Available-for-sale	Fair value through other comprehensive income	26 437 945	-	-	-	26 437 945
Reverse sale and repurchase agreements	Loans and receivables	Amortised cost	67 809 093	-	-	-	67 809 093
Derivative financial assets	Fair value through profit or loss	Fair value through profit or loss (mandatory)	1 217 534	-	-		1 217 534
Due from banks	Loans and receivables	Amortised cost	34 939 256	-	(729)	-	34 938 527
Loans and advances to customers at amortised cost	Loans and receivables	Amortised cost	318 215 910	(879 766)	(1 283 347)	(1 453 826)	314 598 971
Loans and advances to customers at fair value	Loans and receivables	Fair value through profit or loss (mandatory)	-	879 766	-	-	879 766
Other financial assets	Loans and receivables	Amortised cost	2 111 229	-	-	-	2 111 229
Total financial assets			**579 946 689**	**-**	**(1 284 076)**	**(1 453 826)**	**577 208 787**

5 Adoption of New or Revised Standards and Interpretations (continued)

(in thousands of Russian roubles)	Original classification as per IAS 39	New classification as per IFRS 9	Original carrying amount as per IAS 39	Reclassi-fication	Change of the measure-ment base (ECL)	Change of the measure-ment base (other)	New carrying amount as per IFRS 9
Financial liabilities							
Due to banks	Amortised cost	Amortised cost	148 924 730	-	-	-	148 924 730
Customer accounts	Amortised cost	Amortised cost	352 972 148	-	-	-	352 972 148
Financial liabilities recognised at fair value	Fair value through profit or loss	Fair value through profit or loss (held for trading)	12 511 033	-	-	-	12 511 033
Derivative financial liabilities	Fair value through profit or loss	Fair value through profit or loss (held for trading)	1 661 351	-	-	-	1 661 351
Promissory notes and deposit certificates issued	Amortised cost	Amortised cost	7 253 345	-	-	-	7 253 345
Bonds issued	Amortised cost	Amortised cost	7 137 892	-	-	-	7 137 892
Other borrowed funds	Amortised cost	Amortised cost	1 903 744	-	-	-	1 903 744
Other financial liabilities	Amortised cost	Amortised cost	1 303 955	-	18 937	-	1 322 892
Total financial liabilities			**533 668 198**	**-**	**18 937**	**-**	**533 687 135**

The accounting policy of the Group with regard to the classification of financial instruments in accordance with IFRS 9 is presented in Note 3, 4. The application of this policy resulted in the reclassifications presented in the table above, namely:

Certain loans and advances to customers, mainly those that are managed by the Group's corporate and investment business, are classified in accordance with IFRS 9 as mandatorily measured at fair value through profit or loss since contractual cash flows of these assets do not constitute only payments of the principal amount and interest.

Equity securities are measured at fair value through profit or loss, while selected non-tradable equity securities are measured at fair value through other comprehensive income.

Below are the reconciliation results of:

- The allowance for financial assets impairment in accordance with IAS 39 and the provision for credit-related commitments and financial guarantees impairment in accordance with IAS 37 "Provisions, Contingent Liabilities and Contingent Assets" as at December 31, 2017; and
- opening amount of the expected credit losses allowance in accordance with IFRS 9 as at January 1, 2018.

5 Adoption of New or Revised Standards and Interpretations (continued)

(in thousands of Russian roubles)	As at December 31, 2017 (in accordance with IAS 39/IAS 37)	Change of the Measure-ment base (ECL)	Partial write off due to modification (bad debt collection)	Reclassi-fication	As at January 1, 2018 (in accordance with IFRS 9)
Due from banks at amortised cost	-	729	-	-	729
Loans and advances to customers at amortised cost	39 494 532	1 283 347	(5 079 707)	(586 511)	35 111 661
Credit-related commitments	73 313	18 937	-	-	92 250
Investment securities available for sale in accordance with IAS 39 / Investment securities at FVOCI in accordance with IFRS 9	-	157 527	-	-	157 527

Below is the effect of transition to IFRS 9 on reserves and retained earnings:

(in thousands of Russian roubles)	Effect of transition to IFRS 9 as at January 1, 2018
Revaluation reserve for investment securities available for sale in accordance with IFRS 39 (as at December, 31 2017)	**1 264 691**
Recognition of ECL related to debt investment securities in accordance with IFRS 9 at FVOCI	157 527
Opening balance of the revaluation reserve for investment securities in accordance with IFRS 9 (as at January 1, 2018)	**1 422 218**
Retained earnings in accordance with IAS 39 (as at December 31, 2017)	**37 109 430**
Recognition of ECL and other estimates related to assets carried at amortised cost in accordance with IFRS 9	(2 756 839)
Recognition of deferred tax	582 873
Recognition of ECL related to debt investment securities at FVOCI in accordance with IFRS 9	(157 527)
Opening balance of retained earnings in accordance with IFRS 9 (as at January 1, 2018)	**34 777 937**

5 Adoption of New or Revised Standards and Interpretations (continued)

IFRS 15 "Revenue from contracts with customers”*.* The Group began applying IFRS 15 from January 1, 2018 retrospectively in accordance with IAS 8 without the use of practical simplifications. The application of IFRS 15 did not affect the recognition periods or the amount of commission income under contracts with customers and the amount of the relevant assets and liabilities recognised by the Group. Accordingly, the impact on the order of presentation of comparative data is limited to new information disclosure requirements.

IFRS 15 sets out the fundamental principles for determining whether revenue should be recognized, in what amount, and when. It replaces IAS 18 “Revenue”, IAS 11 “Construction Contracts” and corresponding clarifications.

IFRS 16 “Leases” replaces the existing guidance on leases, including IAS 17 “Leases”, Clarification of IFRS 4 “Determining the presence of lease characteristics in the agreement”, Clarification of the RPC (SIC) 15 "Operating leases - incentives" and Clarification of the RPC (SIC) 27 "Determination of the nature of operations that have a legal form of lease." IFRS 16 is effective for annual periods beginning on or after January 1, 2019.

IFRS 16 introduces a single model for accounting for tenants of lease agreements, which implies their reflection on the balance sheet of the tenant. According to this model, the lessee must recognise an asset in the form of a right of use, which is the right to use the underlying asset, and a lease obligation, which is the obligation to make rental payments. There are optional simplifications for short-term rental and rental of low cost properties. For landlords, accounting rules generally remain the same - they will continue to classify leases into financial and operating.

The Group plans initial application of IFRS 16 on January 1, 2019.

According to estimates by the Group, the introduction of IFRS 16 will result in the reflection of assets “in the form of the right to use” in the consolidated financial statements in the amount of approximately RR 726 337 thousand and the corresponding liability under lease agreements from January 1, 2019.

The following amendments to the standards and clarifications are not expected to have a significant impact on the consolidated financial statements of the Group:

- Clarification of the CU IFRS 23 (IFRIC) 23 “Uncertainty in relation to tax position”;
- Long-term investments in associates or joint ventures (amendments to IAS 28);
- Amendments to the plan, its reduction or settlement of obligations under it (amendments to IAS 19);
- Annual IFRS Improvements: 2015-2017 cycle - various standards;
- Amendments to references in IFRS standards to the Conceptual framework for the presentation of financial statements;
- IFRS 17 “Insurance Contracts”.

6 Cash and Cash Equivalents

(In thousands of Russian roubles)	2018	2017
Cash on hand	8 923 623	7 057 891
Cash balances with the CBR (other than mandatory reserve deposits)	10 566 270	17 601 108
Correspondent accounts and overnight placements with banks of		
- the Russian Federation	928 430	345 615
- other countries	1 032 922	2 144 843
Settlement accounts with trading systems	15 737 974	12 049 053
Total cash and cash equivalents	**37 189 219**	**39 198 510**

Correspondent accounts and overnight placements with banks of the Russian Federation and settlement accounts with trading systems are mainly represented by balances with Russian stock exchanges and clearing houses.

As at December 31, 2018, cash and cash equivalents are not credit-impaired assets.

As at December 31, 2018, the Group has 1 counterparty with aggregated balances counterparty greater than 10% of equity except the CBR (December 31, 2017:1 counterparty). The total aggregate amount of these balances is RR 14 098 857 thousands as at December 31, 2018 (December 31, 2017: RR 10 924 897 thousands).

Currency and interest rate analyses of cash and cash equivalents are disclosed in Note 30.

7 Trading Securities, including Securities Pledged Under Sale and Repurchased Agreements

(In thousands of Russian roubles)	2018	2017
Debt trading securities		
Bank of Russia coupon bonds	22 083 220	-
Corporate bonds	5 307 043	9 853 721
Corporate eurobonds	2 419 246	5 996 183
Eurobonds of the Russian Federation	159 468	-
Federal loan bonds	68 124	95 068
Municipal bonds	-	181 186
Total debt securities	**30 037 101**	**16 126 158**
Equity securities	749 329	1 246 101
Total trading securities	**30 786 430**	**17 372 259**
Debt trading securities, pledged under sale and repurchased agreements		
Bank of Russia coupon bonds	25 276 629	-
Corporate bonds	19 580 485	19 528 814
Corporate eurobonds	4 910 791	26 631 821
Federal loan bonds	-	127 588
Total debt trading securities pledged under sale and repurchased agreements	**49 767 905**	**46 288 223**
Equity securities	93 150	823 471
Total trading securities pledged under sale and repurchased agreements	**49 861 055**	**47 111 694**
Total trading securities, including securities pledged under sale and repurchased agreements	**80 647 485**	**64 483 953**

7 Trading Securities, including Securities Pledged Under Sale and Repurchased Agreements (continued)

At December 31, 2018, the debt trading securities, including pledged under sale and repurchased agreements, are recorded at fair value, which also reflects the credit risk associated with these securities.

The Group's debt securities are divided according to the level of credit risk based on averaging the values of issuers' credit ratings (in their absence, credit ratings of debt securities issues) assigned by Moody's, S&P and Fitch international rating agencies, in the absence of ratings from international rating agencies, for Russian issuers ratings from ACRA are used:

Group A - issuers' securities with an average credit rating not lower than “BBB-”.

Group B - issuers' securities with an average credit rating between “BB-“ and “BB+”.

Group C - issuers' securities with an average credit rating between “B-” and “B +”.

Group D - non-default securities of issuers with an average credit rating below “B-” or non-rated.

Analysis of debt trading securities and debt trading securities pledged under sale and repurchased agreements at December 31, 2018 by their credit quality is as follows:

(In thousands of Russian roubles)	Bank of Russia coupon bonds	Corporate bonds	Corporate Eurobonds	Eurobonds of the Russian Federation	Federal loan bonds	Total
Debt trading securities						
Not overdue or impaired						
Group A	22 083 220	3 461 953	2 176 508	159 468	68 124	27 949 273
Group B	-	1 658 280	-	-	-	1 658 280
Group C	-	33 290	-	-	-	33 290
Group D	-	153 520	242 738	-	-	396 258
Total debt trading securities	**22 083 220**	**5 307 043**	**2 419 246**	**159 468**	**68 124**	**30 037 101**
Debt trading securities, pledged under sale and repurchased agreements						
Not overdue or impaired						
Group A	25 276 629	6 436 442	4 492 707	-	-	36 205 778
Group B	-	13 144 043	418 084	-	-	13 562 127
Total debt trading securities pledged under sale and repurchased agreements	**25 276 629**	**19 580 485**	**4 910 791**	**-**	**-**	**49 767 905**
Total debt trading securities, including securities pledged under sale and repurchased agreements	**47 359 849**	**24 887 528**	**7 330 037**	**159 468**	**68 124**	**79 805 006**

7 Trading Securities, including Securities Pledged Under Sale and Repurchased Agreements (continued)

As at December 31, 2017, the debt trading securities and debt trading securities pledged under sale and repurchase agreements of the Group are divided according to the issuer's credit rating assigned by Moody’s, S&P and Fitch rating agencies:

Group A - issuers' debt securities with a credit rating not lower than “BBB-”, in accordance with the rating assigned by the S&P rating agency or the equivalent rating of other rating agencies.

Group B - debt securities of issuers with a credit rating between “BB-“ and “BB +”, in accordance with the rating assigned by the S&P rating agency or the equivalent rating of other rating agencies.

Group C - debt securities of issuers with a credit rating between “B-” and “B +”, in accordance with the rating assigned by the S&P rating agency or the equivalent rating of other rating agencies.

Group D - debt securities of issuers with a rating lower than “B-”, in accordance with the rating assigned by the S&P rating agency or the equivalent rating of other rating agencies, or not having ratings.

The following is an analysis of debt trading securities and debt trading securities pledged under sale and repurchased agreements for credit quality as of December 31, 2017:

(In thousands of Russian roubles)	Corporate bonds	Corporate Eurobonds	Municipal bonds	Federal loan bonds	Total
Not overdue or impaired					
Group A	438 712	6 089	-	-	444 801
Group B	8 758 725	5 183 393	159 427	95 068	14 196 613
Group C	-	174 722	16 590	-	191 312
Group D	656 284	631 979	5 169	-	1 293 432
Total debt trading securities	**9 853 721**	**5 996 183**	**181 186**	**95 068**	**16 126 158**
Not overdue or impaired					
Group A	418 179	1 057 833	-	-	1 476 012
Group B	18 392 002	24 408 598	-	127 588	42 928 188
Group D	718 633	1 165 390	-	-	1 884 023
Total debt trading securities pledged under sale and repurchased agreements	**19 528 814**	**26 631 821**	**-**	**127 588**	**46 288 223**
Total debt trading securities, including securities pledged under sale and repurchased agreements	**29 382 535**	**32 628 004**	**181 186**	**222 656**	**62 414 381**

The Bank is licensed by the Federal Financial Markets Service of the Russian Federation to carry out operations with securities.

Securities provided or sold under sale agreements with an obligation to repurchase are transferred to a third party as collateral for the funds raised. These financial assets may be re-pledged or sold by counterparties in the absence of a case of non-fulfillment by the Group of their obligations, but the counterparty undertakes to return the securities upon expiration of the contract. The Group determined that it retains virtually all the risks and rewards of ownership of these securities, and thus does not derecognise them.

7 Trading Securities, including Securities Pledged under sale and repurchased Agreements (continued)

These transactions are conducted under conditions that are common and customary for standard lending, borrowing and lending of securities, as well as in accordance with the requirements set by the exchanges, where the Group acts as an intermediary.

Analysis of trading securities, including those pledged under sale and repurchased agreements, by currency structure, maturity and interest rate analysis is presented in Note 30.

8 Reverse Sale and Repurchase Agreements

(In thousands of Russian roubles)	2018	2017
Reverse sale and repurchase agreements with banks	74 719 249	61 863 324
Reverse sale and repurchase agreements with customers	13 399 239	5 945 769
Total reverse sale and repurchase agreements	**88 118 488**	**67 809 093**

As of December 31, 2018, securities purchase agreements subject to repurchase were contracts concluded with customers and banks that were secured with federal loan bonds, corporate eurobonds, corporate bonds (2017: federal bonds, corporate eurobonds, corporate bonds).

As at December 31, 2018, the Group has 4 counterparties with aggregated balances for each counterparty greater than 10% of equity (December 31, 2017:3 counterparties). The total aggregate amount of these balances is RR 86 825 624 thousands as at December 31, 2018 (December 31, 2017: RR 61 822 484 thousands).

As of December 31, 2018, the fair value of securities pledged under securities purchase agreements subject to repurchase was RR 98 942 480 thousand (2017: RR 78 652 603 thousand), of which pledged under sale and repurchase agreements are securities with a fair value of RR 36 582 884 thousand (2017: RR 54 714 192 thousand), as of December 31, 2018, the Group sold securities with a fair value of RR 12 116 372 thousand (2017: the Group sold securities with a fair value of RR 12 511 033 thousand). In all cases, the amount of collateral for individual transactions is equal to or exceeds the amount of debt under the transaction.

An analysis of securities purchase contracts subject to repurchase by currency structure and maturity is presented in Note 30. The analysis of interest rates for securities purchase contracts subject to repurchase is presented in Note 30.

9 Due from Banks

(In thousands of Russian roubles)	2018	2017
Term placements with banks	32 423 081	34 939 256
Allowance for expected credit losses	(54 933)	-
Total due from banks	**32 368 148**	**34 939 256**

Reconciliation of the amount of incoming allowance for impairment of due from banks accrued in accordance with IAS 39 and allowance for expected credit losses accrued in accordance with IFRS 9 is presented in Note 5.

As at December 31, 2018, the Group has 2 counterparties with aggregated balances for each counterparty greater than 10% of equity (December 31, 2017:1 counterparty). The total aggregate amount of these balances is RR 22 452 022 thousands as at December 31, 2018 (December 31, 2017: RR 26 017 258 thousands).

There were no transitions between stages in due from banks during 2018.

Below is an analysis of changes in the allowances for expected credit losses during 2018 and 2017:

9 Due from Banks (continued)

(In thousands of Russian roubles)	12-month expected credit losses	Lifetime expected credit losses - non-impaired assets	Lifetime expected credit losses - impaired assets	Purchased or originated credit-impaired assets	**For the year ending December 31, 2018**	**For the year ending December 31, 2017**
Allowance for expected credit losses at January 1	**729**	**-**	**-**	**-**	**729**	**24 997**
New assets acquired or purchased	161 558	-	-	-	**161 558**	**-**
Net income from recovery of the allowance for expected credit losses	-	-	-	-	**-**	**(24 997)**
Reversal of the allowance due to the repayment of loans	(107 354)	-	-	-	**(107 354)**	**-**
Total allowance for expected credit losses at December 31	**54 933**	**-**	**-**	**-**	**54 933**	**-**

As at December 31, 2018, term funds are divided by credit quality depending on the credit rating of a credit organisation assigned by Moody's, S&P and Fitch rating agencies (if they are not available for Russian credit organisations, ratings from ACRA are used):

Group A - credit organisations with an average credit rating not lower than "BBB-".

Group B - credit organisations with an average credit rating between "BB-" and "BB +".

Group C - credit organisations with an average credit rating between "B-" and "B +".

Group D - non-default credit organisations with an average credit rating lower than "B-" or not-rated.

The table below presents an analysis of due from banks, measured at amortised cost, by credit quality and by corresponding allowances for expected credit losses as of December 31, 2018:

(In thousands of Russian roubles)	12-month expected credit losses	Lifetime expected credit losses - non-impaired assets	Lifetime expected credit losses - impaired assets	Purchased or originated credit-impaired assets	**Total**
Group A	8 970 642	-	-	-	8 970 642
Group B	20 194 201	-	-	-	20 194 201
Group C	2 856 956	-	-	-	2 856 956
Group D	401 282	-	-	-	401 282
Total gross carrying value of due from banks	**32 423 081**	**-**	**-**	**-**	**32 423 081**
Allowance for expected credit losses	**(54 933)**	**-**	**-**	**-**	**(54 933)**
Total due from banks	**32 368 148**	**-**	**-**	**-**	**32 368 148**

9 Due from Banks (continued)

The following is an analysis of term funds placed with banks by credit quality as of December 31, 2017:

(In thousands of Russian roubles)	**Interbank loans and deposits**	**Total**
Group A	27 936 497	27 936 497
Group B	6 702 644	6 702 644
Group C	300 115	300 115
Total term placements with banks	**34 939 256**	**34 939 256**

Lending to banks is carried out on the basis of a system of limits. The method of determining the limits is presented in Note 30. The existing portfolio of interbank loans is a tool for the short-term placement of temporarily free funds.

As of December 31, 2017, term deposits are divided according to credit quality depending on the credit rating of a credit organisation assigned by Moody's, S&P and Fitch rating agencies:

Group A - credit organisations with a credit rating not lower than "BBB-", in accordance with the rating assigned by S&P rating agency or the equivalent rating of other rating agencies.

Group B - credit organisations with a credit rating between "BB-" and "BB+", in accordance with the rating assigned by S&P rating agency or the equivalent rating of other rating agencies.

Group C - credit organisations with a credit rating between "B-" and "B +" in accordance with the rating assigned by S&P rating agency or the equivalent rating of other rating agencies.

Group D - credit organisations with a rating lower than "B-", in accordance with the rating assigned by S&P rating agency or the equivalent rating of other rating agencies, and not having ratings.

Due from banks are not secured. Due from banks are not past due or impaired.

Analysis of due from banks by currency structure and maturity is presented in Note 30. Analysis of interest rates on due from banks is presented in Note 30.

10 Loans and Advances to Customers

(In thousands of Russian roubles)	**2018**	**2017**
Loans measured at amortised cost		
Loans to corporate customers		
- loans to finance working capital	166 532 253	167 065 815
- investment loans	97 325 766	102 786 253
- loans to entities financed by the government	20 594 945	12 052 542
Loans to individuals		
- mortgage loans	59 978 042	54 066 689
- car loans	3 539 665	2 101 129
- consumer loans to VIP clients	5 381 120	4 634 127
- other consumer loans	20 837 495	15 003 887
Allowance for expected credit losses	(36 500 280)	(39 494 532)
Loans at fair value		
Loans to legal entities	1 094 580	n/a
Total loans and advances to customers	**338 783 586**	**318 215 910**

Reconciliation of the amount of opening allowances for impairment of loans and advances to customers recognised in accordance with IAS 39 and allowances for expected credit losses recognised in accordance with IFRS 9 is presented in Note 5.

10 Loans and Advances to Customers (continued)

Below is an analysis of changes in the allowance for expected credit losses on loans and advances to customers during 2018 and 2017:

(In thousands of Russian roubles)	12-month expected credit losses	Lifetime expected credit losses – non-impaired assets	Lifetime expected credit losses - impaired assets	Purchased or originated credit-impaired assets	**For the year ended December 31, 2018**	**For the year ended December 31, 2017**
Allowance for expected credit losses at January 1	**6 042 576**	**4 699 450**	**24 092 065**	**277 570**	**35 111 661**	**39 602 806**
Transfer to 12-month credit losses	258 468	(203 138)	(55 330)	-	-	-
Transfer to lifetime expected credit losses – non-impaired assets	(435 431)	449 838	(14 407)	-	-	-
Transfer to lifetime expected credit losses - impaired assets	(226 290)	(208 804)	435 094	-	-	-
New assets acquired or purchased	2 182 485	-	-	-	**2 182 485**	**-**
Net expense from charge for (income from recovery of) allowance for expected credit losses	(1 338 223)	(374 385)	9 779 600	279 134	**8 346 126**	**9 599 831**
Reversal of the allowance due to disposal of loans	(1 749 637)	(651 222)	(444 036)	-	**(2 844 895)**	**-**
Releasing a discount in relation to the present value of an ECL	-	-	1 622 587	38 288	**1 660 875**	**-**
Amounts written-off as non-recoverable during the period	-	-	(6 958 828)	-	**(6 958 828)**	**(9 582 251)**
Loans and advances to customers sold during the period as non-recoverable	-	-	(997 144)	-	**(997 144)**	**(125 854)**
Total allowance for expected credit losses as at December 31	**4 733 948**	**3 711 739**	**27 459 601**	**594 992**	**36 500 280**	**39 494 532**

10 Loans and Advances to Customers (continued)

Below is an analysis of changes in the allowance for expected credit losses on loans to finance working capital during 2018 and 2017:

(In thousands of Russian roubles)	12-month expected credit losses	Lifetime expected credit losses – non-impaired assets	Lifetime expected credit losses - impaired assets	Purchased or originated credit-impaired assets	**For the year ended December 31, 2018**	**For the year ended December 31, 2017**
Allowance for expected credit losses on loans to finance working capital at January 1	**2 730 557**	**1 484 610**	**15 047 448**	**40 819**	**19 303 434**	**26 248 249**
Transfer to 12-month credit losses	123 859	(123 859)	-	-	-	-
Transfer to lifetime expected credit losses – non-impaired assets	(192 343)	192 343	-	-	-	-
Transfer to lifetime expected credit losses - impaired assets	(161 772)	(41 719)	203 491	-	-	-
New assets acquired or purchased	1 018 940	-	-	-	**1 018 940**	**-**
Net expense from charge for (income from recovery of) allowance for expected credit losses	(215 966)	(216 508)	5 974 290	61 322	**5 603 138**	**4 078 913**
Reversal of the allowance due to disposal of loans	(1 132 751)	(342 831)	(16 899)	-	**(1 492 481)**	**-**
Releasing a discount in relation to the present value of an ECL	-	-	1 154 721	-	**1 154 721**	**-**
Amounts written-off as non-recoverable during the period	-	-	(4 963 685)	-	**(4 963 685)**	**(7 240 508)**
Loans and advances to customers sold during the period as non-recoverable	-	-	792 823	-	**(792 823)**	**(85 673)**
Total allowance for expected credit losses on loans to finance working capital as at December 31	**2 170 524**	**952 036**	**16 606 543**	**102 141**	**19 831 244**	**23 000 981**

10 Loans and Advances to Customers (continued)

Below is an analysis of changes in the allowance for expected credit losses on investment loans during 2018 and 2017:

(In thousands of Russian roubles)	12-month expected credit losses	Lifetime expected credit losses – non-impaired assets	Lifetime expected credit losses - impaired assets	Purchased or originated credit-impaired assets	**For the year ended December 31, 2018**	**For the year ended December 31, 2017**
Allowance for expected credit losses on investment loans as of January 1	**2 880 844**	**2 937 449**	**6 206 388**	**236 751**	**12 261 432**	**10 857 679**
Transfer to 12-month credit losses	56 025	(56 025)	-	-	-	-
Transfer to lifetime expected credit losses – non-impaired assets	(241 168)	241 168	-	-	-	-
Transfer to lifetime expected credit losses - impaired assets	(58 180)	(126 538)	184 718	-	-	-
New assets acquired or purchased	913 408	-	-	-	**913 408**	**-**
Net expense from charge for (income from recovery of) allowance for expected credit losses	(905 897)	(76 615)	1 778 735	217 812	**1 014 035**	**4 355 907**
Reversal of the allowance due to disposal of loans	(495 505)	(296 289)	(292 767)	-	**(1 084 561)**	**-**
Releasing a discount in relation to the present value of an ECL	-	-	222 529	38 288	**260 817**	**-**
Amounts written-off as non-recoverable during the period	-	-	(1 446 197)	-	**(1 446 197)**	**(1 872 346)**
Loans and advances to customers sold during the period as non-recoverable	-	-	(5 252)	-	**(5 252)**	**-**
Allowance for expected credit losses on investment loans as of December 31	**2 149 527**	**2 623 150**	**6 648 154**	**492 851**	**11 913 682**	**13 341 240**

10 Loans and Advances to Customers (continued)

Below is an analysis of changes in the allowance for expected credit losses on loans to entities financed by the government during 2018 and 2017:

(In thousands of Russian roubles)	12-month expected credit losses	Lifetime expected credit losses – non-impaired assets	Lifetime expected credit losses - impaired assets	Purchased or originated credit-impaired assets	**For the year ended December 31, 2018**	**For the year ended December 31, 2017**
Allowance for expected credit losses on loans to entities financed by the government as of January 1	**48 381**	**193 070**	**144 154**	**-**	**385 605**	**479 180**
Transfer to 12-month credit losses	-	-	-	-	-	-
Transfer to lifetime expected credit losses – non-impaired assets	-	-	-	-	-	-
Transfer to lifetime expected credit losses - impaired assets	-	-	-	-	-	-
New assets acquired or purchased	33 049	-	-	-	**33 049**	**-**
Net expense from charge for (income from recovery of) allowance for expected credit losses	(15 352)	(193 070)	1 055 704	-	**847 282**	**(28 415)**
Reversal of the allowance due to disposal of loans	(16 274)	-	-	-	**(16 274)**	**-**
Releasing a discount in relation to the present value of an ECL	-	-	-	-	**-**	**-**
Amounts written-off as non-recoverable during the period	-	-	(125 180)	-	**(125 180)**	**(127 218)**
Loans and advances to customers sold during the period as non-recoverable	-	-	(83 301)	-	**(83 301)**	**-**
Total allowance for expected credit losses on loans to entities financed by the government as of December 31	**49 804**	**-**	**(991 377)**	**-**	**1 041 181**	**323 547**

10 Loans and Advances to Customers (continued)

Below is an analysis of changes in the allowance for expected credit losses on mortgage loans during 2018 and 2017:

(In thousands of Russian roubles)	12-month expected credit losses	Lifetime expected credit losses – non-impaired assets	Lifetime expected credit losses - impaired assets	Purchased or originated credit-impaired assets	**For the year ended December 31, 2018**	**For the year ended December 31, 2017**
Allowance for expected credit losses on mortgage loans at January 1	**107 892**	**47 965**	**256 930**	**-**	**412 787**	**450 179**
Transfer to 12-month credit losses	51 197	(17 918)	(33 279)	-	-	-
Transfer to lifetime expected credit losses – non-impaired assets	(395)	13 449	(13 054)	-	-	-
Transfer to lifetime expected credit losses - impaired assets	(1 064)	(19 454)	20 518	-	-	-
New assets acquired or purchased	29 736	-	-	-	**29 736**	**-**
Net expense from charge for (income from recovery of) allowance for expected credit losses	(88 017)	38 481	246 269	-	**196 733**	**46 509**
Reversal of the allowance due to disposal of loans	(21 306)	(6 386)	(30 902)	-	**(58 594)**	**-**
Releasing a discount in relation to the present value of an ECL	-	-	37 800	-	**37 800**	**-**
Amounts written-off as non-recoverable during the period	-	-	(19 048)	-	**(19 048)**	**(32 662)**
Loans and advances to customers sold during the period as non-recoverable	-	-	(15 957)	-	**(15 957)**	**-**
Total allowance for expected credit losses on mortgage loans as of December 31	**78 043**	**56 137**	**449 277**	**-**	**583 457**	**464 026**

10 Loans and Advances to Customers (continued)

Below is an analysis of changes in the allowance for expected credit losses on car loans during 2018 and 2017:

(In thousands of Russian roubles)	12-month expected credit losses	Lifetime expected credit losses – non-impaired assets	Lifetime expected credit losses - impaired assets	Purchased or originated credit-impaired assets	**For the year ended December 31, 2018**	**For the year ended December 31, 2017**
Allowance for expected credit losses on car loans as of January 1	**9 478**	**2 683**	**52 198**	**-**	**64 359**	**43 992**
Transfer to 12-month credit losses	799	(636)	(163)	-	-	-
Transfer to lifetime expected credit losses – non-impaired assets	(43)	43	-	-	-	-
Transfer to lifetime expected credit losses - impaired assets	(163)	(641)	804	-	-	-
New assets acquired or purchased	10 395	-	-	-	**10 395**	**-**
Net expense from charge for (income from recovery of) allowance for expected credit losses	(4 079)	5 929	25 380	-	**27 230**	**14 592**
Reversal of the allowance due to disposal of loans	(2 567)	(1 402)	(8 260)	-	**(12 229)**	**-**
Releasing a discount in relation to the present value of an ECL	-	-	5 568	-	**5 568**	**-**
Amounts written-off as non-recoverable during the period	-	-	(15 160)	-	**(15 160)**	**(21 341)**
Loans and advances to customers sold during the period as non-recoverable	-	-	-	-	**-**	**-**
Total allowance for expected credit losses on car loans as of December 31	**13 820**	**5 976**	**60 367**	**-**	**80 163**	**37 243**

10 Loans and Advances to Customers (continued)

Below is an analysis of changes in allowance for expected credit losses on consumer loans to VIP clients during 2018 and 2017:

(In thousands of Russian roubles)	12-month expected credit losses	Lifetime expected credit losses – non-impaired assets	Lifetime expected credit losses - impaired assets	Purchased or originated credit-impaired assets	**For the year ended December 31, 2018**	**For the year ended December 31, 2017**
Allowance for expected credit losses on consumer loans to VIP clients at January 1	**43 957**	**-**	**1 501 659**	**-**	**1 545 616**	**611 299**
Transfer to 12-month credit losses	-	-	-	-	-	-
Transfer to lifetime expected credit losses – non-impaired assets	-	-	-	-	-	-
Transfer to lifetime expected credit losses - impaired assets	(964)	-	964	-	-	-
New assets acquired or purchased	50 576	-	-	-	**50 576**	**-**
Net expense from charge for (income from recovery of) allowance for expected credit losses	2 886	-	352 027	-	**354 913**	**935 053**
Reversal of the allowance due to disposal of loans	(14 070)	-	(42 975)	-	**(57 045)**	**-**
Releasing a discount in relation to the present value of an ECL	-	-	51 724	-	**51 724**	**-**
Amounts written-off as non-recoverable during the period	-	-	(269 618)	-	**(269 618)**	**(131 310)**
Loans and advances to customers sold during the period as non-recoverable	-	-	(24 158)	-	**(24 158)**	**-**
Total allowance for expected credit losses on consumer loans to VIP clients as of December 31	**82 385**	**-**	**1 569 623**	**-**	**1 652 008**	**1 415 042**

10 Loans and Advances to Customers (continued)

Below is an analysis of changes in the allowance for expected credit losses on consumer loans during 2018 and 2017:

(In thousands of Russian roubles)	12-month expected credit losses	Lifetime expected credit losses – non-impaired assets	Lifetime expected credit losses - impaired assets	Purchased or originated credit-impaired assets	**For the year ended December 31, 2018**	**For the year ended December 31, 2017**
Provision for expected credit losses on consumer loans at January 1	**221 467**	**33 673**	**883 288**	**-**	**1 138 428**	**912 228**
Transfer to 12-month credit losses	26 588	(4 700)	(21 888)	-	-	-
Transfer to lifetime expected credit losses – non-impaired assets	(1 482)	2 835	(1 353)	-	-	-
Transfer to lifetime expected credit losses - impaired assets	(4 147)	(20 452)	24 599	-	-	-
New assets acquired or purchased	126 381	-	-	-	**126 381**	**-**
Net expense from charge for (income from recovery of) allowance for expected credit losses	(111 798)	67 398	347 193	-	**302 793**	**197 272**
Reversal of the allowance due to disposal of loans	(67 164)	(4 314)	(52 231)	-	**(123 709)**	**-**
Releasing a discount in relation to the present value of an ECL	-	-	150 245	-	**150 245**	**-**
Amounts written-off as non-recoverable during the period	-	-	(119 940)	-	**(119 940)**	**(156 866)**
Loans and advances to customers sold during the period as non-recoverable	-	-	(75 653)	-	**(75 653)**	**(40 181)**
Total allowance for expected credit losses on consumer loans as of December 31	**189 845**	**74 440**	**1 134 260**	**-**	**1 398 545**	**912 453**

10 Loans and Advances to Customers (continued)

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

	2018		2017	
(In thousands of Russian roubles)	**Amount**	**%**	**Amount**	**%**
Individuals	89 736 322	23.9	75 805 832	21.2
Construction	40 348 431	10.8	48 814 115	13.6
Real estate	39 535 978	10.5	33 385 845	9.3
Trade	38 077 446	10.1	40 591 842	11.3
Heavy machinery and ship building	31 265 466	8.3	22 682 774	6.3
Leasing and financial services	26 588 470	7.1	23 742 738	6.6
Production and food industry	26 288 336	7.0	28 149 787	7.9
Oil and gas extraction and transportation	24 715 300	6.6	24 748 113	6.9
Entities financed by the government	20 594 945	5.5	12 052 542	3.4
Transport	12 143 785	3.2	11 575 912	3.2
Sports and health and entertainment organisations	6 790 473	1.8	7 306 273	2.0
Telecommunications	3 671 459	1.0	8 535 370	2.4
Chemical industry	1 736 826	0.5	2 651 539	0.7
Energy	1 658 732	0.4	3 445 199	1.0
Other	12 131 897	3.3	14 222 561	4.2
Gross carrying amount of loans and advances to customers	**375 283 866**	**100.0**	**357 710 442**	**100.0**

As at December 31, 2018, the aggregate amount of loans of the 20 largest groups of borrowers of the Group is RR 117 743 616 thousands (2017: RR 101 487 470 thousands), which is 31.4% (2017: 28.4%) of the loan portfolio before deduction of allowance for expected credit losses.

As at December 31, 2018 in a case of changing the amount of expected credit losses by 1% the effect on the profit before taxes would be RR 365 003 thousands (December 31, 2017: RR 394 945 thousands)

10 Loans and Advances to Customers (continued)

The table below presents an analysis of loans and advances to customers, measured at amortised cost, by credit quality and by corresponding allowance for expected credit losses as of December 31, 2018:

(In thousands of Russian roubles)	12-month expected credit losses	Lifetime expected credit losses – non-impaired assets	Lifetime expected credit losses - impaired assets	Purchased or originated credit -impaired assets	Total
Loans and advances to corporate customers:					
Minimal credit risk	89 831 910	472 601	-	-	90 304 511
Low credit risk	73 991 344	17 180 732	-	-	91 172 076
Medium credit risk	42 668 272	16 324 537	-	-	58 992 809
High credit risk	-	7 762 658	-	-	7 762 658
Default loans	-	-	34 134 374	2 086 536	36 220 910
Total gross carrying amount of loans and advances to corporate customers	**206 491 526**	**41 740 528**	**34 134 374**	**2 086 536**	**284 452 964**
Allowance for expected credit losses	**(4 369 855)**	**(3 575 186)**	**(24 246 074)**	**(594 992)**	**(32 786 107)**
Total loans and advances to corporate customers	**202 121 671**	**38 165 342**	**9 888 300**	**1 491 544**	**251 666 857**
Loans to individuals:					
Not past due	84 217 775	-	771 028	-	84 988 803
Overdue:					
- less than 30 days	830 939	47 507	10 914	-	889 360
- from 31 to 90 days	-	408 755	60 620	-	469 375
- more than 90 days	-	-	3 388 784	-	3 388 784
Total gross carrying amount of loans to individuals	**85 048 714**	**456 262**	**4 231 346**	**-**	**89 736 322**
Allowance for expected credit losses	**(364 093)**	**(136 553)**	**(3 213 527)**	**-**	**(3 714 173)**
Total loans to individuals	**84 684 621**	**319 709**	**1 017 819**	**-**	**86 022 149**
Total loans and advances to customers at amortised cost	**286 806 292**	**38 485 051**	**10 906 119**	**1 491 544**	**337 689 006**

10 Loans and Advances to Customers (continued)

The table below presents an analysis of loans and advances to customers, measured at amortised cost, by credit quality and by corresponding allowance for expected credit losses as of December 31, 2018:

(In thousands of Russian roubles)	12-month expected credit losses	Lifetime expected credit losses – non-impaired assets	Lifetime expected credit losses - impaired assets	Purchased or originated credit-impaired assets	**Total**
Loans to finance working capital					
Minimal credit risk	66 933 428	472 601	-	-	67 406 029
Low credit risk	47 188 457	4 233 480	-	-	51 421 937
Medium credit risk	14 229 712	7 016 903	-	-	21 246 615
High credit risk	-	2 247 155	-	-	2 247 155
Default loans	-	-	23 122 344	1 088 173	24 210 517
Total gross carrying amount of loans to finance working capital	**128 351 597**	**13 970 139**	**23 122 344**	**1 088 173**	**166 532 253**
Allowance for expected credit losses	**(2 170 524)**	**(952 036)**	**(16 606 543)**	**(102 141)**	**(19 831 244)**
Total loans to customers to finance working capital	**126 181 073**	**13 018 103**	**6 515 801**	**986 032**	**146 701 009**
Invesment loans					
Minimal credit risk	3 624 897	-	-	-	3 624 897
Low credit risk	26 503 558	12 947 252	-	-	39 450 810
Medium credit risk	28 408 986	9 307 634	-	-	37 716 620
High credit risk	-	5 515 503	-	-	5 515 503
Default loans	-	-	10 019 573	998 363	11 017 936
Total gross carrying amount of investment loans to customers	**58 537 441**	**27 770 389**	**10 019 573**	**998 363**	**97 325 766**
Allowance for expected credit losses	**(2 149 527)**	**(2 623 150)**	**(6 648 154)**	**(492 851)**	**(11 913 682)**
Total investment loans to customers	**56 387 914**	**25 147 239**	**3 371 419**	**505 512**	**85 412 084**
Loans to entities financed by government					
Minimal credit risk	19 273 585	-	-	-	19 273 585
Low credit risk	299 329	-	-	-	299 329
Medium credit risk	29 574	-	-	-	29 574
High credit risk	-	-	-	-	-
Default loans	-	-	992 457	-	992 457
Total gross carrying amount of loans to entities financed by government	**19 602 488**	**-**	**992 457**	**-**	**20 594 945**
Allowance for expected credit losses	**(49 804)**	**-**	**(991 377)**	**-**	**(1 041 181)**
Total loans to entities financed by the government	**19 552 684**	**-**	**1 080**	**-**	**19 553 764**

10 Loans and Advances to Customers (continued)

(In thousands of Russian roubles)	12-month expected credit losses	Lifetime expected credit losses – non-impaired assets	Lifetime expected credit losses - impaired assets	Purchased or originated credit-impaired assets	**Total**
Mortgage loans					
Not past due	57 934 148	-	166 893	-	58 101 041
Overdue:					
- less than 30 days	584 185	43 347	6 721	-	634 253
- from 31 to 90 days	-	232 015	54 983	-	286 998
- more than 90 days	-	-	955 750	-	955 750
Total gross carrying amount of mortgage loans to customers	**58 518 333**	**275 362**	**1 184 347**	**-**	**59 978 042**
Allowance for expected credit losses	**(78 043)**	**(56 137)**	**(449 277)**	**-**	**(583 457)**
Total mortgage loans to customers	**58 440 290**	**219 225**	**735 070**	**-**	**59 394 585**
Car loans					
Not past due	3 379 624	-	1 879	-	3 381 503
Overdue:					
- less than 30 days	41 898	1 093	-	-	42 991
- from 31 to 90 days	-	22 220	374	-	22 594
- more than 90 days	-	-	92 577	-	92 577
Total gross carrying amount of car loans to customers	**3 421 522**	**23 313**	**94 830**	**-**	**3 539 665**
Allowance for expected credit losses	**(13 820)**	**(5 976)**	**(60 367)**	**-**	**(80 163)**
Total car loans and advances to customers	**3 407 702**	**17 337**	**34 463**	**-**	**3 459 502**
Consumer loans to VIP clients					
Not past due	3 596 443	-	576 095	-	4 172 538
Overdue:					
- less than 30 days	-	-	-	-	-
- from 31 to 90 days	-	-	-	-	-
- more than 90 days	-	-	1 208 582	-	1 208 582
Total gross carrying amount of consumer loans to VIP clients	**3 596 443**	**-**	**1 784 677**	**-**	**5 381 120**
Allowance for expected credit losses	**(82 385)**	**-**	**(1 569 623)**	**-**	**(1 652 008)**
Total consumer loans and advances to VIP clients	**3 514 058**	**-**	**215 054**	**-**	**3 729 112**
Consumer loans					
Not past due	19 307 560	-	26 161	-	19 333 721
Overdue:					
- less than 30 days	204 856	3 067	4 193	-	212 116
- from 31 to 90 days	-	154 520	5 263	-	159 783
- more than 90 days	-	-	1 131 875	-	1 131 875
Total gross carrying amount of consumer loans to customers	**19 512 416**	**157 587**	**1 167 492**	**-**	**20 837 495**
Allowance for expected credit losses	**(189 845)**	**(74 440)**	**(1 134 260)**	**-**	**(1 398 545)**
Total consumer loans to customers	**19 322 571**	**83 147**	**33 232**	**-**	**19 438 950**

10 Loans and Advances to Customers (continued)

The table below shows the analysis of loans and advances to customers by credit quality and by related allowances for impairment as of December 31, 2017:

(In thousands of Russian roubles)	**Gross loans and advances to customers**	**Allowance for impairment**	**Net loans and advances to customers**	**Allowance for impairment to loans and advances to customers, %**
Loans and advances to corporate customers:				
Loans collectively assessed for impairment, not individually impaired	223 426 711	(7 459 635)	215 967 076	3,34
Standard loans not past due				
Watch list loans not past due	11 055 138	(948 109)	10 107 029	8,58
Individually assessed loans, for which specific indications of impairment have been identified				
Not past due	29 865 811	(16 799 960)	13 065 851	56,25
Overdue:				
- less than 5 calendar days	253 973	(110 001)	143 972	43,31
- from 6 to 30 calendar days	130 000	(13 000)	117 000	10,00
- from 31 to 60 calendar days	60 775	(33 462)	27 313	55,06
- from 61 to 90 calendar days	724 090	(373 811)	350 279	51,62
- from 91 to 180 calendar days	1 361 767	(391 928)	969 839	28,78
- from 181 to 365 calendar days	6 409 157	(4 755 362)	1 653 795	74,20
- more than 365 calendar days	8 617 188	(5 780 500)	2 836 688	67,08
Total loans and advances to corporate customers	**281 904 610**	**(36 665 768)**	**245 238 842**	**13,01**
Loans to individuals:				
- mortgage loans	54 066 689	(464 026)	53 602 663	0,86
- car loans	2 101 129	(37 243)	2 063 886	1,77
- consumer loans to VIP clients	4 634 127	(1 415 042)	3 219 085	30,54
- other consumer loans	15 003 887	(912 453)	14 091 434	6,08
Total loans to individuals	**75 805 832**	**(2 828 764)**	**72 977 068**	**3,73**
Total loans and advances to customers	**357 710 442**	**(39 494 532)**	**318 215 910**	**11,04**

10 Loans and Advances to Customers (continued)

(In thousands of Russian roubles)	Mortgage loans	Car loans	Consumer loans to VIP customers	Other consumer loans	Total loans to individuals
Loans to individuals:					
Standard loans not past due	52 994 790	1 998 214	3 190 434	14 022 382	72 205 820
Overdue:					
- less than 5 calendar days	44 039	3 939	-	2 681	50 659
- from 6 to 30 calendar days	99 987	6 480	-	36 370	142 837
- from 31 to 60 calendar days	79 858	2 824	188 100	28 694	299 476
- from 61 to 90 calendar days	70 518	4 551	-	27 960	103 029
- from 91 to 180 calendar days	121 783	4 438	546 863	77 923	751 007
- from 181 to 365 calendar days	191 495	12 283	199 662	118 478	521 918
- more than 365 calendar days	464 219	68 400	509 068	689 399	1 731 086
Total loans to individuals (before allowance for impairment)	**54 066 689**	**2 101 129**	**4 634 127**	**15 003 887**	**75 805 832**
Allowance for impairment	**(464 026)**	**(37 243)**	**(1 415 042)**	**(912 453)**	**(2 828 764)**
Total loans to individuals (after allowance for impairment)	**53 602 663**	**2 063 886**	**3 219 085**	**14 091 434**	**72 977 068**

As at December 31, 2018, loans and advances to customers are divided by credit quality into five categories of credit risk according to IFRS 9:

• Minimal credit risk - the probability of timely repayment of debt is high, a slight probability of a default.

• Low credit risk - the probability of timely repayment of debt is high, the low probability of default.

• Medium credit risk - the probability of timely repayment of debt is high, but there is a vulnerability in the presence of adverse commercial, financial and economic conditions.

• High credit risk - the possibility of timely repayment of debt depends on favorable commercial, financial and economic conditions.

• Default loans - assets with signs of credit impairment.

10 Loans and Advances to Customers (continued)

The following table provides information on the financial assets that were modified when the allowance for losses was estimated to be equal to the ECL for the entire term.

(In thousands of Russian roubles)	**2018**
Financial assets modified during the year	
Amortised cost before modification	5 894 728
Net loss from modification	(352 272)
Financial assets modified from initial recognition	
The gross carrying amount at December 31 for financial assets for which the estimated allowance for losses was changed during 2018 and was estimated at an amount equal to the 12-month ECL	-

Mortgage loans are secured by respective real estate. The amount of loans provided for the purchase of housing does not exceed 85% of the value of the acquired property. Car loans are secured by respective cars.

As at December 31, 2018, net carrying amount of credit-impaired corporate loans amounted to RR 11 379 844 thousands, and the value of collateral (mainly commercial real estate) available for these loans amounted to RR 19 290 001 thousands. For each loan, the value of the collateral is limited to the maximum nominal amount of the loan originated.

	2018	
(In thousands of Russian roubles)	**Net carrying amount**	**Collateral (mostly commercial real estate)**
Loans to corporate customers		
Loans to finance working capital	7 501 833	14 340 403
Invesment loans	3 876 931	4 803 152
Loans to entities financed by government	1 080	146 446
Total	**11 379 844**	**19 290 001**

Loans to corporate customers include non-collateralized loans amounted RR 3 854 852 thousand.

The table below provides information on credit-impaired loans to individuals, taking into account the relationship between the loan amount and the value of the collateral ("LTV"). The LTV ratio is calculated as the ratio of the gross carrying amount of the loan to the value of collateral. Valuation of the collateral excludes any costs associated with the receipt and sale of this collateral. For credit-impaired loans, the value of the collateral is determined based on the most recent estimates.

(In thousands of Russian roubles)			**2018**		
	Gross carrying amount	Mortgage loans	Car loans	Consumer loans to VIP clients	Other consumer loans
Credit-impaired loans to individuals					
Loans to collateral (LTV)					
< 50%	946 647	274 119	16 622	608 900	47 006
51-70%	554 010	302 417	21 617	222 179	7 797
> 70%	2 730 689	607 811	56 591	953 598	1 112 689
Total	**4 231 346**	**1 184 347**	**94 830**	**1 784 677**	**1 167 492**

10 Loans and Advances to Customers (continued)

Consumer loans to VIP clients with LTV > 70% amounted RR 953 598 thousands consist from loans amounted to RR 628 569 thousands without collateral and other consumer loans with LTV > 70% amounted to RR 1 112 689 thousands consist from loans amounted RR 1 074 620 thousands without collateral.

Below are the main factors for changing the allowance for expected credit losses during 2018:

	Effect: increase (decrease) in allowance for expected credit losses		
(In thousands of Russian roubles)	Stage 1	Stage 2	Stage 3
Loans to finance working capital:			
Increase in the gross book amount of loans originated during the year amounted to RR 75 536 490 thousand	1 018 940		
Changes in credit quality of loans during the year amounted RR 90 995 763 thousand	(1 578 973)	(532 573)	7 376 925
Write-off of the portfolio amounted to RR 4 963 685 thousand, following the recognition as non-recoverable			(4 963 685)
The loan portfolio sold amounted to RR 792 823 thousand, following the recognition as non-recoverable			(792 823)
Invesment loans:			
Increase in the gross book amount of loans originated during the year amounted to RR 23 866 159 thousand	913 408	-	-
Changes in credit quality of loans during the year amounted RR 73 459 607 thousand	(1 644 725)	(314 299)	1 931 979
Write-off of the portfolio amounted to RR 1 446 197 thousand, following the recognition as non-recoverable	-	-	(1 446 197)
The loan portfolio sold amounted to RR 5 252 thousand, following their recognition as non-recoverable	-	-	(5 252)
Mortgage loans:			
Increase in the gross book amount of loans originated during the year amounted to RR 22 006 916 thousand	29 736	-	-
Changes in credit quality of loans during the year amounted RR 37 971 126 thousand	(59 585)	8 169	227 355
Write-off of the portfolio amounted to RR 19 48 thousand, following the recognition as non-recoverable.	-	-	(19 048)
The loan portfolio sold amounted to RR 15 957 thousand, after the recognition of as non-recoverable	-	-	(15 957)

As at December 31, 2018, the Group has mortgage loans in the amount of RR 1 737 275 thousands (2017: RR 2 761 089 thousands) transferred to the mortgage agent "MA BSPB" LLC, a structured company founded for the financing purposes. As at December 31, 2018, such mortgage loans are pledged as collateral for the mortgage secured bonds with the gross book amount of RR 1 447 430 thousands issued by the mortgage agent, of which bonds with the carrying amount of RR 1 056 497 thousands were repurchased by the Bank (2017: carrying amount of RR 2 522 274 thousands issued by the mortgage agent, of which bonds with the carrying amount of RR 1 837 631 thousands were repurchased by the Bank). Refer to Note 18.

As at December 31, 2018, the Group has mortgage loans in the amount of RR 7 228 378 thousand (2017: none) and additional credit support in the amount of 1 104 060 thousand rubles (2017: none), transferred to the mortgage agent "MA BSPB 2" LLC, a structured company founded for the financing purposes. As at December 31, 2018, such mortgage loans and additional credit support are pledged as collateral for the mortgage secured bonds with the carrying amount of RR 7 601 137 thousand issued by the mortgage agent (2017: none). Refer to Note 18.

As at December 31, 2018 loans and advances to customers include loans at fair value held by the Group to maturity.

Analysis of loans and advances to customers by currency structure and maturity is presented in Note 30. Analysis of interest rates on loans and advances to customers is presented in Note 30. Information on the fair value of loans and advances to customers is presented in Note 33. Information on related party transactions is presented in Note 34.

11 Investment Securities, including Securities Pledged under Sale and Repurchase Agreements

(In thousands of Russian roubles)	2018	2017
Debt investment securities measured at fair value through other comprehensive income		
Corporate bonds	5 106 864	14 416 675
Municipal bonds	430 192	5 483 398
Federal loan bonds	25 497	151 410
Corporate Eurobonds	-	1 659 604
Debt investment securities measured at fair value through other comprehensive income, pledged under sale and repurchased agreements		
Corporate bonds	15 149 465	15 822 748
Municipal bonds	4 136 036	-
Corporate Eurobonds	4 135 214	10 351 581
Federal loan bonds	-	263 616
Total debt investment securities measured at fair value through other comprehensive income	**28 983 268**	**48 149 032**
Equity securities	872 519	801 687
Total investment securities measured at fair value through other comprehensive income	**29 855 787**	**48 950 719**
Debt investment securities measured at amortised cost		
Corporate bonds	4 827 064	-
Corporate Eurobonds	1 957 239	-
Debt investment securities measured at amortised cost, pledged under sale and repurchased agreements		
Corporate Eurobonds	12 044 636	-
Corporate bonds	8 143 920	-
Allowance for expected credit losses	(56 237)	-
Total debt investment securities measured at amortised cost	**26 916 622**	**-**
Total investment securities including securities, pledged under sale and repurchased agreements	**56 772 409**	**48 950 719**

11 Investment Securities, including Securities Pledged under Sale and Repurchase Agreements (continued)

Debt investment securities, measured at fair value through other comprehensive income, are divided by credit risk level based on averaging the values of issuers' credit ratings (if there are no credit ratings of debt securities issues) assigned by international rating agencies Moody's, S&P and Fitch (in the absence of ratings from international rating agencies, for Russian issuers ratings from ACRA are used).

The following is an analysis of debt investment securities measured at fair value through other comprehensive income, including those pledged under sale and repurchased agreements as of December 31, 2018:

(In thousands of Russian roubles)	12-month expected credit losses	Lifetime expected credit losses – non-impaired assets	Lifetime expected credit losses - impaired assets	Total
Debt investment securities measured at fair value through other comprehensive income				
Group A	3 829 040	-	-	3 829 040
Group B	952 479	-	-	952 479
Group C	437 715	-	-	437 715
Group D	145 211	198 108	-	343 319
Total debt investment securities measured at fair value through other comprehensive income	**5 364 445**	**198 108**	**-**	**5 562 553**
Debt investment securities measured at fair value through other comprehensive income, pledged under sale and repurchase agreements				
Group A	8 790 568	-	-	8 790 568
Group B	14 630 147	-	-	14 630 147
Total debt investment securities measured at fair value through other comprehensive income, pledged under sale and repurchased agreements	**23 420 715**	**-**	**-**	**23 420 715**
Total debt investment securities, including securities pledged under sale repurchased agreements	**28 785 160**	**198 108**	**-**	**28 983 268**
Allowance for expected credit losses	**(69 991)**	**(6 984)**	**-**	**(76 975)**

For definition of groups refer to Note 7.

11 Investment Securities, including Securities Pledged under Sale and Repurchased Agreements (continued)

Below is an analysis of available-for-sale debt investment securities, including pledged under sale and repurchased agreements, by credit quality as of December 31, 2017:

(In thousands of Russian roubles)	Corporate bonds	Municipal bonds	Corporate Eurobonds	Federal loan bonds	Total
Investment securities available-for-sale					
Not overdue or impaired					
Group A	491 324	-	-	-	491 324
Group B	12 872 062	5 313 745	1 659 604	151 410	19 996 821
Group C	479 779	67 232	-	-	547 011
Group D	573 510	102 421	-	-	675 931
Total debt investment securities available-for-sale	**14 416 675**	**5 483 398**	**1 659 604**	**151 410**	**21 711 087**
Investment securities available-for-sale, pledged under sale and repurchased agreements					
Not overdue or impaired					
Group B	15 679 410	-	10 351 581	263 616	26 294 607
Group D	143 338	-	-	-	143 338
Total debt investment securities available-for-sale, pledged under sale and repurchased agreements	**15 822 748**	**-**	**10 351 581**	**263 616**	**26 437 945**
Total debt investment securities available-for-sale, including securities pledged under sale and repurchased agreements	**30 239 423**	**5 483 398**	**12 011 185**	**415 026**	**48 149 032**

Below is an analysis of changes in the allowance for expected credit losses of debt investment securities measured at fair value through other comprehensive income during the periods of 2018 and 2017:

(In thousands of Russian roubles)	12-month expected credit losses	Lifetime expected credit losses – non-impaired assets	Lifetime expected credit losses – impaired assets	Purchased or originated credit-impaired assets	**For the year ending December 31, 2018**	**For the year ending December 31, 2017**
Allowance for expected credit losses at January 1	**135 913**	**21 614**	**-**	**-**	**157 527**	**-**
New assets acquired or purchased	5 976	-	-	-	**5 976**	**-**
Net income from recovery of allowance for ECL	(38 956)	(12 979)	-	-	**(51 935)**	**-**
Reversal of the allowance due to disposal of securities	(32 942)	(1 651)	-	-	**(34 593)**	**-**
Total allowance for expected credit losses at December 31	**69 991**	**6 984**	**-**	**-**	**76 975**	**-**

11 Investment Securities, including Securities Pledged under Sale and Repurchased Agreements (continued)

Below is an analysis of debt investment securities measured at amortised cost, including pledged under sale and repurchased agreements, by credit quality as of December 31, 2018:

(In thousands of Russian roubles)	12-month expected credit losses	Lifetime expected credit losses – non-impaired assets	Lifetime expected credit losses – impaired assets	Total
Debt investment securities measured at amortised cost				
Group A	4 503 499	-	-	4 503 499
Group B	2 280 804	-	-	2 280 804
Total debt investment securities measured at amortised cost	**6 784 303**	**-**	**-**	**6 784 303**
Debt investment securities measured at amortised cost, pledged under sale and repurchased agreements				
Group A	6 768 314	-	-	6 768 314
Group B	13 420 242	-	-	13 420 242
Total debt investment securities, measured at amortised cost, pledged under sale and repurchased agreements	**20 188 556**	**-**	**-**	**20 188 556**
Allowance for expected credit losses	**(56 237)**	**-**	**-**	**(56 237)**
Total debt investment securities measured at amortised cost, including securities pledged under sale and repurchased agreements	**26 916 622**	**-**	**-**	**26 916 622**

Below is an analysis of changes in the allowance for expected credit losses of debt investment securities, measured at amortised cost during 2018 and 2017:

(In thousands of Russian Roubles)	12-month expected credit losses	Lifetime expected credit losses – non-impaired assets	Lifetime expected credit losses – impaired assets	Purchased or originated credit-impaired assets	**For the year ending December 31, 2018**	**For the year ending December 31, 2017**
Allowance for expected credit losses at January 1	**-**	**-**	**-**	**-**	**-**	**-**
New assets acquired or purchased	56 237	-	-	-	**56 237**	**-**
Total allowance for expected credit losses at December 31	**56 237**	**-**	**-**	**-**	**56 237**	**-**

11 Investment Securities, including Securities Pledged under Sale and Repurchased Agreements (continued)

The table below presents a reconciliation of significant changes in the gross book amount of debt securities measured at fair value through other comprehensive income, including those pledged under sale and repurchased agreements as at December 31, 2018:

(In thousands of Russian roubles)	12-month expected credit losses	Lifetime expected credit losses – non-impaired assets	Lifetime expected credit losses - impaired assets	Purchased or originated credit-impaired assets	**Total**
Balance at January 1	**47 030 220**	**1 118 812**	**-**	**-**	**48 149 032**
New assets acquired or purchased	2 427 368	-	-	-	2 427 368
Disposal of securities	(20 414 476)	(919 561)	-	-	(21 334 037)
Other changes	(257 952)	(1 143)	-	-	(259 095)
Total balance of gross book amount of debt securities measured at fair value through other comprehensive income at 31 December	**28 785 160**	**198 108**	**-**	**-**	**28 983 268**

The table below presents a reconciliation of significant changes in the gross book amount of debt securities measured at amortised cost, including those pledged under sale and repurchased agreements as at December 31, 2018:

(In thousands of Russian roubles)	12-month expected credit losses	Lifetime expected credit losses – non-impaired assets	Lifetime expected credit losses - impaired assets	Purchased or originated credit-impaired assets	**Total**
Balance at January 1	**-**	**-**	**-**	**-**	**-**
New originated or acquired financial assets	26 972 859	-	-	-	26 972 859
Total balance of gross book amount of debt securities measured at amortised cost at December 31	**26 972 859**	**-**	**-**	**-**	**26 972 859**

Analysis of investment securities by currency structure, maturity and interest rate analysis is presented in Note 30.

12 Investment Property

(In thousands of Russian roubles)	2018	2017
Land	5 607 819	6 252 087
Premises	3 157 414	2 247 811
Impairment loss	(1 350 458)	(332 059)
Accumulated depreciation	(102 843)	(64 842)
Total investment property	**7 311 932**	**8 102 997**

Investment property is a land, as well as a building.

Below is information about changes in investment property:

(In thousands of Russian roubles)	2018	2017
Carrying amount before accumulated depreciation as at January 1	**8 167 839**	**5 754 543**
Transfers and disposals	265 335	2 673 443
Impairment loss	(1 018 399)	(260 147)
Carrying amount before accumulated depreciation as at December 31	**7 414 775**	**8 167 839**

The fair value of investment property as at December 31, 2018 and December 31, 2017 does not differ significantly from its carrying amount.

The estimates of fair values of investment property of the Group are obtained from an independent appraiser, who has experience in valuation of investment property of similar location and category. The fair value is assessed using the sales comparison approach, i.e. comparison with other premises that were sold or are offered for sale. The fair value estimate of investment property is classified to Level 3 of hierarchy.

13 Premises, Equipment and Intangible Assets

(In thousands of Russian roubles)	Note	Premises	Office and computer equipment	Construc-tion in progress	Intan-gible assets	Total
Cost as at January 1, 2017		12 723 648	4 310 244	277 837	426 473	17 738 202
Accumulated depreciation		(570 230)	(2 708 202)	-	(154 790)	(3 433 222)
Net book value as at January 1, 2017		**12 153 418**	**1 602 042**	**277 837**	**271 683**	**14 304 980**
Acquisition of subsidiaries		468 328	241 335	14 775	2 203	726 641
Additions		131 756	532 897	38 959	224 408	928 020
Transfers between categories		138 900	155 126	(294 026)	-	-
Disposals		(23 381)	(10 826)	-	-	(34 207)
Depreciation charges	25	(299 215)	(598 828)	-	(121 477)	(1 019 520)
Impairment		(205 831)	-	-	-	(205 831)
Allowance for impairment		(29 487)	-	-	-	(29 487)
Net book value as at December 31, 2017		**12 334 488**	**1 921 746**	**37 545**	**376 817**	**14 670 596**
Cost as at December 31, 2017		12 372 637	5 088 595	37 545	653 084	18 151 861
Accumulated depreciation		(38 149)	(3 166 849)	-	(276 267)	(3 481 265)
Net book value as at December 31, 2017		**12 334 488**	**1 921 746**	**37 545**	**376 817**	**14 670 596**
Additions		16 433	515 440	70 725	133 982	736 580
Transfers between categories		5 978	46 991	(52 969)	-	-
Disposals		(49 389)	(18 941)	-	(90 172)	(158 502)
Accumulated depreciation	25	(296 624)	(656 855)	-	(112 340)	(1 065 819)
Net book value as at December 31, 2018		**12 010 886**	**1 808 381**	**55 301**	**308 287**	**14 182 855**
Cost as at December 31, 2018		12 344 700	5 447 717	55 301	696 885	18 544 603
Accumulated depreciation		(333 814)	(3 639 336)	-	(388 598)	(4 361 748)
Net book value as at December 31, 2018		**12 010 886**	**1 808 381**	**55 301**	**308 287**	**14 182 855**

Construction in progress in 2018 is mainly a re-equipment of the premises of branches and outlets.

The fair value of premises was estimated as of December 31, 2017 by an independent firm of professional appraisers. The basis of evaluation for most of the objects was the method of comparative sales, for one object - the method of direct capitalisation of income, for several objects - the cost method.

13 Premises, Equipment and Intangible Assets (continued)

When applying the method of direct capitalisation, cash flow models from the rental of the estimated object were used with the following key factors:

• the level of underutilisation of typical and specific offices in the range from 0% to 9%;

• the value of the cost of maintaining the object from 17.7% to 18.7% of gross income;

• the period of the rebuilding (once in 30-40 years) and the necessary amount of costs (from 20% to 30% of the carrying amount);

• capitalisation rate (from 8.4% to 12%).

Obtaining of the final value of the object was carried out on the basis of a quantitative assessment of the risk models using the Monte Carlo method.

As at December 31, 2018, the carrying amount includes the revaluation of premises of the Group in the total amount of RR 4 564 317 thousand (2017: RR 4 564 317 thousand), for which a deferred tax liability of RR 912 862 thousand (2017: RR 912 862 thousand) was recognised. The estimate of the fair value of premises relates to the Level 3 hierarchy.

If the Group's premises were reflected at the acquisition cost less accumulated depreciation, their carrying amount as at December 31, 2018 would be RR 8 409 003 thousand (2017: RR 8 611 255 thousand).

14 Other Assets

(In thousands of Russian roubles)	**Note.**	**2018**	**2017**
Plastic cards receivables		1 504 515	994 475
Overdue guarantee receivables		800 649	1 335 673
Settlements of real estate sales		813 519	571 364
Settlement of securities transactions		880 000	13 834
Allowance for expected credit losses		(418 269)	(804 117)
Total financial assets		**3 580 414**	**2 111 229**
Receivables and advances		653 245	516 008
Deferred expenses		1 015 101	888 386
Rent receivables		91 261	83 129
Prepaid taxes other than income tax		86 308	104 620
Settlements on income tax		16 671	742 738
Deferred tax asset	26	148 919	-
Investments in associates		179 288	510 671
Other		1 265 240	747 524
Total non-financial assets		**3 456 033**	**3 593 076**
Total other assets		**7 036 447**	**5 704 305**

There are no individually impaired and overdue assets among financial assets of the Group, except for overdue guarantee receivables.

Accounts receivable and advance payments include payments made by the Group in respect of software and hardware, as well as prepayment of repairs to existing fixed assets.

Analysis of other assets by currency structure and maturity is presented in Note 30.

14 Other Assets (continued)

Below is an analysis of the change in the allowance for expected credit losses for receivables for overdue guarantees during 2018 and 2017:

(In thousands of Russian roubles)	12-month expected credit losses	Lifetime expected credit losses – non-impaired assets	Lifetime expected credit losses – impaired assets	Acquired or originated credit-impaired assets	**For the year ending December 31, 2018**	**For the year ending December 31, 2017**
Allowance for expected credit losses at January 1	**-**	**-**	**804 117**	**-**	**804 117**	**-**
New assets acquired or purchased	-	-	115 710	-	**115 710**	**-**
Net expense from creation of allowance for expected credit losses	-	-	243 332	-	**243 332**	**804 117**
Reversal of allowance as a result of the disposal of guarantees	-	-	(229 826)	-	**(229 826)**	**-**
Amounts written off during the period as uncollectible	-	-	(515 064)	-	**(515 064)**	**-**
Total allowance for expected credit losses at December 31	**-**	**-**	**418 269**	**-**	**418 269**	**804 117**

15 Long-Term Assets Held-For-Sale

(In thousands of Russian roubles)	**2018**	**2017**
Land	551 505	547 563
Property	53 801	47 296
Allowance for impairment	(194 904)	(48 846)
Total long-term assets held-for-sale	**410 402**	**546 013**

Long-term assets held-for-sale, mainly represented by objects owned by the Group by obtaining control over collateral for loans and advances to customers. The Group's policy is to sell these assets as soon as possible.

Analysis of long-term assets held for sale by currency structure is presented in Note 30.

16 Due to Banks

(In thousands of Russian roubles)	2018	2017
Securities sale and repurchase agreements	119 205 664	115 754 116
Term placements of banks	28 070 126	32 864 912
Correspondent accounts of banks	542 694	305 702
Total due to banks	**147 818 484**	**148 924 730**

As at December 31, 2018, the Group had 1 counterparty, the aggregate balances on deposits of which exceeded 10% of equity (2017: none). At December 31, 2018, the aggregate amount of funds raised from the specified counterparty was RR 10 004 245 thousand rubles (2017: none).

As at December 31, 2018, the banks' funds included agreements for the sale and repurchase of securities and for the return of collateral under securities loan agreements concluded with credit institutions in the amount of RR 119 205 664 thousand (2017: RR 115 754 116 thousand).

Securities transferred as collateral under these sale and repurchase agreements and lent are represented by securities:

from its own portfolio with a fair value of RR 93 470 326 thousand (2017: RR 73 549 639 thousand);

received by the Group under contracts for the purchase and reverse sale of securities (without initial recognition), the fair value of which is RR 36 514 509 thousand (2017: RR 54 714 192 thousand);

As at December 31, 2017, the sale and repurchase agreements for securities included those which were reclassified from trading securities into loans to banks with the carrying amount of RR 449 695 thousand.

The Group received a subordinated loan from the State Corporation “Deposit Insurance Agency”, under which the federal loan bonds with the fair value of RR 16 274 911 thousand (2017: RR 16 831 166 thousand) were transferred to the Group. As of December 31, 2018, these securities with the fair value of RR 3 679 163 thousand were pledged under sale and repurchased agreements with credit organisations (2017: RR 1 534 966 thousand).

Analysis of banks’ funds by currency structure and maturity is presented in Note 30. Analysis of interest rates on banks' funds is presented in Note 30.

17 Customer Accounts

(In thousands of Russian roubles)	2018	2017
State and public organisations		
- Current/settlement accounts	15	171
Other legal entities		
- Current/settlement accounts	61 527 231	56 902 164
- Term deposits	86 818 615	90 482 623
- Securities sale and repurchase agreements	9 345 969	-
Individuals		
- Current accounts/demand deposits	65 669 586	52 331 101
- Term deposits	183 427 417	153 256 089
Total customer accounts	**406 788 833**	**352 972 148**

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

As at December 31, 2018 and December 31, 2017, the Group had no counterparties, the total balances on accounts and deposits of which exceeded 10% of equity.

As at December 31, 2018, customer accounts included the securities sale and repurchase agreements of securities concluded with corporates in the amount of RR 9 345 969 thousand (2017: none).

As at December 31, 2018, securities transferred as collateral under these sale and repurchase agreements and lent were represented by securities:

The federal loan bonds with the fair value of RR 9 818 352 thousand received from the State Corporation “Deposit Insurance Agency” were pledged under securities sale and repurchase agreements with the Federal Treasury (2017: none);

received by the Group under contracts for purchase and reverse sale of securities (without initial recognition), the fair value of which amounted to RR 68 375 thousand (2017: none).

Economic sector concentrations within customer accounts are as follows:

	2018		2017	
(In thousands of Russian roubles)	Amount	%	Amount	%
Individuals	249 097 003	61.2	205 587 190	58.2
Construction	36 519 581	9.0	28 295 818	8.0
Trade	24 806 905	6.1	29 878 909	8.5
Manufacturing	19 888 282	4.9	18 857 713	5.3
Financial services	18 514 088	4.6	14 293 036	4.0
Real estate	18 510 774	4.6	18 888 438	5.4
Art, science and education	12 415 707	3.1	13 114 256	3.7
Transport	12 368 428	3.0	8 804 042	2.5
Public utilities	2 363 399	0.6	3 106 988	0.9
Communications	1 087 946	0.3	1 472 386	0.4
Medical institutions	752 213	0.2	782 253	0.2
Energy	535 146	0.1	1 164 663	0.3
Other	9 929 361	2.3	8 726 456	2.6
Total customer accounts	**406 788 833**	**100.0**	**352 972 148**	**100.0**

17 Customer Accounts (continued)

At December 31, 2018, deposits in the amount of RR 2 052 242 thousand, which represent a security for irrevocable guarantees obligations (2017: RR 5 841 691 thousand), as well as coverage on letters of credit in the amount of RR 3 760 279 thousand (2017: RR 9 459 843 thousand) are recognised in customer accounts.

The analysis of customer accounts by currency structure and maturity is presented in Note 30. The analysis of the interest rates of customer accounts is presented in Note 30.

Information on the fair value of customer accounts is presented in Note 33. Information on related party transactions is presented in Note 34.

18 Bonds Issued

(In thousands of Russian Roubles)	2018	2017
Subordinated eurobonds	5 814 473	6 453 249
Mortgage secured bonds issued by the mortgage agent	7 992 072	684 643
Total bonds issued	**13 806 545**	**7 137 892**

In October 2013 the Group placed 500 interest subordinated eurobonds denominated in US dollars (one bond - $ 200 000). The issue was arranged by JP Morgan and VTB Capital. This issue was registered on the Irish Stock Exchange. As of December 31, 2018, the carrying amount of these bonds amounted to $ 83,697 thousand, which is equivalent of RR 5 814 473 thousand (2017: $ 93 302 thousand, equivalent of RR 5 374 194 thousand). The maturity of subordinated bonds is April 22, 2019. The nominal coupon rate is 10.75% per annum, the effective interest rate is 11.28% per annum.

In October 2018, in a planned manner, interest subordinated eurobonds placed by the Group in October 2012, with face value in US dollars (one bond - 200 000 US dollars) in the amount of 505 pieces were redeemed. The issue was arranged by BNP Paribas and UBS. This issue was registered on the Irish Stock Exchange. As at December 31, 2017, the carrying amount of these bonds was $ 18 734 thousand, which was equal to RR 1 079 055 thousand, the nominal coupon rate was 11.00% per annum, and the effective interest rate was 5.69% per annum.

In the event of the Bank’s liquidation, the claims for redemption of subordinated eurobonds are subordinated to the claims of other creditors and depositors of the Bank.

In November 2016 mortgage agent “MA BSPB” LLC issued mortgage secured bonds with the total nominal value of RR 3 702 530 thousand. Bonds are secured by collateral, which includes Mortage loans and guarantee of JSC “AIZHK”. The coupon rate of the bonds is 9.8% and final contractual maturity is till 2043. As at December 31, 2018, the Bank purchased part of bonds issue with the nominal value of RR 1 056 495 thousand (2017: part of bonds issue with of the nominal value of RR 1 836 147 thousand were repurchased by the Bank).

In December 2018 mortgage agent “MA BSPB 2” LLC issued mortgage secured bonds with the total nominal value of RR 7 547 025 thousand. Bonds are secured by collateral, which includes mortgage loans. The coupon rate of the bonds is 9.35% and final contractual maturity is 2045. The Analytical Credit Rating Agency (ACRA) assigned the rating AAA (ru.sf). As of December 31, 2018, there are no bonds purchased by the Bank.

18 Bonds Issued (continued)

The final maturity of mortgage secured bonds may differ from the contractual one in the case of early repayment of mortgages pledged as security for these bonds.

An analysis of issued bonds by currency structure and maturity is presented in a Note 30.

Reconciliation of movements of liabilities to cash flows arising from financing activities

	Liabilities		Equity				
(In thousands of Russian roubles)	**Bonds issued**	**Other borrowed funds**	**Share capital**	**Share premium**	**Treasury shares**	**Retained earnigs**	**Total**
Balance as at January 1, 2018	**7 137 892**	**1 903 744**	**3 781 734**	**24 513 878**	-	**37 109 430**	**74 446 678**
Changes from financing cash flows							
Purchase of own shares	-	-	-	-	(659 991)	-	(659 991)
Repayment	(1 901 696)	(444 556)	-	-	-	-	(2 346 252)
Bond issue	7 601 137	-	-	-	-	-	7 601 137
Interest paid	(839 649	(100 358)	-	-	-	-	(940 007)
Dividends paid	-	-	-	-	-	(811 995)	(811 995)
Total changes from financing cash flows	**4 859 792**	**(544 914)**			(659 991)	**(811 995)**	**2 842 892**
Effect of changes in foreign currency rates	975 816	8 477	-	-	-	-	984 293
Interest expenses	833 045	98 412	-	-	-	-	931 457
Profit for the year	-	-	-	-		8 937 041	8 937 041
Other changes in equity Profit for the year	-	-	-	-	-	(2 330 986)	(2 330 986)
Balance as at December 31, 2018	**13 806 545**	**1 465 719**	**3 781 734**	**24 513 878**	**(659 991)**	**42 903 490**	**85 811 375**

19 Promissory Notes and Deposit Certificates Issued

(In thousands of Russian roubles)	2018	2017
Promissory notes	7 977 063	7 253 343
Deposit certificates	2	2
Total promissory notes and deposit certificates issued	**7 977 065**	**7 253 345**

Analysis of issued promissory notes and deposit certificates of deposit by structure of currencies and maturities is presented in Note 30. Analysis of the interest rates of issued promissory notes and deposit certificates is presented in Note 30.

20 Other Borrowed Funds

(In thousands of Russian roubles)	2018	2017
Subordinated loans	1 465 719	1 566 231
Funds from AKA AFK	-	337 513
Total other borrowed funds	**1 465 719**	**1 903 744**

As at December 31, 2018 and December 31, 2017, the Group had no counterparties (or groups of counterparties), the total balances on accounts and deposits of which individually exceeded 10% of equity.

In August 2009, the Group raised a subordinated loan from Vnesheconombank (VEB) in the amount of RR 1 466 000 thousand maturing in 2014. In December 2014, it was decided to extend the loan for the period up to December 27, 2019. As at December 31, 2018, the carrying amount of this loan amounted to RR 1 465 719 thousand (2017: RR 1 466 231 thousand). The loan was raised at the rate of 8.00% per annum; in August 2010, the interest rate was reduced to 6.50% per annum.

In February 2018, a subordinated loan of RR 100 000 thousand was repaid in a planned manner. As at December 31, 2017, the carrying amount of this subordinated loan was RR 100 000 thousand. This subordinated loan was raised at a fixed interest rate of 10.0% per annum.

In April 2018, the planned repayment of the last tranche of the credit line from AKA Ausfuhrkredit-Gesellschaft m.b.H was made in the amount of euro 4 880 thousand. The maturity date of the credit line is April 3, 2018. As of December 31, 2017, the carrying amount of all tranches of this loan was EUR 4 901 thousand, which is equivalent to RR 337 513 thousand. This loan was raised at the rate of EURIBOR + 1.75% per annum, as of December 31, 2017, the interest rate was 1.75% per annum.

In the event of the Bank's liquidation, claims for the repayment of subordinated loans is subordinated to the claims of other creditors and depositors of the Bank.

The Group must comply with certain special conditions related to the attraction of subordinated loans and funds from AKA Ausfuhrkredit-Gesellschaft m.b.H. Failure to comply with these special conditions may have negative consequences for the Group, including an increase in the cost of borrowed funds and a declaration of default (except for subordinated loans). The Group complied with all the special conditions of the loan agreements as at December 31, 2017.

Analysis of other borrowed funds by currency structure and maturity is presented in Note 30.

21 Other Liabilities

(In thousands of Russian roubles)	Note	2018	2017
Plastic cards payables		1 693 094	1 185 512
Accounts payable		103 191	58 422
Dividends payable	28	6 057	6 564
Fair value of guarantees and import letters of credit		1 404	49 427
Other		236 703	4 030
Total financial liabilities		**2 040 449**	**1 303 955**
Deferred tax liability	26	837 457	156 139
Accrued expenses		499 902	220 803
Amounts payable to employees		361 058	572 686
Allowance for credit and non-credit and non-financial commitments		299 298	206 421
Taxes payable other than income tax		162 887	140 569
Income tax payable		70 634	469 598
Other		565 935	514 828
Total non-financial liabilities		**2 797 171**	**2 281 044**
Total other liabilities		**4 837 620**	**3 584 999**

Reconciliation of the amount of allowance for credit and non-credit and non-financial commitments accrued in accordance with IAS 39 and allowance for expected credit losses accrued in accordance with IFRS 9 is presented in Note 5.

Below is an analysis of changes in the allowance for expected credit losses for credit and non-credit liabilities during 2018 and 2017:

(In thousands of Russian roubles)	2018	2017
Allowance for impairment as at January 1	**92 250**	**696 204**
Recovery of allowance for credit and non-credit liabilities during the year	(22 735)	(622 891)
Allowance for impairment as at December 31	**69 515**	**73 313**

Below is an analysis of changes in the allowance for non-financial liabilities during 2018 and 2017:

(In thousands of Russian roubles)	2018	2017
Allowance for non-financial liabilities as at January 1	**133 108**	**145 945**
Net expense from allowance for non-financial liabilities during the year	96 675	279 052
Payments during the year	-	(291 890)
Allowance for non-financial liabilities as at December 31	**229 783**	**133 107**

Analysis of other liabilities by currency structure and maturity is presented in Note 30.

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22 Share Capital

(In thousands of Russian roubles)	Number of outstanding ordinary shares (thousand units)	Number of outstanding preference shares (thousand units)	Ordinary shares	Preference shares	Share premium	Treasury shares	Total
As at January 1, 2017	**439 554**	**20 100**	**3 544 283**	**177 451**	**21 393 878**	**-**	**25 115 612**
Shares issue	60 000	-	60 000	-	3 120 000	-	3 180 000
As at December 31, 2017	**499 554**	**20 100**	**3 604 283**	**177 451**	**24 513 878**	**-**	**28 295 612**
Shares buy-back	(12 000)	-	-	-	-	(659 991)	(659 991)
As at December 31, 2018	**487 554**	**20 100**	**3 604 283**	**177 451**	**24 513 878**	**(659 991)**	**27 635 621**

As at December 31, 2018, the nominal registered amount of issued share capital of the Bank prior to restatement of capital contributions made before January 1, 2003 to the purchasing power of the Russian Rouble at December 31, 2002, is RR 519 654 thousand (2017: RR 519 654 thousand). As at December 31, 2018, all of the outstanding shares of the Bank are authorised, issued and fully paid in.

As at December 31, 2018, all ordinary shares have the nominal value of RR 1 (one) per share (2017: RR 1 per share). Each share carries one vote.

As at December 31, 2018, the Bank has one type of preference shares with the nominal value of RR 1 (one) in the amount of 20 100 000 shares.

Preference shares grant the right to take part in the General Meeting of Shareholders with the right to vote on all issues of its competence, starting with the meeting, following the annual General Meeting of Shareholders, where notwithstanding the reasons, no decision on dividends payment was made or a decision on partial payment of dividends was made. If shareholders do not declare dividends on preference shares, the holders of preference shares are entitled to voting rights similar to ordinary shareholders until the dividends are paid. Preference shares are not cumulative.

Share premium represents the excess of contributions received over the nominal value of shares issued.

On August 2, 2018, in accordance with paragraph 2 of Article 72 of the Federal Law "On Joint-Stock Companies", the Supervisory Board of the Bank passed a resolution to acquire 12 000,000 outstanding ordinary registered shares of the Bank in book-entry form. The approved price of acquisition is RR 55.00 per share (Minutes No. 3 of August 3, 2018). The period during which the statements (expressions of will) of the shareholders about the sale of their shares or the withdrawal of such statements must be received: from September 7, 2018 to October 7, 2018. Funds to shareholders for the shares acquired by the Bank were transferred from October 12 to October 22, 2018. The shares are credited to the treasury account of the Bank in the share register after payment.

23 Interest Income and Expense

(In thousands of Russian roubles)	2018	2017
Interest income calculated using the effective interest method		
Loans and advances to customers	32 324 108	35 390 494
Debt investment securities measured at fair value through other comprehensive income	3 241 104	4 258 165
Reverse sale and repurchase agreements	3 023 063	3 081 903
Due from banks	1 918 858	1 306 402
Debt investment securities measured at amortised cost	340 990	-
Other interest income		
Trading securities	4 889 031	3 132 954
Loans and advances to customers measured at fair value through profit or loss	301 418	-
Total interest income	**46 038 572**	**47 169 918**
Interest expenses		
Term deposits of individuals	8 459 686	8 656 006
Due to banks	8 372 529	10 376 756
Term deposits of legal entities	4 671 040	5 563 937
Bonds issued	833 045	1 197 287
Other debt securities issued	311 534	306 013
Current/settlement accounts	146 750	404 953
Other borrowed funds	98 412	117 001
Total interest expense	**22 892 996**	**26 621 953**
Contributions to the deposit insurance system	**1 250 311**	**890 444**
Net interest income	**21 895 265**	**19 657 521**

Information on related party transactions is disclosed in Note 34.

24 Fee and Commission Income and Expense

(In thousands of Russian roubles)	2018	2017
Fee and commission income		
Plastic cards and cheque settlements	3 041 680	2 680 769
Settlement transactions	2 809 102	2 414 905
Guarantees and letters of credit issued	801 436	870 651
Cash transactions	259 240	269 336
Cash collections	196 512	202 883
Custody operations	58 825	58 767
Foreign exchange transactions	2 911	4 081
Other	155 931	105 687
Total fee and commission income	**7 325 637**	**6 607 079**
Fee and commission expense		
Plastic cards and cheque settlements	966 823	784 618
Securities	198 350	229 643
Settlement transactions	164 652	157 142
Foreign exchange transactions	90 505	143 924
Guarantees and letters of credit	15 017	26 197
Banknote transactions	10 350	8 955
Other	26 736	45 527
Total fee and commission expense	**1 472 433**	**1 396 006**
Net fee and commission income	**5 853 204**	**5 211 073**

Information on related party transactions is disclosed in Note 34.

25 Administrative and Other Operating Expenses

(In thousands of Russian roubles)	Note.	2018	2017
Staff costs		5 942 001	5 970 557
Software costs		1 076 213	893 234
Depreciation and amortisation of premises, equipment and intangible assets	13	1 065 819	1 019 520
Other costs related to premises and equipment		894 519	756 022
Professional services		633 674	259 541
Rent expenses		594 780	587 505
Postal, cable and telecommunication expenses		507 808	356 291
Security expenses		293 915	325 251
Information and consulting services		258 082	225 104
Taxes other than on income		246 912	524 661
Transportation costs		226 015	277 708
Advertising and marketing services		138 735	152 849
Charity expenses		58 661	45 991
Other administrative expenses		1 110 355	970 428
Total administrative and other operating expenses		**13 047 489**	**12 364 662**

26 Income Tax

Income tax expense comprises the following:

(In thousands of Russian roubles)	2018	2017
Current tax	803 058	2 154 490
Deferred tax	1 357 063	(290 227)
Income tax expense for the year	**2 160 121**	**1 864 263**

The current income tax rate applicable to the majority of the Group's profits is 20% (2017: 20%). Below is a comparison of theoretical tax expenses with actual tax expenses.

(In thousands of Russian roubles)	2018	2017
Profit before tax	**11 207 049**	**9 355 319**
Expected tax charge at statutory rate	2 241 410	1 871 064
- Non-deductible expenses	96 967	98 179
- Income from government securities taxed at different rates	(173 087)	(58 057)
- Tax benefits effect	(5 169)	(46 923)
Income tax expense for the year	**2 160 121**	**1 864 263**

Differences between IFRS and the tax legislation of the Russian Federation result in temporary differences between the book amount of assets and liabilities for the purposes of the consolidated financial statements under IFRS and for the purpose of calculating income tax. The tax implications of changes in these temporary differences are detailed below and are recorded at the rate of 20% (2017: 20%) with the exception of income on government securities taxed at the rate of 15% (2017: 15%).

26 Income Tax (continued)

(In thousands of Russian roubles)	December 31, 2017	Recognised in profit or loss	Recognised in equity	December 31, 2018
Tax effect of temporary differences				
Allowance for expected credit losses	(1 567 438)	(817 553)	-	(2 384 991)
Accrued income/expense	1 658 942	417 670	-	2 076 612
Valuation of bonds issued at amortised cost	(14 107)	(73 661)	-	(87 768)
Valuation of other borrowed funds at amortised cost	333	(55 320)	-	(54 987)
Valuation of trading and other securities at fair value	384 629	(857 441)	241 791	(231 021)
Premises and equipment	(1 257 812)	104 396	-	(1 153 416)
Other	639 314	507 719	-	1 147 033
Effect of IFRS 9	-	(582 873)	582 873	-
Recognised deferred tax liability	**(156 139)**	**(1 357 063)**	**824 664**	**(688 538)**

(In thousands of Russian roubles)	December 31, 2016	Recognised in profit or loss	Recognised in equity	December 31, 2017
Tax effect of temporary differences				
Allowance for loan impairment	(1 004 163)	(563 275)	-	(1 567 438)
Accrued income/expense	1 655 692	3 250	-	1 658 942
Valuation of bonds issued at amortised cost	(28 075)	13 968	-	(14 107)
Valuation of other borrowed funds at amortised cost	785	(452)	-	333
Valuation of trading and other securities at fair value	585 789	(333 272)	132 112	384 629
Premises and equipment	(1 243 499)	(55 479)	41 166	(1 257 812)
Other	(586 173)	1 225 487	-	639 314
Recognised deferred tax liability	**(619 644)**	**290 227**	**173 278**	**(156 139)**

27 Earnings per Share

Basic earnings per share is calculated by dividing the net profit attributable to shareholders of the Bank by the weighted average number of ordinary shares outstanding during the year, net of own shares repurchased from shareholders.

As at December 31, 2018, the Bank does not have preference shares that potentially dilute earnings per share. Thus, diluted earnings per share are equal to basic earnings per share.

Basic earnings per share are calculated as follows:

(In thousands of Russian roubles)	**2018**	**2017**
Profit attributable to the Bank's shareholders	8 937 041	7 429 077
Less dividends on preference shares	(2 211)	(2 211)
Profit attributable to ordinary shareholders of the Bank	**8 934 830**	**7 426 866**
Weighted average number of ordinary shares in issue (thousands)	497 070	465 708
Basic earnings per share (expressed in RR per share)	**17,98**	**15,95**

28 Dividends

	2018		**2017**	
(In thousands of Russian roubles)	**Ordinary**	**Preference**	**Ordinary**	**Preference**
Dividends payable as at January 1	**6 564**	**-**	**6 054**	**-**
Dividends declared during the year	809 277	2 211	461 532	2 211
Dividends paid during the year	(809 784)	(2 211)	(461 022)	(2 211)
Dividends payable as at December 31	**6 057**	**-**	**6 564**	**-**
Dividends per share declared during the year (RR per share)	**1,62**	**0,11**	**1,05**	**0,11**

All dividends were declared and paid in Russian roubles.

29 Segment Analysis

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, whose operating results are regularly reviewed by the chief operating decision maker and for which discrete financial information is available. The Management Board of the Bank performs the responsibilities of the chief operating decision maker.

Description of products and services that constitute sources of revenues of the reporting segments

The Group is organised on a basis of three main business segments:

- Corporate banking – settlement and current accounts, deposits, credit lines, loans and other credit facilities, foreign currency transactions with commercial and state entities.

- Operations on financial markets – financial instruments trading, loans and deposits on the interbank market, dealing in foreign exchange and derivative financial instruments.

- Retail banking – retail and private banking services, customer current accounts, deposits, retail investment products, custody services, credit and debit cards, consumer loans, mortgage and other loans to individuals and VIP clients.

Transactions between the business segments are performed on normal commercial terms and conditions. Funds are ordinarily reallocated between segments, resulting in funding cost transfers disclosed in operating income/expense for the segment, i.e. the balance of transfer incomes and expenses from rellocated financial resources between internal segments. Interest charged for these funds is based on market interest rates. There are no other material items of income or expense between the business segments. Segment assets and liabilities comprise operating assets and liabilities, being the majority of assets and liabilities of the Group, but excluding some premises, equipment and intangible assets, long-term assets held-for-sale, investment property, other assets and liabilities and balances on taxation settlements.

29 Segment Analysis (continued)

The factors used by management to determine the reporting segments

The Group’s segments are strategic business units that offer different products and services for different clients. They are managed separately because they require different technology and marketing strategies and level of service.

Evaluation of profit or loss and assets of operating segments

The Management Board of the Bank analyses financial information prepared in accordance with the requirements of Russian accounting standards. This financial information differs in some aspects from the information prepared in accordance with IFRS:

(i) resources are usually redistributed among segments using internal interest rates set by the Treasury department. These interest rates are calculated based on the basic market interest rates, contractual maturity dates and observable actual maturity dates of customer accounts balances;

(ii) differences in the classification of securities to portfolios;

(iii) income tax is not distributed to segments;

(iv) allowance for expected credit losses is recognised based on Russian legislation, and not on the basis of the model of “expected credit losses” specified in IFRS 9;

(v) fee and commission income on lending operations is recognised immediately and not in the future periods using the effective interest rate method;

(vi) information on consolidated companies is not included.

The Management Board of the Bank evaluates the business segment results based on the amount of profit before income tax.

29 Segment Analysis (continued)

Information on profit or loss, assets and liabilities of reporting segments

Segment information for the Group's main reporting business segments for the years ended December 31, 2018 and December 31, 2017 is set out below (in accordance with the management information).

(In thousands of Russian roubles)	Corporate banking	Operations on financial markets	Retail banking	Unallocated	Total
2018					
External revenues	26 048 219	14 061 333	12 245 575	-	**52 355 127**
Internal funding charge	(9 581 165)	2 812 122	6 769 043	-	**-**
Total revenues	**16 467 054**	**16 873 455**	**19 014 618**	**-**	**52 355 127**
Revenues comprise:					
- External interest income	22 196 075	14 022 836	9 371 227	-	45 590 138
- Fee and commission income	3 812 214	38 497	2 873 757	-	6 724 468
- Other operating income	39 930	-	591	-	40 521
Segment results	**(2 236 745)**	**9 622 632**	**3 438 478**	**-**	**10 824 365**
Unallocated costs	-	-	-	(4 118 447)	(4 118 447)
Profit before tax	**(2 236 745)**	**9 622 632**	**3 438 478**	**(4 118 447)**	**6 705 918**
Income tax expense	-	-	-	(1 415 794)	(1 415 794)
Profit (loss)	**(2 236 745)**	**9 622 632**	**3 438 478**	**(5 534 241)**	**5 290 124**
Total segment assets before allowance for expected credit losses	**296 036 581**	**294 147 952**	**81 007 387**	**35 576 104**	**706 768 024**
Other segment items					
Depreciation and amortisation charge	(255 895)	(58 879)	(299 948)	(225 527)	(840 249)
Allowance (recovery of allowance) for expected credit losses	(10 737 985)	151 165	(665 437)	-	(11 252 257)

29 Segment Analysis (continued)

(In thousands of Russian roubles)	Corporate banking	Operations on financial markets	Retail banking	Unallocated	Total
2017					
External revenues	30 143 202	12 042 111	10 295 967	159 618	**52 640 898**
Internal funding charge	(12 801 217)	4 987 536	7 813 681	-	**-**
Total revenues	**17 341 985**	**17 029 647**	**18 109 648**	**159 618**	**52 640 898**
Revenues comprise:					
- External interest income	26 303 137	12 035 997	7 825 546	-	46 164 680
- Fee and commission income	3 808 966	6 114	2 468 821	-	6 283 901
- Other operating income	31 099	-	1 600	159 618	192 317
Segment results	**(3 447 861)**	**10 491 323**	**3 898 369**	**-**	**10 941 831**
Unallocated costs	-	-	-	(5 467 121)	(5 467 121)
Profit before tax	**(3 447 861)**	**10 491 323**	**3 898 369**	**(5 467 121)**	**5 474 710**
Income tax expense	-	-	-	(1 422 229)	(1 422 229)
Profit (loss)	**(3 447 861)**	**10 491 323**	**3 898 369**	**(6 889 350)**	**4 052 481**
Total segment assets before allowance for loan impairment	**289 004 251**	**258 920 261**	**73 311 421**	**28 471 498**	**649 707 431**
Other segment items					
Depreciation and amortisation charge	(218 515)	(71 074)	(247 909)	(270 812)	(808 310)
Allowance for loan impairment	(11 734 348)	(162 491)	(542 589)	-	(12 439 428)

29 Segment Analysis (continued)

A reconciliation of assets according to management information with IFRS results as at December 31, 2018 and December 31, 2017 is set out below:

(In thousands of Russian roubles)	2018	2017
Total reporting segment assets before allowance for expected credit losses	**706 768 024**	**649 707 431**
Adjustment of allowance for expected credit losses	(39 201 139)	(40 313 162)
Adjustments of income/expense accruals	3 341 384	2 277 835
Premises, equipment and intangible assets depreciation and fair value adjustments	696 240	1 467 394
Fair value and amortised cost adjustments	(1 523 609)	(313 072)
Income tax adjustments	(1 963 013)	(2 082 895)
Elimination of assets additionally recognised in management information	(1 284 484)	(4 790 524)
Other adjustments	(1 223 088)	(50 800)
Consolidation	7 793 174	957 164
Total assets under IFRS	**673 403 489**	**606 859 371**

A reconciliation of profit before tax according to management information with IFRS results for the years ended December 31, 2018 and December 31, 2017 is set out below:

(In thousands of Russian roubles)	2018	2017
Total reporting segment profit before tax	**6 605 918**	**5 474 710**
Adjustment of allowance for expected credit losses	4 571 396	2 885 856
Adjustments of income/expense accruals	454 037	300 406
Premises, equipment and intangible assets depreciation and fair value adjustments	255 379	113 330
Fair value and amortised cost adjustments	596 614	464 608
Consolidation	(548 721)	398 927
Other adjustments	(727 574)	(282 518)
Total profit before tax under IFRS	**11 207 049**	**9 355 319**

Geographical information. The major part of the Group's activity is concentrated in the North-West region of the Russian Federation. Activity is also carried out in Moscow.

There are no external customers (groups of related customers) with individual income from operations exceeding 10% of total income from operations with such customers.

30 Risk Management, Corporate Governance and Internal Control

Corporate governance and internal control

Corporate governance system of the Group is based on full compliance with requirements of statutory legislation and the CBR and protection of the shareholders’ interests and considers world best practices to the largest possible extent. The Group fully complies with the legislation requirements concerning shareholders’ rights observance.

The supreme managing body of the Bank is the General Shareholders’ Meeting that makes strategic decisions on the Bank’s operations in accordance with Federal Law No. 208-FZ dated December 26, 1995 “*On Joint Stock Companies*” and the Charter.

Functions of the counting commission of the General Shareholders’ Meeting are performed by the Independent Registrar – JSC “Independent Registrar Company - R.O.S.T.» (before February 5, 2019 - JSC “Independent Registrar Company”).

General activities of the Bank are managed by the Supervisory Board, except for areas that are in competence of the General Shareholders’ Meeting. The Supervisory Board is elected and approved by the General Shareholders’ Meeting. The Supervisory Board sets the key strategic directions of the Group’s activity and supervises the performance of the executive management bodies.

On May 24, 2018, the annual General Shareholders’ Meeting of PJSC “Bank “Saint-Petersburg” and the Supervisory Board meeting were held. According to the resolutions of these meetings the Supervisory Board members were elected and the Committees of the Supervisory Board were created in accordance with the tasks and objectives of PJSC “Bank “Saint Petersburg”.

As at December 31, 2018, the composition of the Bank’s Supervisory Board is as follows:

Elena Viktorovna Ivannikova – Chairperson of the Supervisory Board, member of the Supervisory Board since 2005; Vladislav Stanislavovich Guz – Deputy Chairman of the Supervisory Board, member of the Bank’s Supervisory Board since June 2014, elected Chairman of the Human Resources and Remuneration Committee in 2018; Alexander Vasilyevich Savelyev – Chairman of the Management Board, elected to the Supervisory Board in 2001; Susan Gail Buyske – member of the Bank’s Supervisory Board since April 2012, Chairperson of the Risk Management Committee since August 2012; Andrey Pavlovich Bychkov – member of the Bank’s Supervisory Board since April 2010, Chairman of the Audit Committee since May 2016; Alexey Andreevich Germanovich – member of the Bank’s Supervisory Board since June 2014; Alexander Ivanovich Polukeev – member of the Bank’s Supervisory Board since June 2014; Andrey Mikhaylovich Zvyozdochkin – member of the Bank’s Supervisory Board since May 2017, Chairman of the Strategy Committee since 2017; Pavel Anatolievich Kiryukhantsev, member of the Supervisory Board of the Bank since May 2018.

As of December 31, 2018, Members of the Supervisory Board, Pavel Anatolievich Kiryukhantsev, Andrey Mikhaylovich Zvyozdochkin, Andrey Pavlovich Bychkov and Alexey Andreevich Germanovich are recognised as independent directors.

The Supervisory Board includes Committees established for the purpose of review and analysis of matters in competence of the Supervisory Board, preparation of recommendations on these matters for the Supervisory Board and execution of other functions vested to these Committees.

The primary objective of the Strategy Committee is to assist the Supervisory Board of the Bank in determining the Bank’s long-term and mid-term strategy and priority business areas and to review major innovation and investment programs of the Bank.

The primary objective of the Risk Management Committee is to assist the Supervisory Board of the Bank in determining priority areas for the Bank’s banking risk management efforts and to support appropriate risk management function within the Group.

The primary objectives of the Human Resources and Remuneration Committee are the support of the efficient HR policy of the Bank, recruitment of qualified experts to management positions and creation of necessary incentives for their successful work, preparation of recommendations for the Supervisory Board on applicants for the key management positions and development of principles and criteria for remuneration rates for the key management (personnel) of the Bank.

30 Risk management, Corporate Gevernance and Internal Control (continued)

The primary objective of the Audit Committee is to assist the Supervisory Board in efficient assessment of and control over the Bank’s business and to control the completeness and fairness of the Bank’s consolidated financial statements and the process of their preparation and presentation, and the performance of internal control and internal audit functions.

The Corporate Secretary’s Office is responsible for compliance with the requirements of current legislation, the Charter and other internal policies of the Bank concerning shareholders’ rights and protection of their interests during preparation and implementation of corporate action by the Bank. The Corporate Secretary’s Office also supports communications between the Bank and its shareholders, holding of General Shareholders’ Meetings and performance of the Supervisory Board and its Committees.

Operating activities of the Bank are managed by the sole executive body – the Chairman of the Management Board and the collective executive body – the Management Board of the Bank.

As at December 31, 2018, the composition of the Bank’s Management Board is as follows:

Alexander Vasilyevich Savelyev is the Chairman of the Bank’s Management Board.

Members of the Management Board: Konstantin Yurievich Balandin, Deputy Chairman of the Management Board, member of the Management Board since January 2008; Tatyana Yurievna Bogdanovich, Senior Vice President, Director of the Moscow Branch, member of the Management Board since March 2016; Vyacheslav Yakovlevich Ermolin, Vice President, member of the Management Board since December 2017; Kristina Borisovna Mironova, Deputy Chairperson of the Management Board, member of the Management Board since August 2013; Vladimir Grigoryevich Reutov, Deputy Chairman of the Management Board, member of the Management Board since July 2004; Vladimir Pavlovich Skatin, Deputy Chairman of the Management Board, member of the Management Board since June 2008; Pavel Vladimirovich Filimonenok, Deputy Chairman of the Management Board, member of the Management Board since December 2003.

By the resolution of the Supervisory Board of the Bank dated October 25, 2018, Vladimir Konstantinovich Likhodievsky is withdrawn from the Management Board.

Internal control

The Internal Audit Function is a structural unit of the Bank in charge of internal audit and an internal control body of the Bank. The Function operates under direct supervision of the Bank’s Supervisory Board. The Function reports directly to the Bank’s Supervisory Board. The Internal Audit Function employees report to the Chairman of the Bank’s Management Board in terms of remuneration and labour discipline matters.

The Function at least twice a year prepares reports on its performance to the Supervisory Board and the Management Board of the Bank, and monthly reports to the Audit Committee of the Supervisory Board of the Bank. The Function operates on an ongoing basis in accordance with the regularity principle, principles of independence, neutrality, professional competence and unhindered performance of its functions, conducting a regular independent assessment of the risk management and internal control systems (monitoring of the Bank’s internal control system) reliability and effectiveness, as well as the Bank’s corporate governance practice assessment. The Function conducts internal reviews in the Bank’s divisions and in the Bank’s branch network. Any structural unit of the Bank or the Bank’s branch network and any employee can be subject to review.

The Controller of the professional participant of the securities market (head of department) and the Internal Control Department of a professional participant of securities market, which is a structural unit of the Bank, are part of the Bank’s internal control system. Control over the Controller and the Department is performed by the Bank’s Supervisory Board. The Controller of the professional participant of the securities market and the Internal Control Department of professional participant of securities market submit quarterly reports on internal control results to the Chairman of the Management Board and the Supervisory Board of the Bank.

30 Risk management, Corporate Gevernance and Internal Control (continued)

The Internal Control Department of a professional participant of the securities market performs the following control functions:

- compliance of the Bank's activity with the RF legislation requirements for operations on the securities market, enforcement of investors' rights and legally protected interests on the securities market, advertising, as well as compliance of the Bank's regulations with its activity on the securities market,

- compliance by the Bank's officials with the RF legislation requirements for countermeasures against unlawful insider information use and market abuse.

The Financial Monitoring Department is a structural unit of the Bank and operates under supervision of the Deputy Chairman of the Management Board in accordance with the Order on Allocation of Duties and Rights of the Bank's Management.

The Financial Monitoring Department key objectives are the organisation of work in the Bank aimed at preventing money laundering, terrorism and mass destruction weapons proliferation financing; the fulfilment of the legislative requirements with regard to the identification, documentation of information and its submission to authorised bodies, documents and information storage, as well as personnel training.

The Compliance Department is an internal control body of the Bank reporting to the Chairman of the Management Board of the Bank. Current activities of the Department are managed by the Deputy Chairman of the Management Board in accordance with the Order on Allocation of Duties and Rights of the Bank's Management.

The key function of the Compliance Department is the compliance risk management - the risk of the Bank incurring losses due to the violation of the RF legislation, internal documents of the Bank, self-regulating organisations standards (if such standards or rules are mandatory for the Bank), as well as due to sanctions and (or) other enforcement measures being imposed on the Bank by regulators.

Risk management

Risks of the Group are managed in relation to significant risks:

- credit risk (including concentration risk),

- market risk (including currency, equity, commodity, and interest rate risks),

- liquidity risk (including concentration risk),

- operational risk (including legal risk);

as well as other types of risks (compliance risk, strategic risk, reputational risk).

For each significant type of risk a corresponding management system was created to provide adequate risk assessment, including measures for its mitigation. The Group compares the amount of accepted risks with the size of its equity to guarantee its sufficiency at the level required by the CBR, needed for performance of its obligations, including covenants, and for efficient use of equity.

Group's risk management system promotes financial stability, improvement of the Bank's activities efficiency, securing adequate protection of shareholders, customers, creditors, providing continuity of operations, upholding the reputation.

30 Risk management, Corporate Gevernance and Internal Control (continued)

Group's risk management system includes creation and implementation of risk management policies and procedures to be further updated depending on changes in the macroeconomic situation, current conditions of the banking system in the Russian Federation, and regulatory changes. The Group has developed a system of reporting on significant risks and equity (capital). As at December 31, 2018, the Group's internal documentation establishing the procedures and methodologies for identification, managing and stress-testing of the Group's significant risks, was approved by the authorised management bodies of the Bank in accordance with the regulations and recommendations issued by the CBR.

Key bodies performing the Group's financial risk management functions are the Supervisory Board, the Bank's Management Board, the Bank's Asset and Liability Management Committee, the Bank's Large Credit Committee, the Bad Debt Department, the Technical Policy Committee, the Budget Committee, the Products and Processes Committee.

The Supervisory Board is responsible for consideration of risk at the strategic level. The Supervisory Board approves the Capital and Risk Management Policy, the compliance with which is supervised by consideration and approvals of the quarterly Group's risk management reports, both consolidated and by types of risk. The Supervisory Board makes decisions on significant transactions, on transactions in respect of which there is an interest, on transactions with related parties exceeding limits established under the Group's Credit Policy and on transactions, the amount of which equals to or exceeds 15% of the Bank's equity.

The Management Board of the Bank is responsible for overall organisation of the Bank's risk management system. The Management Board of the Bank is responsible for the control over timely and adequate identification of risks and their exposure, for development of policies and procedures necessary to limit risk exposures. The Management Board coordinates different department actions in case of threat or actual liquidity crisis, approves internal documents of the Bank in respect of risk management and risk management reports.

The Asset and Liability Management Committee is responsible for day-to-day financial risk management (except for credit risk).

The Asset and Liability Management Committee makes decisions on structural management of the consolidated statement of financial position of the Group and the related liquidity risks, and on determining and changing market risk limits including interest rate risk. The Asset and Liability Management Committee coordinates the main principles and procedures of financial risk management (except for credit risk) and has the right to make decisions on financial risk management in case of emergency.

The main functions of the Budget Committee are planning, management optimisation and control of expenses for acquisition of resources for the operation of the Bank, long-term investments.

The Products and Processes Committee approves the concepts of new or changed products, considers information about the abnormal situations which occurred in the Bank's activity.

The Technical Policy Committee of the Bank reviews management of operational risks, associated with information technologies and the IT infrastructure of the Bank.

The Management Board, the Large Credit Committee, the Bad Dept Department are responsible for making decisions on management of credit risks. The Management Board approves the Credit Policy and makes decisions on credit risk-related transactions exceeding the limits stipulated in the Credit Policy for the Large Credit Committee. The Large Credit Committee makes decisions on credit transactions within the limits stipulated by the Management Board and in excess of the limits stipulated by the Management Board for the Bank's officials as well as approves terms and conditions of standard programs of lending. The Bank's Management Board sets limits for the Bank's officials in making credit decisions. The officials make joint decisions, each decision being considered by representatives of the Corporate Business Unit and Risk Unit. It is deemed that a credit decision is made if it is approved by both representatives. The Bad Dept Department makes decisions on credit and other operations within non-performing loan management.

30 Risk management, Corporate Gevernance and Internal Control (continued)

Decision making on loans to individuals and legal entities, granted on standard terms, is in competence of the Bank’s officials within individual powers stipulated by the Bank’s Management Board. The level of competence is defined based on deviations from the standard terms and the risk of these deviations.

The Banking Risks Department is responsible for implementation of the effective risk management system, and compliance with the acceptable level of total, market, interest rate, operational, legal, liquidity and reputational risks exposure, as well as credit risk in respect of financial markets transactions. The Banking Risks Department monitors the risk management system related to market, interest rate, credit (in respect of financial institutions, counterparties and securities issuers), operational, legal, liqudity and reputational risks, initiates the development of methods of assessment of current risk levels of the Bank, management procedures for these risks, compliance by the Bank’s departments with existing procedures and limits restricting the level of these risks. The Banking Risks Department is not subordinate to, and does not report to, divisions carrying relevant risks.

The Banking Risks Department performs stress-tests based on scenario analysis for the purpose of timely identification of significant risks applicable to the Group that may significantly affect the financial sustainability of the Group. Steps to ensure financial stability of the Group are taken based on the results of stress-tests.

The Compliance Function of the Banking Risks Department assists the Bank's management in developing a compliance control system and effective management of compliance risk the Group faces in the course of its business activity by creating mechanisms for detecting, identifying, analysing, assessing, minimising, monitoring and controlling compliance risk.

Current management of credit risks of the Group is mostly performed by its specialised subdivision, the Credit Risk Department, exercising operating control over credit risk levels. Bad assets management is carried out by a separate business subdivision – the Bad Debt Department.

Management is responsible for identifying and assessing risks, designing measures for prevention of risks and monitoring their effectiveness. Management constantly monitors the effectiveness of internal controls over risk management and introduces changes to existing controls if necessary.

In compliance with the Group’s internal documentation the Banking Risks Department and Internal Audit Function of the Bank on a periodical basis prepare reports, which cover the Group’s significant risks management. The reports include observations as to the assessment of the effectiveness of the Group’s procedures and methodologies, and recommendations for improvement.

Management believes that risk management system complies with the CBR requirements and is appropriate for the scale, nature and complexity of operations.

Credit risk. The Group is exposed to credit risk which is the risk of financial loss if a borrower or counterparty fails to meet its contractual obligations.

The Group considers credit risk to include all financial assets recognised in the consolidated statement of financial position, except for assets deposited with the CBR.

The approach of the Group to credit risk management is defined in the Credit Policy. The Credit Policy is aimed at formulation of the main principles of credit transactions of the Group and credit risk, providing for implementation of the Group’s strategy goals and objectives concerning the structure, volume and quality of the loan portfolio.

30 Risk management, Corporate Gevernance and Internal Control (continued)

Risk management tools

To maintain credit risks at an appropriate level the Group uses the following *risk management tools.*

For separate borrowers:

- assessment of the borrowers' financial positions upon loan application and during ongoing loan monitoring;
- assessment of credit risk and formation of allowance for expected credit losses in the amount of possible losses from the transaction;
- structuring of credit transactions in compliance with the requirements of the Group;
- evaluation of the market value of collateral for a loan, control over availability and safety of collateral, and evaluation of financial position and creditworthiness of guarantors;
- request for credit reports from credit history bureau ("CHB") and other services, providing information on the client's behaviour and taking this information into consideration during the analysis of the loan application;
- scoring evaluation of credit applications of individuals based on statistical models of risk assessment based on historical data on defaults;
- for credit transactions with individuals, requiring scoring evaluation of creditworthiness of the borrower – consideration of scoring grade during the analysis of the loan application;
- for credit transactions with legal entities – consideration of the internal credit rating of the borrower during the analysis of the loan application;
- for credit transactions with financial institutions – assessment of financial position and credit risk of the counterparty during setting of limits for the counterparty;
- when setting limits on transactions with securities which bear credit risk – assessment of financial position and credit risk of the issuer;
- control over compliance with the requirements of the Credit Policy for setting the authorities on decision making in respect of credit operations, and control over the reflection of terms of credit transactions in the loan and other agreements, as approved by the relevant authorities or officials;
- control over timely performance of the borrowers' obligations to the Group stipulated by the credit agreements;
- insurance of collateral.

For the loan portfolio in general:

- setting authorities for collective bodies and officials;
- setting and control over the limits of credit risk;
- control over covenants established by certain agreements with the lenders.

Reporting forms

Group's management controls credit risks and the loan portfolio quality based on regular (daily, weekly and monthly) reports.

30 Risk management, Corporate Gevernance and Internal Control (continued)

Limits for credit risk management purposes

When setting limits for groups of borrowers, the Group takes into account both the requirements of Russian regulatory authorities and those of the Credit Policy.

The Group sets individual limits in respect of borrowers and groups of related borrowers. When setting a limit the Group takes into account all information available. When setting an individual limit, the Group performs comprehensive analysis of the financial statements, cash flows, available credit history of each borrower or a group of related borrowers, the needs of each borrower or the group of related borrowers for credit resources, as well as availability of loan repayment sources. The Group also takes into account the property pledged as collateral for the loan.

The Bank’s Credit Policy is applicable both to recognised and unrecognised financial instruments. The Credit Policy establishes unified procedures of transaction approvals, risk mitigating limits and monitoring procedures. The borrower is entitled to use any products offered by the Bank supporting the use of unrecognised Bank’s commitments for lending (guarantees, unsecured letters of credit, credit facilities, etc.) within established limits.

The Bank uses the system of limits restricting the maximum debt of counterparty banks and financial companies, corporate counterparties when conducting transactions in the financial lending market and performing purchase and sale of financial assets, including foreign exchange transactions, associated with counterparty credit risk. The respective limits are set for each counterparty of the Bank on the basis of a creditworthiness analysis.

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

The maximum exposure to credit risk of financial assets is as follows:

(in thousands of Russian roubles)	**2018**	**2017**
Assets		
Cash and cash equivalents	17 699 326	14 539 511
Trading securities	79 805 006	62 414 381
Reverse sale and repurchase agreements	88 118 488	67 809 093
Due from banks	32 368 148	34 939 256
Loans and advances to customers	338 783 586	318 215 910
Investment securities	55 899 890	48 149 032
Other financial assets	1 580 414	2 111 229
Total maximum exposure	**616 254 858**	**548 178 412**

For the analysis of collateral held against loans and advances to customers and concentration of credit risk refer to Note 10.

The maximum exposure to credit risk from contractual credit related commitments at the reporting date is presented in Note 32.

The following table shows the reconciliation between:

• the amounts presented in the reconciliation of the expected credit losses at the beginning and at the end of the period by classes of financial instruments presented in Notes 9, 10 and 11; and

• item “allowance for expected credit losses on debt financial assets” of the consolidated statement of comprehensive income.

30 Risk management, Corporate Gevernance and Internal Control (continued)

(in thousands of Russian roubles)	Due from banks	Loans and advances to customers	Debt investment securities measured at fair value through other comprehensive income	Debt investment securities measured at amortised cost	**Total**
New assets acquired or purchased	161 558	2 182 485	5 976	56 237	2 406 256
Net expense from charge for (income from recovery of) allowance for expected credit losses	-	8 346 126	(51 935)	-	8 294 191
Reversal of an allowance as a result of repayment of loans	(107 354)	(2 844 895)	(34 593)	-	(2 986 842)
Total creation (recovery) allowance for expected credit losses as of December 31	54 204	7 683 716	(80 552)	56 237	7 713 605

Country risk. Country risk of the Group is almost fully determined by the country risk of the Russian Federation. The exposure to geographical risk of other countries is limited since substantially all assets and liabilities of the Group are concentrated in the Russian Federation.

Foreign economic activity involves correspondent accounts opened in foreign banks, transactions on international exchanges via foreign brokers, transactions on the money market and servicing export-import transactions of own clients.

Country risks are minimised by means of cooperation with the most reliable banks of developed countries. Lately, the amount of transactions with the biggest Asian financial organisations has been increased to diversify access to the markets.

Saint Petersburg is the largest center of the North-Western part of the Russian Federation with a diversified economy. This is why the Bank's historic business concentration on providing services to individuals and legal entities in Saint Petersburg is an advantage for the Group.

Market risks. The Group is exposed to market risk arising from open positions in interest rate, currency and equity instruments that are exposed to general and specific market movements. These are defined as follows:

- currency risk - risk of losses due to exchange rate fluctuations;
- interest rate risk - risk of losses due to fluctuations of market interest rates;
- commodity risk – risk of losses due to fluctuations of commodity market instruments prices;
- other price (equity) risk - risk of losses due to movements in quotations of the equity instrument.

The Banking Risks Department is responsible for developing methods of appraisal of the current level of market risks (including interest rate risk), management procedures for these risks, and for identification and analysis of the current risk level.

The Treasury Department is responsible for development of methods for evaluation and procedures of operational management of interest rate risk.

30 Risk management, Corporate Gevernance and Internal Control (continued)

Market risk management is defined as a method of limitation of possible losses from open positions which can be incurred by the Group within a set period of time due to movements in exchange rates, securities quotations and interest rates by way of establishing a system of position limits on financial instruments and sensitivity limits, as well as stop-loss limits (maximum loss limits, in case of violation of which the position is closed), limits on possible change of present value of instruments and VaR limits (limits on maximum VaR).

VaR is a technique that estimates the potential losses that could occur on risk positions as a result of movements in market rates, prices and interest rates over a specified time horizon and to a given level of confidence. The VaR model used by the Bank is based upon a 99 percent confidence level and assumes a 1-day holding period depending on the type of positions. The VAR model used is mainly based on historical simulation. The model derives plausible future scenarios based on historical market rate time series, taking into account inter-relationships between different markets and assets.

Although VaR is a valuable tool in measuring market risk exposures, it has a number of limitations, especially in less liquid assets as follows:

- the use of historical data as a basis for determining future events may not encompass all possible scenarios, particularly those that are of an extreme nature;
- a 1-day holding period assumes that all positions can be liquidated or hedged within that period;
- the use of a 99% confidence level does not take into account losses that may occur beyond this level. There is a one percent probability that the loss could exceed the VaR estimate;
- VaR is only calculated on the end-of-day balances and does not necessarily reflect exposures that may arise on positions during the trading day;
- the VaR measure is dependent upon the position and the volatility of market prices. The VaR of an unchanged position reduces if market volatility declines and vice versa.

The limitations of the VaR methodology are recognised by supplementing VaR limits with other limits mentioned above (position limits and stop-loss limits).

The summary of the VaR estimates of losses as at December 31, 2018 and December 31, 2017 is as follows:

(in millions of Russian roubles)

Financial instruments	2018	2017
Shares	10	27
Bonds	711	842
Eurobonds	91	323
Foreign currency and interest rate derivatives	180	173
Commodities	4	4
Aggregated VaR	809	874

The VaR estimates stated above are calculated for the trading portfolio and portfolio of investment securities measured at FVOCI, for the open currency position of the Bank and for the portfolio of derivative instruments (including commodities instruments).

Proposals to set market risk limits used by the Bank (hereinafter, VaR-limits) are prepared by the Banking Risks Department. Limits are set via decision of the Bank’s Management Board, Large Credit Committee, Assets and Liabilities Management Committee in accordance with their authorities. The compliance with market risk limits is monitored by the Operating Department (back-office) on a daily basis.

30 Risk management, Corporate Gevernance and Internal Control (continued)

Currency risk. Currency risk is the risk of changes in income or carrying value of the Group's financial instruments due to exchange rate fluctuations.

The Department of Financial Markets Operations currently manages the open currency position within the limits set by the Asset and Liability Management Committee.

For currency risk management purposes the Group also uses the system of mandatory limits established by the CBR, including limits on open positions in a foreign currency (up to 10% of the capital calculated in accordance with the CBR regulations) and the limit on the total open position in all foreign currencies (up to 20% of the capital calculated in accordance with the CBR regulations).

The Group follows a conservative currency risk management policy and opens currency positions primarily in the currencies most frequently used in the Russian Federation (US Dollars and EUR).

The Group takes into account changes in foreign currency volatility levels by preparing and submitting for approval of the Asset and Liability Management Committee proposals concerning changes in internal limits of currency risks.

30 Risk management, Corporate Gevernance and Internal Control (continued)

The table below summarises the exposure to foreign currency exchange rate risk of the Group as at December 31, 2018. The Group does not use this currency risk analysis for management purposes.

(in thousands of Russian roubles)	RR	USD	EUR	Other	Total
Assets					
Cash and cash equivalents	17 142 191	3 046 252	15 520 475	1 480 301	37 189 219
Mandatory reserve deposits with the Central Bank of the Russian Federation	3 705 423	-	-	-	3 705 423
Trading securities, including securities pledged under sale and repurchase agreements	72 983 412	2 988 636	930 963	3 744 474	80 647 485
Reverse sale and repurchase agreements	58 333 529	25 670 776	4 114 183	-	88 118 488
Derivative financial assets	6 877 095	-	-	-	6 877 095
Due from banks	29 371 338	188 078	2 808 732	-	32 368 148
Loans and advances to customers					
- loans and advances to corporate customers	173 894 971	41 023 802	37 842 664	-	252 761 437
- loans to individuals	83 913 231	259 976	1 848 942	-	86 022 149
Investment securities, including securities pledged under sale and repurchase agreements	35 283 798	15 413 242	6 075 369	-	56 772 409
Investment property	7 311 932	-	-	-	7 311 932
Property, equipment and intangible assets	14 182 855	-	-	-	14 182 855
Other assets	6 457 405	319 440	256 530	3 072	7 036 447
Long-term assets held-for-sale	410 402	-	-	-	410 402
Total assets	**509 867 582**	**88 910 202**	**69 397 858**	**5 227 847**	**673 403 489**
Liabilities					
Due to banks	124 523 121	22 499 762	795 601	-	147 818 484
Customer accounts	307 798 688	70 757 059	27 630 083	603 003	406 788 833
Financial liabilities at fair value	11 903 879	212 493	-	-	12 116 372
Derivative financial liabilities	2 939 196	-	-	-	2 939 196
Bonds issued	7 992 072	5 814 473	-	-	13 806 545
Promissory notes and deposit certificates issued	3 780 357	3 285 179	911 529	-	7 977 065
Other borrowed funds	1 465 719	-	-	-	1 465 719
Other liabilities	4 800 143	18 762	18 715	-	4 837 620
Total liabilities	**465 203 175**	**102 587 728**	**29 355 928**	**603 003**	**597 749 834**
Less fair value of currency derivatives	(3 620 102)	-	-	-	(3 620 102)
Net recognised position, excluding currency derivative financial instruments	**41 044 305**	**(13 677 526)**	**40 041 930**	**4 624 844**	**72 033 553**
Currency derivatives	**36 051 718**	**12 798 136**	**(40 280 228)**	**(4 949 524)**	**3 620 102**
Net recognised position, including currency derivative financial instruments	**77 096 023**	**(879 390)**	**(238 298)**	**(324 680)**	**75 653 655**

30 Risk management, Corporate Gevernance and Internal Control (continued)

The table below summarises the exposure to foreign currency exchange rate risk of the Group as at December 31, 2017. The Group does not use this currency risk analysis for management purposes.

(in thousands of Russian roubles)	RR	USD	EUR	Other	Total
Assets					
Cash and cash equivalents	23 978 841	2 901 478	11 940 218	377 973	39 198 510
Mandatory reserve deposits with the Central Bank of the Russian Federation	3 020 485	-	-	-	3 020 485
Trading securities, including securities pledged under sale and repurchased agreements	30 472 937	18 160 056	12 882 965	2 967 995	64 483 953
Reverse sale and repurchase agreements	58 969 085	8 840 008	-	-	67 809 093
Derivative financial assets	1 217 534	-	-	-	1 217 534
Due from banks	33 020 017	1 919 239	-	-	34 939 256
Loans and advances to customers					
- loans and advances to corporate customers	171 888 705	50 648 199	22 701 938	-	245 238 842
- loans to individuals	71 741 878	447 685	787 505	-	72 977 068
Investment securities available-for-sale, including securities pledged under sale and repurchased agreements	37 071 523	5 872 328	6 006 868	-	48 950 719
Investment property	8 102 997	-	-	-	8 102 997
Property, equipment and intangible assets	14 670 596				14 670 596
Other assets	4 836 613	644 392	212 619	10 681	5 704 305
Long-term assets held-for-sale	546 013	-	-	-	546 013
Total assets	**459 537 224**	**89 433 385**	**54 532 113**	**3 356 649**	**606 859 371**
Liabilities					
Due to banks	106 774 231	38 927 322	3 223 177	-	148 924 730
Customer accounts	274 657 971	54 897 077	23 091 461	325 639	352 972 148
Financial liabilities at fair value	12 428 741	82 292	-	-	12 511 033
Derivative financial liabilities	1 661 351	-	-	-	1 661 351
Bonds issued	684 643	6 453 249	-	-	7 137 892
Promissory notes and deposit certificates issued	3 291 222	2 960 507	1 001 616	-	7 253 345
Other borrowed funds	1 566 231	-	337 513	-	1 903 744
Other liabilities	3 550 058	25 093	9 848	-	3 584 999
Total liabilities	**404 614 448**	**103 345 540**	**27 663 615**	**325 639**	**535 949 242**
Less fair value of currency derivatives	470 389	-	-	-	470 389
Net recognised position, excluding currency derivative financial instruments	**55 393 165**	**(13 912 155)**	**26 868 498**	**3 031 010**	**71 380 518**
Currency derivatives	**19 411 363**	**12 508 117**	**(29 389 850)**	**(3 000 019)**	**(470 389)**
Net recognised position, including currency derivative financial instruments	**74 804 528**	**(1 404 038)**	**(2 521 352)**	**30 991**	**70 910 129**

30 Risk management, Corporate Gevernance and Internal Control (continued)

The table below summarises the foreign currency exchange rate risk for monetary financial instruments of the Group as at December 31, 2018:

(in thousands of Russian roubles)	Monetary financial assets	Monetary financial liabilities	Derivative financial instruments	Net currency position
Russian roubles	475 297 621	459 477 478	36 051 720	51 871 863
US Dollars	87 760 182	102 578 751	12 798 137	(2 020 432)
EUR	69 367 766	29 354 235	(40 280 228)	(266 697)
Other	5 201 513	603 003	(4 949 527)	(351 017)
Total	**637 627 082**	**592 013 467**	**3 620 102**	**49 233 717**

The table below summarises the foreign currency exchange rate risk for monetary financial instruments of the Group as at December 31, 2017:

(in thousands of Russian roubles)	Monetary financial assets	Monetary financial liabilities	Derivative financial instruments	Net currency position
Russian roubles	429 171 324	400 690 667	19 411 363	47 892 020
US Dollars	88 801 874	103 326 928	12 508 117	(2 016 937)
EUR	54 517 845	27 663 613	(29 389 850)	(2 535 618)
Other	3 345 968	325 639	(3 000 019)	20 310
Total	**575 837 011**	**532 006 847**	**(470 389)**	**43 359 775**

The Group's derivatives position represents the fair value at the reporting date of the respective currency that the Group agreed to buy (positive amount) or sell (negative amount). The net total represents the fair value of the currency derivative financial instruments.

An analysis of potential changes (sensitivity) of profit after tax and equity to changes in the foreign currency exchange rates (based on the positions of monetary financial instruments operating as of December 31, 2018 and December 31, 2017, and the simplified scenario of reducing or increasing the US dollar and euro in relation to the Russian ruble by 10%) can be represented as follows (despite the fact that all other variable characteristics remain unchanged):

In thousands of Russian roubles	As at December 31, 2018	As at December 31, 2017
10% appreciation of USD against RR	(161 635)	(161 355)
10% depreciation of USD against RR	161 635	161 355
10% appreciation of EUR against RR	(21 336)	(202 849)
10% depreciation of EUR against RR	21 336	202 849

Movements in other currency exchange rates will have no material effect on the profit or loss of the Group. In the circumstances of increased volatility in the end of 2017 and the current situation in 2018 observed movements of currency exchange rates by 10% are for indicative purposes only, the real movements of other currency exchange rates may differ.

30 Risk management, Corporate Gevernance and Internal Control (continued)

Interest rate risk. The Group is exposed to fluctuations in market interest rates which can affect its financial position and cash flows. As a result of such changes interest margins and accordingly profit of the Group may decrease.

The table below summarises the effective interest rates by currency for major financial instruments. The analysis is prepared based on effective rates as at December 31, 2018 and December 31, 2017 used for amortisation of the respective assets/liabilities.

	2018				**2017**			
In % p.a.	**RR**	**USD**	**EUR**	**Other**	**RR**	**USD**	**EUR**	**Other**
Assets								
Debt trading securities, including securities pledged under sale and repurchase agreements	8,21	5,75	2,98	2,21	7,78	3,63	1,03	1,90
Reverse sale and repurchase agreements	7,18	3,40	0,00	-	7,22	3,02	-	-
Due from banks	7,74	0,66	1,53	-	7,35	0,00	-	-
Loans and advances to customers	9,93	5,63	4,09	-	10,57	5,68	4,10	-
Investment securities, including securities pledged under sale and repurchase agreements								
- measured at FVOCI	8,30	3,83	-	-	7,84	2,93	0,69	-
- measured at amortised cost	8,93	5,18	1,38	-	-	-	-	-
Liabilities								
Due to banks	7,47	2,99	0,00	0,00	7,54	3,02	0,00	-
Customer accounts								
- current and settlement accounts	0,29	0,00	0,00	0,00	0,36	0,00	0,00	0,01
- term deposits								
- individuals	6,32	3,07	0,76	1,30	7,03	2,47	0,93	1,30
- legal entities	6,07	2,59	0,39	-	6,42	2,87	0,35	-
Bonds issued	9,37	11,28	-	-	9,80	8,72	-	-
Promissory notes and deposit certificates issued	7,96	3,10	1,36	-	9,16	2,68	2,22	-
Other borrowed funds	6,69	-	-	-	6,90	-	1,80	-

The sign "-" in the table above means that the Group does not have the respective assets or liabilities in the corresponding currency.

Interest rate risk management represents management of assets and liabilities of the Group to maximise profit from possible fluctuations in interest rates under conditions of compliance with stated limits.

Group's interest rate risk management is performed centrally on continuing basis by the Management Board of the Bank, the Asset and Liability Management Committee, the Banking Risks Department. The Treasury Department, the Financial Markets Operations Department are responsible for the current management of interest gaps.

30 Risk management, Corporate Gevernance and Internal Control (continued)

The Group uses the following interest rate risk management tools:

- approval of structure of limits and restrictions for interest rate risk;
- approval of the asset and liability structure;
- management of interest rates and their limits for different financial instruments;
- implementation and facilitation of new banking products;
- approval of methods (procedures) for interest rate risk evaluation;
- financial instrument transactions.

Management of the Group uses a GAP report as the major analytical form for interest rate risk. The analysis is carried out by major currencies distributed according to the maturity intervals. For the purposes of interest rate risk in currency evaluation the Bank started to utilise GAP reports with a breakdown by interest rate components, i.e. risk-free spread in currency and premium for country risk of the Russian Federation. The report additionally takes into account items of working capital and statistically stable liabilities that are resistant to interest rate risk with the average interest rate repricing interval of four years.

The main criteria for interest rate risk evaluation is sensitivity of Bank’s capital to fluctuation of general level of interest rates under conditions of the most worst-case scenario for all components of interest rates determined in accordance with Interest rate evaluation technics (Capital at interest rate risk).

Information limit on sensitivity of the capital to the general level of interest rates is set in the Group.

It also measures the sensitivity of annual net interest income to changes in the general level of interest rates as an additional method for interest rate risk evaluation.

An analysis of sensitivity of profit or loss and equity to changes in the interest rates based on a simplified scenario of a 1% parallel fall or rise in all yield curves and positions of interest bearing assets and liabilities existing as at December 31, 2018 and December 31, 2017, is as follows.

(in thousands of Russian roubles)	**2018**	**2017**
Russian rouble		
1% parallel fall	(1 076 747)	587 079
1% parallel rise	1 088 392	(577 277)
USD risk-free interest rate		
1% parallel fall	255 588	324 155
1% parallel rise	(255 852)	(333 459)
USD margin for geographical risk of the Russian Federation		
1% parallel fall	82 109	592 945
1% parallel rise	(70 340)	(602 250)
EUR risk-free interest rate		
1% parallel fall	(179 357)	329 060
1% parallel rise	178 447	(334 354)
EUR margin for geographical risk of the Russian Federation		
1% parallel fall	36 211	415 739
1% parallel rise	(37 122)	(421 034)
All currencies and components of interest rate		
1% parallel fall	(979 471)	1 506 897
1% parallel rise	995 959	(1 511 693)

30 Risk management, Corporate Gevernance and Internal Control (continued)

The sensitivity of profit or loss and equity to changes in interest rate components in rubles "turned over", as part of interest rate risk management, during 2018, the Bank hedged interest rate risk with interest rate swaps, which give a positive revaluation when interest rates rise.

Apart from above measures the Group calculates the potential effect of interest rate GAPs per annum that is a change in the present value of assets and liabilities of the Bank for the next year in case of change in the interest rates in accordance with expectations (the forecasted yield curve).

Commodity risk. The Group is exposed to open position risk with regard to commodity instruments due to movements in their quotations on commodity market.

The limits for items with breakdown by underlying assets are set based on liquidity and volatility of commodity market instruments evaluation.

Other price (equity) risk. The Group is exposed to open position risk with regard to equity instruments due to movements in their quotations on equity market.

The limits for particular issuers are set based on analysis of the credit quality of the security issuer and evaluation of liquidity and volatility of financial instruments.

If the risk becomes material the mitigation arrangements are determined by the Management Board of the Bank.

Liquidity risk. Liquidity risk arises when the maturities of assets and liabilities do not match. The Group is exposed to daily calls on its available cash resources from customer accounts, overnight deposits, current accounts, term deposits, loan draw downs, guarantees and other calls on cash settled derivative instruments. The Group does not maintain cash resources to meet all of these needs as experience shows that a required amount of cash to meet these obligations can be forecasted with a sufficient certainty.

The purpose of liquidity management is to create and maintain the structure of assets and liabilities of the Group by categories and maturities which will enable the Group to ensure timely payments of its obligations and meeting demands of the Group's customers. The Group forms liquidity reserves sufficient to provide normal operation of the Bank during a certain period in case of unforeseen outflow of resources caused by macroeconomic events or events directly connected with the Bank. In accordance with the results of analysis of the macroeconomic conditions or the state of the banking market, as well as the general trends in the Group's activity, management may demand higher amounts of liquidity, if required.

The Group seeks to maintain a diversified and stable structure of funding sources. The Group invests the funds in diversified portfolios of liquid assets in order to be able to respond quickly and smoothly to unforeseen liquidity requirements. In spite of a substantial portion of customer accounts being on demand, diversification of these deposits by number and type of depositors, and past experience indicate that these customer accounts provide a long-term and stable source of funding.

The basis for managing short-term liquidity (less than three months) is making liquidity provisions sufficient not only for current standard activities but also to provide the Bank with the funds during a period of possible unplanned funds withdrawal caused by macroeconomic events or events directly associated with the Bank.

30 Risk management, Corporate Gevernance and Internal Control (continued)

Liquidity management is regulated by the Risks and Capital Management Policy approved by the Bank’s Supervisory Board. Additional liquidity evaluation and management limitations are set in the internal regulations developed for the purpose of the Policy development:

- Managing the volume and structure of the liquid assets portfolio. Management maintains a portfolio of liquid assets (including trading securities) that can be used for prompt and loss-free funding;

- In certain cases management may impose restrictions on some transactions to regulate the structure of assets and liabilities of the Group. The limits are set when other instruments of liquidity management are insufficient in terms of extent and length of impact.

The Bank performs current liquidity management (for the period of up to seven days) on a daily basis. It is implemented based on statistical and chronological analysis of the balances of customer current accounts, forecasted customer deposits, movement of funds on accounts and analysis of the information on obligations and requirements of the Bank under term contracts in short-term periods. This analytical data serves as a basis for management of the Bank’s monetary position.

Short-term (for the period of up to three months) liquidity monitoring ensures creation of an asset portfolio which may cover all needs of the current liquidity management within the planning time horizon as well as provide the Bank with the funds in case of possible client funds withdrawal. The parameters of possible funds withdrawal are set and reviewed periodically by the Asset and Liability Management Committee and the Management Board.

Long-term (over three months) liquidity monitoring is based on analysis of the Group’s liquidity gaps. The Group evaluates the liquidity gap through comparison of assets and liabilities by their terms. When allocating assets and liabilities to different term categories the Group takes into account both the contractual term and expected maturity and the statistical data on sustainability, and for securities it uses estimated disposal period of the portfolio without significant effect on the market price. The Group regards equity as a long-term funding source and, therefore, accounts for it by the longest remaining maturity period. Results of assets and liabilities allocation by maturity and liquidity index calculation are performed in general report for all currencies and reports for each currency with total amount of assets or liabilities exceeding 5% of total balance. The Bank’s regulations state minimum value of liquidity indices.

When performing its operating activity the Bank also focuses on compliance with the requirements of the CBR on maintaining sufficient liquidity ratios (instant liquidity ratio - N2, current liquidity ratio - N3, long-term liquidity ratio - N4).

According to the daily calculations, as at December 31, 2018 and December 31, 2017 the Bank complied with the liquidity ratios established by the CBR.

30 Risk Management, Corporate Governance and Internal Control (continued)

Below is the IFRS liquidity position of the Group at December 31, 2018. The Group does not use the presented analysis by contractual maturity for liquidity management purposes. The following table shows assets and liabilities of the Group by their remaining contractual maturity, with the exception of financial instruments measured at fair value through profit or loss for the period and investment securities, which are shown in the category "Demand and less than 1 month" and overdue loans and advances to customers, which are shown in the category "From 6 to 12 months".

(in thousands of russian Roubles)	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	From 1 to 5 years	More than 5 years or no maturity	Total
Assets						
Cash and cash equivalents	37 189 219	-	-	-	-	37 189 219
Mandatory reserve deposits with the Central Bank of the Russian Federation	1 884 497	929 366	612 715	278 839	6	3 705 423
Trading securities, including securities pledged under sale and repurchase agreements	80 647 485	-	-	-	-	80 647 485
Reverse and sale repurchase agreements	72 531 337	15 587 151	-	-	-	88 118 488
Derivative financial assets	1 317 895	2 047 699	150 508	2 669 316	691 677	6 877 095
Due from banks	10 174 750	22 193 398	-	-	-	32 368 148
Loans and advances to customers						
- loans and advances to corporate customers	12 221 912	63 644 173	49 986 468	109 557 152	17 351 732	252 761 437
- loans to individuals	349 389	608 719	1 725 979	22 882 873	60 455 189	86 022 149
Investment securities, including securities pledged under sale and repurchase agreements	29 855 787	-	6 072 592	17 446 252	3 397 778	56 772 409
Investment property	-	-	-	-	7 311 932	7 311 932
Property, equipment and intangible assets	-	-	-	-	14 182 855	14 182 855
Other assets	1 788 268	1 891 737	2 156 980	88 973	1 110 489	7 036 447
Long-term assets held-for-sale	-	-	410 402	-	-	410 402
Total assets	**247 960 539**	**106 902 243**	**61 115 644**	**152 923 405**	**104 501 658**	**673 403 489**
Liabilities						
Due to banks	146 333 407	331 707	93 884	1 059 486	-	147 818 484
Customer accounts	206 415 320	102 269 928	67 414 698	30 687 186	1 701	406 788 833
Financial liabilities at fair value	12 116 270	102	-	-	-	12 116 372
Derivative financial liabilities	328 748	1 423 970	329 230	851 211	6 037	2 939 196
Bonds issued	-	5 814 473	-	-	7 992 072	13 806 545
Promissory notes and deposit certificates issued	1 076 967	3 437 217	1 737 321	1 129 112	596 448	7 977 065
Other borrowed funds	-	-	1 464 719	-	-	1 465 719
Other liabilities	2 913 037	799 207	161 804	126 008	837 564	4 837 620
Total liabilities	**369 183 749**	**114 076 604**	**71 202 656**	**33 853 003**	**9 433 822**	**597 749 834**
Net liquidity gap	**(121 223 210)**	**(7 174 361)**	**(10 087 012)**	**119 070 402**	**95 067 836**	**75 653 655**
Cumulative liquidity gap as at December 31, 2018	**(121 223 210)**	**(128 397 571)**	**(138 484 583)**	**(19 414 181)**	**75 653 655**	

30 Risk Management, Corporate Governance and Internal Control (continued)

Below is the IFRS liquidity position of the Group at December 31, 2017.

(in thousands of Russian roubles)	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	From 1 to 5 years	More than 5 years or no maturity	Total
Assets						
Cash and cash equivalents	39 198 510	-	-	-	-	39 198 510
Mandatory reserve deposits with the Central Bank of the Russian Federation	1 548 960	819 626	432 955	218 921	23	3 020 485
Trading securities, including securities pledged under sale and repurchase agreements	64 483 953	-	-	-	-	64 483 953
Reverse and sale repurchase agreements	59 007 257	8 801 836	-	-	-	67 809 093
Derivative financial assets	546 946	579 217	85 595	5 776	-	1 217 534
Due from banks	34 939 256	-	-	-	-	34 939 256
Loans and advances to customers						
- loans and advances to corporate customers	3 921 662	63 689 231	45 554 483	123 285 117	8 788 349	245 238 842
- loans to individuals	299 782	521 206	2 062 140	18 669 944	51 423 996	72 977 068
Investment securities, including securities pledged under sale and repurchase agreements	48 950 719	-	-	-	-	48 950 719
Investment property	-	-	-	-	8 102 997	8 102 997
Property, equipment and intangible assets	-	-	-	-	14 670 596	14 670 596
Other assets	1 950 947	2 137 737	647 031	455 646	512 944	5 704 305
Long-term assets held-for-sale	-	-	546 013	-	-	546 013
Total assets	**254 847 992**	**76 548 853**	**49 328 217**	**142 635 404**	**83 498 905**	**606 859 371**
Liabilities						
Due to banks	139 788 773	7 342 682	598 898	1 194 110	267	148 924 730
Customer accounts	180 828 247	95 821 464	50 689 127	25 630 658	2 652	352 972 148
Financial liabilities at fair value	12 511 033	-	-	-	-	12 511 033
Derivative financial liabilities	928 056	690 770	38 961	3 564	-	1 661 351
Bonds issued	-	-	1 079 055	5 374 194	684 643	7 137 892
Promissory notes and deposit certificates issued	1 503 547	1 657 783	1 230 810	2 339 320	521 885	7 253 345
Other borrowed funds	-	437 513	-	1 466 231	-	1 903 744
Other liabilities	1 741 191	1 373 386	90 144	103 591	276 687	3 584 999
Total liabilities	**337 300 847**	**107 323 598**	**53 726 995**	**36 111 668**	**1 486 134**	**535 949 242**
Net liquidity gap	**(82 452 855)**	**(30 774 745)**	**(4 398 778)**	**106 523 736**	**82 012 771**	**70 910 129**
Cumulative liquidity gap as at December 31, 2017	**(82 452 855)**	**(113 227 600)**	**(117 626 378)**	**(11 102 642)**	**70 910 129**	

Group’s management believes that available undrawn credit lines of RR 92 200 000 thousand (2017: RR 84 477 000 thousand) in total and assessment of stability of customer accounts in unstable environment will fully cover the Group’s liquidity gap in the tables above.

30 Risk Management, Corporate Governance and Internal Control (continued)

In accordance with Russian legislation, individuals can withdraw their term deposits at any time, forfeiting in most of the cases the accrued interest. These deposits are classified in accordance with their contract maturity dates. The amounts of such deposits by contractual maturity as at December 31, 2018 and December 31, 2017 is as follows:

(in thousand of Russian roubles)	**2018**	**2017**
Demand and less than 1 month	22 961 016	21 168 693
From 1 to 6 months	69 233 857	67 483 899
From 6 to 12 months	61 319 457	43 256 955
From 1 to 5 years	29 912 785	21 346 290
More than 5 years	302	252
Total term deposits of individuals	**183 427 417**	**153 256 089**

The main differences between liquidity tables compiled on the data of IFRS consolidated financial statements by contractual maturity and presented above and the tables prepared by the Group for management purposes are as follows:

1. The total assets differ because the allowance for expected credit losses to customers recorded by the Group is presented on the liabilities side for management purposes, whereas for purposes of IFRS consolidated financial statements loans and advances to customers are reduced by the allowance;
2. The Bank applies internal methods to determine the maturity of deposits on demand since these deposits are considered to be a long-term source of funding. Therefore, current accounts of legal entities and individuals have longer maturity periods in calculating liquidity for management purposes;
3. The Bank also applies internal methods to account for the trading securities portfolio that take into account market conditions and actual opportunities to sell and use assets as collateral.

The tables below show distribution of financial liabilities as at December 31, 2018 and December 31, 2017 by remaining contractual maturity. The amounts in the tables reflect contractual undiscounted cash flows and differ from the amounts in the consolidated statement of financial position which are based on discounted cash flows. The Bank does not use the presented analysis of undiscounted cash flows in its liquidity management.

30 Risk Management, Corporate Governance and Internal Control (continued)

As at December 31, 2018:

(in thousands of Russian roubles)	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	From 1 to 5 years	More than 5 years	Total
Liabilities						
Non-derivative financial liabilities						
Due to banks	146 587 056	338 812	104 354	1 088 348	-	148 118 570
Customer accounts	206 550 021	103 758 154	70 194 226	33 130 160	2 022	413 634 583
Financial liabilities at fair value	12 116 270	-	-	-	-	12 116 270
Bonds issued	11	6 056 302	34 517	1 157 197	14 479 095	21 727 122
Promissory notes and deposit certificates issued	1 101 164	3 463 709	1 810 680	1 206 276	1 532 628	9 114 457
Other borrowed funds	-	46 731	1 513 514	-	-	1 560 245
Other financial liabilities	2 040 449	-	-	-	-	2 040 449
Derivative financial instruments						
- inflow	(343 550 051)	-	-	-	-	(343 550 051)
- outflow	339 279 297	-	-	-	-	339 279 297
Total future undiscounted cash flows	**364 124 217**	**113 663 708**	**73 657 291**	**36 581 981**	**16 013 745**	**604 040 942**

As at December 31, 2017:

(in thousands of Russian roubles)	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	From 1 to 5 years	More than 5 years	Total
Liabilities						
Non-derivative financial liabilities						
Due to banks	139 837 279	7 545 709	617 815	1 224 155	2 212	149 227 170
Customer accounts	180 971 958	97 346 557	52 893 154	27 564 389	3 764	358 779 822
Financial liabilities at fair value	12 511 033	-	-	-	-	12 511 033
Bonds issued	-	344 294	1 647 847	5 703 867	888 075	8 584 083
Promissory notes and deposit certificates issued	1 520 718	1 681 654	1 278 265	2 497 901	1 513 623	8 492 161
Other borrowed funds	833	486 775	48 298	1 560 246	-	2 096 152
Other financial liabilities	1 303 955	-	-	-	-	1 303 955
Derivative financial instruments						
- inflow	(301 315 398)	-	-	-	-	(301 315 398)
- outflow	301 624 794	-	-	-	-	301 624 794
Total future undiscounted cash flows	**336 455 172**	**107 404 989**	**56 485 379**	**38 550 558**	**2 407 674**	**541 303 772**

Credit related commitments are disclosed in Note 32.

30 Risk Management, Corporate Governance and Internal Control (continued)

Operational risk (including legal risk). The Group manages operational risk by mitigating it to the acceptable level through undertaking certain measures and actions to prevent events and conditions which may originate the risk, and by insuring those types of operational risks which cannot be managed.

In order to manage legal risk, the majority of banking operations are carried out with the use of standard forms of legal documents. In other cases, all non-standard forms are approved before their use in the process of the corresponding operations.

To prevent or liquidate in a timely manner the consequences of a potential interruption of the daily activity of the Group or its divisions in case of non-standard and emergency situations, internal documents have been developed that define a system of actions aimed to ensure the Group's business continuity and/or recovery in the event of such non-standard and emergency situations. To implement these actions, the Bank's reserve platforms with emergency workstations for critical business processes have been organised. Additionally, instructions have been developed for employees of the Group which define actions to be taken in different emergency situations.

31 Capital Management

The objectives when managing Group's capital are (i) to comply with the capital requirements set by the CBR, (ii) to safeguard the Group's ability to continue as a going concern and (iii) to maintain a sufficient capital base to achieve a capital adequacy ratio of 8% based on the April 1998 Basel Prudential Requirements for Banks (Basel I), to comply with the capital requirements and capital adequacy ratio in accordance with financial covenants set in borrowing agreements signed by the Group.

Under the current capital requirements set by the CBR the Group has to maintain a ratio of own funds (capital) to risk weighted assets (N. 20.0) of at least 8.0%, base capital adequacy ratio (N. 20.1) of at least 4.5%, core capital adequacy ratio (N. 20.2) of at least 6.0%. The Group has to maintain reserve additional to capital requirements set by the CBR. In 2018 the Group had to comply with the mark-up of 1.875% to all capital adequacy ratios as well as the countercyclical mark-up. As at December 31, 2018, countercyclical mark-up was 0.008%. Base capital, core capital and own funds (capital) and capital adequacy ratios based on reports prepared by the Group under Russian statutory accounting standards are as follows:

(in thousands of Russian roubles)	**2018 (unaudited)**	**2017 (unaudited)**
Total capital	73 971 427	71 726 694
Base capital	54 141 166	50 376 414
Core capital	54 141 166	50 376 414
Capital adequacy ratio (N.20.0)	13,67%	14,24%
Base capital adequacy ratio (N.20.1)	10,09%	10,08%
Core capital adequacy ratio (N.20.2)	10,09%	10,08%

The capital adequacy ratio set by the CBR is managed by the Treasury Department through monitoring and forecasting its components.

The Accounting Department performs calculations of the capital adequacy ratios on a daily basis. As at December 31, 2018 and 31 December 2017, the capital adequacy ratios were within the limits established by the CBR.

In September 2015, the Group raised a subordinated loan from the State Corporation "Deposit Insurance Agency" in the form of federal loan bonds in the total nominal amount of RR 14 594 500 thousand. As at December 31, 2018, the fair value of the federal loan bonds is RR 16 274 911 thousand (2017: RR 16 831 166 thousand). The interest rate is the coupon rate on the federal loan bonds plus 1% p.a. The loan maturity is from 2025 to 2034, depending on the terms of the respective bonds issue.

31 Capital Management (continued)

The Group is required to meet certain covenants attached to the subordinated loan from the State Corporation “Deposit Insurance Agency”, in particular, one of the key covenants, which is to increase its portfolio of loans and bonds meeting certain criteria within three-year period from the loan disbursement. As at 1 October 2018, the Group fully complies with this covenant. As at December 31, 2018 and December 31, 2017, the Group fully meets these covenants.

Arrangements to safeguard the Group’s ability to continue as a going concern are performed under the Strategic Development Plan of the Bank and divided into long-term and short-term capital management.

In the long-term, the Bank plans its business scope under strategic and financial plans. The development of these plans includes the identification of risks coverage needs for three years and one year, respectively. When the required amount of capital is determined, the Bank plans the sources of its increase: borrowings on capital markets, share issue and approximate scope thereof. The target scope of business and the amount of capital, as well as the sources of the capital increase, are approved collectively by the following management bodies and in the following order: the Assets and Liabilities Management Committee, the Management Board of the Bank, the Supervisory Board of the Bank.

In the short-term, taking into account the required compliance with the CBR requirements, the Bank determines the capital surplus/deficit for the period from one to three months and develops the plan to increase assets based on the results. In some cases, management uses administrative measures to influence the structure of assets and liabilities through interest rate policy and, in exceptional cases, through setting limits for certain banking transactions. The limits are established when the economic instruments are insufficient in terms of timing and the extent of influence.

Below is the capital and capital adequacy ratio of the Bank calculated in accordance with Basel I, based on IFRS figures:

(in thousands of Russian roubles)	**2018**	**2017**
Capital	**91 811 646**	**88 977 228**
Level 1	**71 510 783**	**65 880 561**
Paid-in share capital	3 781 734	3 781 734
Reserves and profit	67 417 368	61 623 308
Including:		
- Share premium	24 513 878	24 513 878
- Retained earnings	42 903 490	37 109 430
Non-controlling interest	1 086 545	590 392
Goodwill	(114 873)	(114 873)
Treasury shares	(659 991)	-
Level 2	**20 300 863**	**23 096 669**
Revaluation reserve for property and equipment	3 651 455	3 651 455
Revaluation reserve for investment securities	374 497	1 264 691
Subordinated loans	16 274 911	18 180 523
Risk weighted assets	**533 698 491**	**531 713 541**
Risk weighted banking assets	445 137 540	403 549 919
Risk weighted trading assets	42 368 988	90 933 600
Risk weighted non-banking assets	46 191 963	37 230 022
Total capital adequacy ratio	**17,20%**	**16,73%**
Tier 1 capital adequacy ratio	**13,40%**	**12,39%**

The Group was in compliance with the creditors’ minimum capital adequacy ratio requirements as at December 31, 2018 and December 31, 2017.

32 Contingencies, Commitments and Derivative Financial Instruments

Litigations. From time to time and in the normal course of business, third parties’ claims against the Group are received. On the basis of its own estimates and internal professional advice, management of the Group is of the opinion that no material losses will be incurred by the Group in respect of known claims, except for 2 suits, and accordingly loss provision with regard to these litigations in the amount of RR 229 783 thousand has been recognised in these consolidated financial statements within provisions for credit and non-credit related commitments and non-financial commitments (Note 21) as at December 31, 2018.

Tax Legislation. Russian tax legislation is subject to varying interpretations, and changes, which can occur frequently. Management’s interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant regional and federal authorities.

The Russian tax authorities may be taking a more assertive position in their interpretation of the legislation and assessments, and it is possible that transactions and activities that have not been challenged in the past will be challenged. In October 2010, the Supreme Arbitration Court issued guidance to lower courts on reviewing tax cases providing a systemic roadmap for anti-avoidance claims, and it is possible that this will significantly increase the level and frequency of scrutiny by tax authorities.

As a result, significant additional taxes, penalties and interest may be charged. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances, reviews may cover a longer period.

Management believes that its interpretation of the relevant legislation is appropriate and the tax, currency legislation and customs positions of the Group will be sustained. Accordingly, as at December 31, 2018 and December 31, 2017, no provision for potential tax liabilities was recorded.

Capital expenditure commitments. As at December 31, 2018, the Group had no contractual capital expenditure commitments in respect of reconstruction and purchase of real estate (2017: none).

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

(in thousands of Russian roubles)	**2018**	**2017**
Less than 1 year	157 457	194 713
From 1 to 5 years	139 951	364 237
Total operating lease commitments	**297 408**	**558 950**

Compliance with covenants. The Group must observe certain covenants primarily relating to loan agreements with foreign and international financial institutions. Covenants include:

General conditions in relation to operations, such as business conduct and reasonable prudence, conformity with legal requirements of the country in which the Group is located, maintenance of accurate accounting records, implementation of controls, performance of independent audits, etc.;

Restrictive covenants, including constraints (without lender’s consent) in respect of dividend payments and other distributions, changes in the shareholder structure, limits on use of assets and some agreements;

Financial covenants, such as meeting certain capital adequacy requirements, credit portfolio diversification, limitation of risks associated with related and unrelated parties, overdue balances to the Group’s capital ratio, maintaining a certain level of reserves to cover risks, control over the expenses to income ratio.

Reporting requirements obliging the Group to provide its audited consolidated financial statements to the lender, as well as certain additional financial information and any other documents upon request.

32 Contingencies, Commitments and Derivative Financial Instruments (continued)

Non-compliance with such covenants may result in negative consequences for the Group including an increase in the cost of borrowings and default.

The management of the Group believes that as at December 31, 2018 and December 31, 2017 the Group was in compliance with all covenants.

Credit and non-credit related commitments. The primary purpose of these instruments is to ensure that funds are available to a customer as required.

Non-financial guarantees represent irrevocable assurances that the Group will make payments in the event that a customer cannot meet its obligations to third parties.

Documentary letters of credit, which are written undertakings by the Group to execute payments on behalf of customers within an agreed amount provided certain conditions are met, are collateralised with the respective shipments of goods or cash deposits. Loan commitments include the unused portion of amounts authorised by the Group's management for lending.

Guarantees and letters of credit, which represent the Group's irrevocable obligations to make payments in the event that a customer fails to fulfill its obligations to third parties have the same credit risk as loans.

Credit and non-credit related commitments are as follows:

(in thousands of Russian roubles)	Note	2018	2017
Non-financial guarantees issued		45 885 929	36 829 325
Revocable undrawn credit facilities		34 641 616	55 018 801
Import letters of credit		1 400 686	2 019 730
Allowance for expected credit losses	21	(69 515)	(73 313)
Total credit related commitments		**81 858 716**	**93 794 543**

The total outstanding contractual amount of undrawn credit lines, letters of credit, and guarantees does not necessarily represent future cash claims, as these obligations may expire or terminate without funds being granted to the borrower. The maturities of credit related commitments depend on types of guarantees and undrawn credit lines and are mainly classified into the category of "On demand and less than 1 month".

The table below shows information on collateral for guarantees issued (net of allowance for expected credit losses) by types (excluding overcollateralisation) as of December 31, 2018 and December 31, 2017:

(in thousands of Russian roubles)	2018	2017
Deposits	2 052 242	5 841 691
Promissory notes	3 029 499	1 094 994
Real estate	6 948 376	1 394 656
Movable property	612 607	947 941
Surety	12 409 726	6 994 703
Other collateral	12 045	296 830
No collateral	20 812 886	20 258 185
Total	**45 877 381**	**36 829 000**

32 Contingencies, Commitments and Derivative Financial Instruments (continued)

Fiduciary assets. These assets are not included in the consolidated statement of financial position, as they are not the Group's assets. Nominal values disclosed below are normally different from the fair values of the respective securities. In accordance with the common business practices, no insurance coverage is provided for these fiduciary assets.

The fiduciary assets fall into the following categories:

(in thousands of Russian roubles)	**2018 Nominal value**	**2017 Nominal value**
Corporate shares held in custody of:		
- National Depository Centre	1 262 772	1 262 338
- other registrars and depositories	1 041 386	942 733
- registers of share issuers	46	-
Municipal bonds held in custody of:		
- St. Petersburg Settlement and Depository Centre	58	58
- National Depository Centre	1 293	1 293
Bonds of the Russian Federation federal authorities held in custody of:		
- National Depository Centre	620 960	2 000
Corporate bonds held in custody of:		
- National Depository Centre	648 479	598 239
- other registrars and depositories	139	139
Eurobonds in USD held in custody of:		
- National Depository Centre	2 513 377	1 029 834
Eurobonds in EUR held in custody of:		
- National Depository Centre	693 213	169 550
Eurobonds in pounds sterling held in custody of:		
- National Depository Centre	45 731	24 390

Derivative financial instruments. Currency derivative financial instruments with which the Group conducts operations have either potentially favorable conditions (and are assets), or potentially unfavorable conditions (and are liabilities) as a result of fluctuations in foreign exchange rates. The total fair value of derivatives may vary significantly over time.

The fair value of accounts receivable or payable for currency and interest derivative contracts entered into by the Group at the reporting date by currency is presented in the table below. The table includes contracts with the settlement date after the end of the relevant reporting period. The amounts for these transactions are shown in detail - before offsetting positions (and payments) for each counterparty.

32 Contingencies, Commitments and Derivative Financial Instruments (continued)

(In thousands of Russian roubles)	2018 Asset forwards	2018 Liability forwards	2017 Asset forwards	2017 Liability forwards
Foreign exchange forwards: fair values, at the reporting date, of				
- USD receivable on settlement (+)	114 463 565	21 896 132	40 274 214	113 571 689
- USD payable on settlement (-)	(91 106 618)	(51 575 040)	(102 342 998)	(21 893 757)
- EUR receivable on settlement (+)	15 665 966	4 052 946	26 880 796	10 164 623
- EUR payable on settlement (-)	(40 577 745)	(18 601 498)	(5 933 654)	(70 819 234)
- RR receivable on settlement (+)	90 523 506	50 002 688	82 501 233	13 790 643
- RR payable on settlement (-)	(85 835 940)	(2 777 243)	(40 631 004)	(42 984 555)
- Other currency receivable on settlement (+)	67 958	109 377	426 628	2 203
- Other currency payable on settlement (-)	(24 956)	(5 099 827)	(54 432)	(3 376 330)
Total on foreign exchange forwards	**3 175 736**	**(1 992 465)**	**1 120 783**	**(1 544 718)**

(In thousands of Russian roubles)	2018 Asset futures	2018 Liability futures	2017 Asset futures	2017 Liability futures
Foreign exchange futures: fair values, at the reporting date, of				
- USD receivable on settlement (+)	23 143 571	3 666 314	46 533	45 737 146
- USD payable on settlement (-)	(16 359 137)	(19 203 130)	(55 161 894)	(7 722 767)
- EUR receivable on settlement (+)	1 970	302 745	1 383 734	10 362 525
- EUR payable on settlement (-)	(1 121 823)	(2 789)	(1 379 815)	(48 825)
- RR receivable on settlement (+)	17 585 550	19 154 203	56 571 525	7 701 012
- RR payable on settlement (-)	(23 067 941)	(4 093 808)	(1 403 635)	(56 114 628)
- Other currency receivable on settlement (+)	89	13 599	5 800	13 761
- Other currency payable on settlement (-)	(15 749)	(15)	(17 642)	(7)
Total on foreign exchange futures	**166 530**	**(162 881)**	**44 606**	**(71 783)**

32 Contingencies, Commitments and Derivative Financial Instruments (continued)

	2018		2017	
(In thousands of Russian roubles)	**Asset forwards**	**Liability forwards**	**Asset forwards**	**Liability forwards**
Interest rate forwards: fair values, at the reporting date, of				
- USD receivable on settlement (+)	27 882 986	-	-	-
- RR receivable on settlement (+)	8 250 781	8 719 166	381 157	633 500
- RR payable on settlement (-)	(32 977 329)	(9 451 483)	(362 402)	(662 261)
Total on interest rate forwards	**3 156 438**	**(732 317)**	**18 755**	**(28 761)**

	2018		2017	
(In thousands of Russian roubles)	**Asset unlisted options**	**Liability unlisted options**	**Asset unlisted options**	**Liability unlisted options**
Unlisted options: fair values, at the reporting date, of				
- RR transactions	20 160	(592)	78	(9 300)
- USD transactions	13 998	(24 505)	-	(49)
- EUR transactions			-	-
Total on unlisted options	**34 158**	**(25 097)**	**78**	**(9 349)**
Net fair value of derivative financial instruments	**6 532 862**	**(2 912 760)**	**1 184 222**	**(1 654 611)**

33 Fair value of Financial Instruments

Methods and assumptions used in measurement of fair value.

The fair value is the price that can be obtained from the sale of an asset or paid when transferring a liability when conducting a transaction on a voluntary basis in the main market at the measurement date. The best confirmation of the fair value is the quotation of a financial instrument in an active market.

The estimated fair value of financial instruments was calculated by the Group based on available market information (if available) and proper valuation methods. However, in order to interpret market information in order to determine fair value, it is necessary to apply professional judgment. The economy of the Russian Federation continues to show some of the characteristics of emerging markets, and economic conditions continue to limit the volume of activity in financial markets. Market quotations may be outdated or reflect the sale price at low prices and, therefore, do not reflect the fair value of financial instruments. In determining the fair value of financial instruments, management uses all available market information.

The fair value of instruments with floating interest rates is usually equal to their carrying amount. The fair value of instruments with a fixed interest rate and a fixed maturity that does not have market prices is based on discounted cash flows using current interest rates for new instruments with similar credit risk and a similar maturity.

The Group estimates the fair values of financial instruments reflected in the consolidated statement of financial position using the following fair value hierarchy, taking into account the materiality of the data used to form the estimates:

• Level 1: Quotes in an active market (unadjusted) for identical financial instruments.

• Level 2: Valuation methods based on market data available directly (that is, quotes) or indirectly (that is, data derived from quotes). This category includes instruments valued using: market quotations in active markets for similar instruments, market quotations for identical or similar instruments in markets not considered active, or other valuation methods, all of which are used directly or indirectly based on observable market values. data.

• Level 3: Valuation techniques based on unobservable market data. This category includes instruments that are estimated using information that is not based on observable market data, while such unobservable data have a significant impact on the valuation of the instrument. This category includes instruments that are valued on the basis of quotations for similar instruments in respect of which the use of significant unobservable adjustments or judgments is required to reflect the difference between instruments.

Management uses professional judgment to categorise financial instruments into categories of the fair value measurement hierarchy. If observable data requiring significant adjustments are used to estimate fair value, this estimate relates to Level 3.

Obligations to banks and customers for the return of securities received under purchase agreements with an obligation to resell and sold by the Group are carried at fair value.

33 Fair value of Financial Instruments (continued)

The following table provides an analysis of financial instruments recognised at fair value by evaluation categories as at December 31, 2018:

(In thousands of Russian roubles)	Level 1	Level 2	Level 3
FINANCIAL ASSETS			
Trading securities, including pledged under sale and repurchase agreements			
- Bank of Russia coupon bonds	47 359 849	-	-
- Corporate bonds	24 065 724	821 804	-
- Corporate eurobonds	7 330 037	-	-
- Corporate shares	273 166	-	569 313-
- Eurobonds of the Russian Federation	159 468	-	-
- Federal loan bonds	68 124	-	-
Loans and advances to corporate customers at fair value	-	-	1 094 580
Investment securities valued through other comprehensive income, including securitites pledged under sale and repurchase agreements			
- Corporate bonds	19 454 190	802 139	-
- Municipal bonds	4 566 228	-	-
- Corporate eurobonds	4 135 214	-	-
- Federal loan bonds	25 497	-	-
- Equity securities	668 199	-	204 320
Derivative financial assets	-	6 877 095	-
TOTAL FINANCIAL ASSETS RECOGNISED AT FAIR VALUE	**108 105 696**	**8 501 038**	**1 868 213**
FINANCIAL LIABILITIES			
Financial liabilities at fair value	12 116 372	-	-
Derivative financial liabilities	-	2 939 196	-
TOTAL FINANCIAL LIABILITIES RECOGNISED AT FAIR VALUE	**12 116 372**	**2 939 196**	**-**

33 Fair Value of Financial Instruments (continued)

The following table provides an analysis of financial instruments recognised at fair value by evaluation categories as at December 31, 2017:

:

(In thousands of Russian roubles)	Level 1	Level 2	Level 3
FINANCIAL ASSETS			
Trading securities, including pledged under sale and repurchase agreements			
- Corporate eurobonds	32 628 004	-	-
- Corporate bonds	28 875 773	506 762	-
- Corporate shares	2 069 572	-	-
- Federal loan bonds	222 656	-	-
- Municipal bonds	181 186	-	-
Investment securities, including securities pledged under sale and repurchase agreements			
- Corporate bonds	29 885 742	353 681	-
- Corporate eurobonds	12 011 185	-	-
- Municipal bonds	5 422 023	61 375	-
- Federal loan bonds	415 026	-	-
- Equity securities	403 328	-	-
Derivative financial assets	-	1 217 534	-
TOTAL FINANCIAL ASSETS RECOGNISED AT FAIR VALUE	**112 114 495**	**2 139 352**	**-**
FINANCIAL LIABILITIES			
Financial liabilities at fair value	12 511 033	-	-
Derivative financial liabilities	-	1 661 351	-
TOTAL FINANCIAL LIABILITIES RECOGNISED AT FAIR VALUE	**12 511 033**	**1 661 351**	**-**

33 Fair Value of Financial Instruments (continued)

The table below presents the reconciliation of incoming and outgoing assets classified as Level 3 of the fair value assessment hierarchy as of December 31, 2018:

(In thousands of Russian roubles)	**Level 3 at January 1, 2018 after applying IFRS 9**	**Income reflected in profit and loss**	**Disposals**	**Acquisition**	**Level 3 at December 31, 2018**
Loans and advances to corporate customers at fair value	879 766	586 511	(1 466 277)	1 094 580	1 094 580
Investment securities, including securities pledged under sale and repurchase agreements	192 647	7 785	-	3 888	204 320
Trading securities, including pledged under sale and repurchase agreements	280 980	166 141	(2 395)	124 587	569 313
Total level 3 assets	**1 353 393**	**760 437**	**(1 468 672)**	**1 223 055**	**1 868 213**

Evaluation of loans to corporate customers at fair value

At the beginning of 2018, the Group classified into financial assets measured at fair value through profit or loss, loans issued to companies in the Real Estate Transactions sector for investment purposes. The fair value of the loans was estimated by the Group on the basis of a report on the share in the financed business prepared by an independent appraisal company.

The above financial assets were repaid in the 3rd quarter of 2018.

At the end of 2018, the Group classifies into financial assets measured at fair value through profit or loss, the rights of claim under financing transactions of a specialised company established for the purpose of acquiring car loans from other banks to individuals.

Claim rights are valued at the lower of two values — the book amount of claim rights and the market value of portfolios acquired by a specialised company, estimated on the basis of the expected cash flow for the acquired portfolios. In assessing the market value, assumptions regarding the expected default on the acquired portfolios were used. The book amount of a financial instrument will not change if the default on acquired portfolios does not exceed 9% on the horizon of the life of the loan. If the default exceeds this value by 1%, the market value of the portfolios will decrease by 0.5%.

Valuation of investment securities, including securities pledged under sale and repurchase agreements. Securities measured at fair value through other comprehensive income is an investment in shares or not listed shares on the stock exchange, companies that are estimated based on information not observed at the market.

The fair value of securities measured at fair value through other comprehensive income was determined by the Group based on the results of external appraisers based on the net asset valuation method. For the purpose of comparison, the company-analogue method (capital market) was used, but the results of its use were not taken into account when determining the fair value of financial assets, since the multipliers were determined on the basis of data of companies operating in foreign jurisdictions and in addition the shares are minority stake.

The increase/decrease in the amount of net assets of companies used by the Group in the valuation model by 1.0%, leads to increase of the book amount by RR 2 043 thousand and decrease by RR 2 043 thousand respectively.

33 Fair value of Financial Instruments (continued)

Valuation of trading securities, including securities pledged under sale and repurchase agreements. Evaluation of BSPB CAPITAL VPF L.P. investments in the capital of companies in the amount of RR 569 313 thousand. The fair value of the Fund’s investments was determined in accordance with the International Guidelines for the Evaluation of Private Equity and Venture Funds (Private Equity and Venture Capital Valuation (IPEV)) based on the adjusted business value / revenue multiplier of public international companies according to industry.

The estimated weighted average adjusted multiplier “business value / revenue” was 6.44. The increase/decrease in the amount of multiplier by 1.0%, leads to increase of the book amount by RR 5 693 thousand and decrease RR 5 693 thousand respectively.

The table below shows the fair values of financial assets carried at amortised cost at December 31, 2018 and December 31, 2017:

	2018		2017	
(In thousands of Russian roubles)	**Carrying amount**	**Fair value**	**Carrying amount**	**Fair value**
Financial assets carried at amortised cost				
Loans and advances to customers				
Loans to corporate customers				
- loans to finance working capital	146 701 009	147 918 663	144 064 834	144 835 908
- investment loans	85 412 084	84 476 677	89 445 013	89 792 992
- loans to entities financed by government	19 553 764	18 903 809	11 728 995	11 589 626
Loans to individuals				
- mortgage loans	59 394 585	63 163 245	53 602 663	59 110 669
- car loans	3 459 502	3 505 547	2 063 886	2 108 660
- consumer loans to VIP clients	3 729 112	3 567 424	3 219 085	3 062 868
- other consumer loans	19 438 950	20 575 405	14 091 434	15 063 893
TOTAL	**337 689 006**	**342 110 770**	**318 215 910**	**325 564 616**

33 Fair Value of Financial Instruments (continued)

The following table provides fair values of financial liabilities carried at amortised cost as at December 31, 2018 and December 31, 2017:

(In thousands of Russian roubles)	2018 Carrying amount	2018 Fair value	2017 Carrying amount	2017 Fair value
Financial liabilities carried at amortised cost				
Customer accounts				
State and public organisations				
- Current/settlement accounts	15	15	171	171
Other legal entities				
- Current/settlement accounts	61 527 231	61 527 231	56 902 164	56 902 164
- Term deposits	86 818 615	86 929 401	90 482 623	90 668 708
- Securities sale and repurchase agreements	9 345 969	9 345 969	-	-
Individuals				
- Current accounts/demand deposits	65 669 586	65 669 586	52 331 101	52 331 101
- Term deposits	183 427 417	186 097 050	153 256 089	156 738 055
Bonds issued				
- Subordinated eurobonds	5 814 473	5 909 442	6 453 249	7 302 745
- Mortgage secured bonds issued by the mortgage agent	7 992 072	8 075 102	684 643	709 270
Promissory notes and deposit certificates issued				
- Promissory notes	7 977 063	8 283 713	7 253 343	8 933 856
- Deposit certificates	2	2	2	2
Other borrowed funds				
- Subordinated loans	1 465 719	1 442 021	1 566 231	1 519 524
- AKA AFK	-	-	337 513	336 085
TOTAL	**430 038 162**	**433 279 532**	**369 267 129**	**375 441 681**

Trading securities, including securities pledged under sale and repurchase agreements, investment securities, including securities pledged under sale and repurchase agreements, measured at fair value through other comprehensive income, derivative financial instruments are measured at fair value in the consolidated financial statements.

The Group estimates that the fair value of financial assets and liabilities, except those disclosed in the tables above, does not differ significantly from their book value.

The fair value hierarchies of financial assets and liabilities presented in the tables above are the following: issued bonds - Level 1, issued promissory notes and deposit certificates - Level 2, customer deposits - Level 2, other borrowed funds - Level 3, loans and advances to customers - Level 3.

33 Fair Value of Financial Instruments (continued)

Loans and receivables carried at amortised cost. The fair value of instruments with floating interest rates usually equals their carrying value. If market situation significantly changes the interest rates on loans and advances to customers and loans to banks with fixed interest rate may be revised. Interest rates on loans to customers issued just before the reporting date do not significantly differ from current interest rates on new instruments with similar credit risk and maturity date. If interest rates on earlier issued loans, according to the Group estimates, significantly differ from current interest rates for similar instruments as at the reporting date, the Group determines the estimated fair value for these loans. The estimate is based on discounted cash flows using current interest rates determined based on available market information for new instruments with similar credit risk and maturity date. Discounting rates depend on currency, maturity date and counterparty.

The following table provides analysis of interest rates on loans and advances to customers as at December 31, 2018 and December 31, 2017:

	2018	2017
Loans and advances to customers:		
Loans and advances to corporate customers	2,82% - 13,84% per year	1,25% - 13,18% per year
Loans to individuals	4,16% - 15,31% per year	3,52% - 15,97% per year

Financial liabilities carried at amortised cost. The estimated fair value of fixed interest rate and fixed maturity instruments that do not have a market price is based on discounted cash flows using interest rates determined on the basis of available information from the market for new instruments with similar credit risk and similar maturity. Discount rates used depend on the currency and maturity of the instrument and as of December 31, 2018 range from 0.01% to 8.69% per annum (2017: from 0.01% to 10.0% per annum).

The estimated fair value of other financial assets, including trade and business receivables, approximates their amortised cost, taking into account the short-term nature of the assets.

34 Related Party Transactions

For the purposes of these consolidated financial statements, parties are considered to be related if one party has the ability to control the other party, is under common control, or can exercise significant influence over the other party in making financial and operational decisions. In considering each possible related party relationship, attention is directed to the economic substance of the relationship, not merely to the legal form. The family of Mr. A.V. Savelyev, through the ownership of the Bank’s shares and the option to purchase interest in the companies currently controlled by the members of the Bank’s management (see Note 1), is the majority ultimate beneficiary of the Bank.

In the normal course of business, the Group conducts transactions with shareholders, management of the Group and other related parties.

As at December 31, 2018, the outstanding balances with related parties are as follows:

(In thousands of Russian roubles)	**Shareholders**	**Group’s Management**	**Other related parties**
Loans and advances to customers (contractual interest rates 3.00%–24.90% p.a.)	-	72 604	112
Allowance for expected credit losses for loans and advances to customers	-	(1 063)	(1)
Customer accounts (contractual interest rates 0.01% - 10.05% p.a.)	4 310 141	1 547 880	540 755

The income and expense items for transactions with related parties, other than compensation to the members of the Supervisory Board and the Management Board of the Bank, for the year ended December 31, 2018 are as follows:

(In thousands of Russian roubles)	**Shareholders**	**Group’s management**	**Other related parties**
Interest income	490	7 518	-
Interest expense	(163 426)	(55 151)	(33 375)
(Charge) recovery of allowance for expected credit losses	1	(793)	(1)
Fee and commission income	486	638	3 596

34 Related Party Transactions (continued)

Aggregate amounts lent to and repaid by related parties during 2018 are:

(In thousands of Russian roubles)	**Shareholders**	**Group’s management**	**Other related parties**
Amounts lent to related parties during the year	6 906	147 017	112
Amounts repaid by related parties during the year	7 512	129 036	-

As at December 31, 2017, the outstanding balances with related parties are as follows:

(In thousands of Russian roubles)	**Shareholders**	**Group’s management**	**Other related parties**
Loans and advances to customers (contractual interest rates 3.00%–24.90% p.a.)	606	54 623	-
Allowance for expected credit losses for loans and advances to customers	(1)	(270)	-
Customer accounts (contractual interest rates 0.01% - 12.40% p.a.)	2 881 368	1 496 803	692 211

The income and expense items for transactions with related parties, other than compensation to the members of the Supervisory Board and the Management Board of the Bank, for the year ended December 31, 2017 are as follows:

(In thousands of Russian roubles)	**Shareholders**	**Group’s management**	Other related parties
Interest income	9	8 740	9 091
Interest expense	(161 356)	(78 868)	(21 768)
(Charge) recovery of allowance for expected credit losses	(1)	(54)	23 330
Fee and commission income	119	1 062	1 354

Aggregate amounts lent to and repaid by related parties during 2017 are:

(In thousands of Russian roubles)	**Shareholders**	**Group’s management**	Other related parties
Amounts lent to related parties during the year	4 690	134 999	8
Amounts repaid by related parties during the year	4 128	169 260	116 657

In 2018, total remuneration of members of the Supervisory Board and the Management Board of the Bank, including pension contributions and discretionary bonuses, amounts to RR 444 487 thousand (2017: RR 680 108 thousand).

35 Consolidation of Companies

The Group's consolidated financial statements include the following subsidiaries:

Name	Country of incorporation	Ownership, % December 31, 2018	Ownership, % December 31, 2017	Principal activities
LLC BSPB Trading	Russian Federation	100%	100%	Operations on financial market
LLC BSPB Capital	Russian Federation	100%	100%	Securities management
4th Nevsky Fund, Combined CEIF	Russian Federation	100%	100%	Real estate investment
10th Nevsky Fund, Combined CEIF	Russian Federation	100%	100%	Real estate investment
13th Nevsky Fund, Combined CEIF	Russian Federation	100%	100%	Direct investment
16th Nevsky Fund, Combined CEIF	Russian Federation	100%	-	Direct investment
17th Nevsky Fund, Combined CEIF	Russian Federation	100%	-	Direct investment
Venture Project, Combined CEIF	Russian Federation	100%	100%	Direct and venture capital investment
BSPB CAPITAL VPF L.P.	Jersey, Channel Islands	100%	100%	Direct and venture capital investment

In December 2018, the Group decided to liquidate the subsidiary company BSPB-Trading in 2019.

LLC BSPB Capital is an asset management enterprise. The Bank uses this company to expand the range of investment products, including the fiduciary asset management of Bank customers.

4th Nevsky Fund, Combined CEIF, 10th Nevsky Fund, Combined CEIF, 13th Nevsky Real Estate Fund, Combined CEIF, 16th Nevsky Fund, Combined CEIF, and 17th Nevsky Fund, Combined CEIF are funds specialised in real estate and other assets management to increase their value.

Venture Project, Combined CEIF is a fund established for direct investing and investing in ventures.

BSPB CAPITAL VPF L.P operates as an investor, sells, exchanges and distributes investments in accordance with the investment policy under management of BSPB Capital GP Ltd.

The Bank uses BSPB Finance PLC, a structured entity, for issue of bonds on the international capital market (refer to Note 18).

BSPB Finance PLC is the issuer of a structured debt – loan participation notes issued solely to finance loans to the Bank. Loan participation notes represent secured debt, where the issuer pledges all amounts received and/or receivable under loan agreements with the Bank. The Bank compensates the issuer for all one-off and current expenses related to issuance and servicing of the loans.

35 Consolidation of Companies (continued)

The Bank uses “MA BSPB” LLC, a structured entity, under the securitisation programme sponsored by the Group. “MA BSPB” LLC operates in accordance with pre-determined criteria that are part of the initial structure of the company (refer to Note 10).

“MA BSPB” LLC is sponsored by the Group under its securitisation programme is run according to pre-determined criteria that are part of the initial structure of the company. Outside of the day-to-day servicing of the mortgage loans (which is carried out by the Group under a servicing contract), key decisions are required only when mortgage loans go into default, and it is the Group that makes those decisions. In addition, the Group is exposed to a variability of returns from the “MA BSPB” LLC through provision of credit line to the company, contractual obligation to sell default mortgage loans to the Bank and Bank’s holding of debt securities issued by this company. As a result, the Group concluded that it controls the company and its financial statements were included in the consolidated financial statements as at December 31, 2018 and as at December 31, 2017.

The Bank uses “MA BSPB 2” LLC, a structured entity, under the securitisation programme sponsored by the Group. “MA BSPB 2” LLC operates in accordance with pre-determined criteria that are part of the initial structure of the company (refer to Note 10).

“MA BSPB 2” LLC is sponsored by the Group under its securitisation programme is run according to pre-determined criteria that are part of the initial structure of the company. Outside of the day-to-day servicing of the mortgage loans (which is carried out by the Group under a servicing contract), key decisions are required only when mortgage loans go into default, and it is the Group that makes those decisions. In addition, the Group is exposed to a variability of returns from the “MA BSPB” LLC through provision of credit line to the company. As a result, the Group concluded that it controls the company and its financial statements were included in the consolidated financial statements as at December 31, 2018.

36 Principles of Accounting Policies Applied until January 1, 2018

The principles of the Group's accounting policies that were applied for the period ended December 31, 2017, and which were changed in accordance with the enactment of IFRS 9 Financial Instruments, are set out below.

The main approaches to the assessment. Financial instruments are carried at cost, fair value or amortised cost, depending on their classification. Below is a description of these assessment methods.

The initial cost is the amount of cash or cash equivalents paid or the fair value of other resources provided to acquire the asset at the date of purchase and includes transaction costs. Transaction costs are additional costs and are directly related to the acquisition, issue or disposal of a financial instrument. Incremental costs are costs that would not have been incurred if the transaction had not taken place. Transaction costs include fees and commissions paid to agents (including employees acting as sales agents), consultants, brokers and dealers; fees paid to regulators and stock exchanges, as well as taxes and fees levied on the transfer of property. Transaction costs do not include premiums or discounts on debt obligations, financing costs, internal administrative expenses or storage costs.

Fair value - represents the price that can be obtained from the sale of an asset or paid when transferring a liability when conducting a transaction on a voluntary basis in the main market at the measurement date. The best confirmation of the fair value is the quotation of a financial instrument in an active market. Fair value is the current bid price for financial assets and the bid price for financial liabilities that are quoted in an active market. For assets and liabilities with mutually compensating risk, the Group may use mid-market prices to determine the fair value of positions with mutually compensating risks and apply the corresponding demand price or offer price to the net open position. A financial instrument is quoted in an active market if quotes can be freely and regularly obtained from the stock exchange or from another organization, and such quotes are the result of real and regular transactions carried out on market terms.

Valuation methods, such as the discounted cash flow model, as well as models based on data from similar transactions performed under market conditions or the present value of the investee, are used to determine the fair value of financial instruments for which market information on the transaction price is not available. For calculations using these valuation methods, it may be necessary to form judgments that are not supported by observable market data.

Amortised cost is the initial cost of an asset less any principal repayments, but including accrued interest, and for financial assets, less any write-down for incurred impairment losses. Accrued interest includes depreciation deferred at the initial recognition of transaction costs, as well as any premiums or discounts on the repayment amount using the effective interest method. Accrued interest income and accrued interest expenses, including accrued coupon income and amortised discount or premium (including a deferred commission fee, if any), are not shown separately, but are included in the carrying amount of the relevant assets and liabilities.

The effective interest method is a method of recognising interest income or interest expense over the relevant period to ensure a constant interest rate (effective interest rate) on the carrying amount of the instrument. The effective interest rate is the exact discount rate for estimated future cash payments or receipts (not including future loan losses) for the expected term of the financial instrument or, if appropriate, for a shorter period to the net book value of the financial instrument. The effective interest rate is used to discount the cash flows of the floating rate instruments to the next interest change date, with the exception of the premium or discount, which reflects the credit spread at the floating rate specified for this instrument, or other variables that are not set depending on the market. values. Such premiums or discounts are amortised over the entire expected life of the instrument. The calculation of the discounted value includes all commissions and fees paid and received by the parties to the contract and constituting an integral part of the effective interest rate (see Accounting Principles for Accounting for Income and Expenses).

Initial recognition of financial instruments. Trading securities and derivatives are initially recognised at fair value. All other financial instruments are initially recorded at fair value, including transaction costs. The best confirmation of the fair value at initial recognition is the transaction price. Profit or loss upon initial recognition is taken into account only if there is a difference between the fair value and the price of the transaction, which can be confirmed by other observed current transactions with the same instrument in the market or the valuation method that uses only data from observable markets as basic data.

36 Principles of Accounting Policies Applied until January 1, 2018 (continued)

The purchase and sale of financial assets that are to be delivered within the timeframes established by law or business practice for a given market (buying and selling under “standard terms”) are reflected on the date of the transaction, that is, the date when the Group undertakes to buy or sell financial asset. All other acquisitions are recognised when the Group becomes a party to the contract for a given financial instrument.

Derecognition of financial assets. The Group derecognises financial assets, (a) when these assets are redeemed or the rights to cash flows associated with these assets have otherwise expired, or (b) the Group has transferred the rights to cash flows from financial assets or entered into a transfer agreement, i) also transferred substantially all the risks and rewards of ownership of these assets, or (ii) did not transfer or retain substantially all the risks and rewards of ownership of these assets, but lost control over these assets. Control is retained if the counterparty has no practical opportunity to sell the asset to an unrelated third party without additional restrictions on the sale.

Trading securities. Trading securities are classified as financial assets at fair value, changes in which are recorded in profit or loss, and are classified as held for trading because they are securities acquired for the purpose of generating profit from short-term fluctuations in price or trading margin or as part of the portfolio actually used for short-term profit. The group classifies securities as trading securities if it has an intention to sell them within a short period from the date of purchase, that is, within 1 to 6 months.

Trading securities are carried at fair value. Interest earned on trading securities calculated using the effective interest method is presented as interest income in profit or loss for the year. Dividends are recorded as part of other operating income when the right to receive the corresponding payments is established and subject to the existence of the likelihood of dividends. All other components of the change in fair value, as well as gains or losses on derecognition, are recognised in profit or loss for the year as gains less losses from trading securities in the period in which they arise.

Loans to banks. Loans to banks are accounted for when the Group provides cash to counterparty banks in the form of advance payments, and the Group has no intention to conduct trading operations with this instrument. Loans to banks are carried at amortised cost.

Loans and advances to customers. Loans and advances to customers are accounted for when the Group provides cash to customers in the form of advance payments for the purpose of acquiring or creating receivables that are not related to derivative financial instruments and have no quotations on the open market, which is repayable on a fixed or determined date, and the Group has no intention to trade with this debt. Loans and advances to customers are carried at amortised cost.

Impairment of financial assets carried at amortised cost. Impairment losses are recognised in profit or loss when incurred as a result of one or more events (“loss events”) that occurred after the initial recognition of a financial asset and affect the amount or timing of estimated future cash flows that can be estimated with a reasonable degree of reliability . If the Group does not have objective evidence of impairment for an individually assessed financial asset (regardless of its materiality), this asset is included in a group of financial assets with similar credit risk characteristics and is assessed together for impairment. The main factors that the Group takes into account when considering the impairment of a financial asset are its overdue status and the availability of collateral, if any.

36 Principles of Accounting Policies Applied until January 1, 2018 (continued)

The following are the main criteria on the basis of which the presence of objective evidence of impairment loss is determined:

- delay of any next payment, while late payment can not be explained by the delay in the work of settlement systems;
- the borrower has significant financial difficulties, as evidenced by the financial information about the borrower held by the Group;
- the borrower faces bankruptcy or another financial reorganisation;
- there is a negative change in the payment status of the borrower, due to changes in the national or local economic conditions that affect the borrower;
- the value of collateral significantly decreases as a result of deteriorating market conditions;
- the presence of a delay in the implementation of the borrower's investment projects; or
- problems with debt servicing by the borrower are expected, due to the instability of the cash flow of the borrower due to cyclical activity or uneven receipt of revenue.

For the purpose of aggregate assessment of impairment, financial assets are grouped on the basis of similar credit risk characteristics. These characteristics relate to the estimation of future cash flows for groups of such assets and indicate the debtors' ability to repay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively assessed for impairment are determined on the basis of contractual cash flows associated with these assets, and based on statistics held by management, on the amount of overdue debt that will arise as a result of loss events that occurred and the success of overdue repayment. Past experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect previous periods, as well as to eliminate the effect of past events that do not exist in the current period.

Impairment losses are recognised by creating a reserve in the amount necessary to reduce the carrying amount of the asset to the present value of expected cash flows (which does not include future loan losses that are not yet incurred) discounted using the original effective interest rate on this asset. The calculation of the discounted value of the expected future cash flows of the secured financial asset includes cash flows that may arise from the creditor’s ownership of the debtor’s property, minus the cost of obtaining and selling the collateral, regardless of the degree of credibility of the creditor’s ownership of the debtor’s property.

If in a subsequent period the amount of the impairment loss decreases and this decrease can be objectively attributed to an event occurring after the impairment was recognised (such as, for example, an increase in the debtor’s credit rating), the previously recognised impairment loss is reversed by adjusting the established provision through profit or loss for the year .

Assets whose repayment is impossible and in respect of which all necessary procedures have been completed for the purpose of full or partial reimbursement and the final amount of the loss is determined are written off at the expense of the allowance for impairment formed in the consolidated statement of financial position.

Investment securities available-for-sale. This category of securities includes investment securities that the Group intends to hold for an indefinite period of time and that may be sold depending on the requirements for maintaining liquidity or as a result of changes in interest rates, exchange rates or stock prices. The Group classifies investments as available for sale at the time of their acquisition.

Available-for-sale investment securities are carried at fair value. If for certain types of securities available for sale it is not possible to estimate their fair value with a sufficient degree of reliability, these securities are recorded at cost. Dividends on available-for-sale equity securities are recognised in profit or loss when the Group's right to receive payments is determined and it is probable that dividends will be received. All other components of the change in fair value are recorded directly in equity until the investment is derecognised or impaired, and the cumulative gain or loss is transferred from the category of other comprehensive income to profit or loss for the year.

36 Principles of Accounting Policies Applied until January 1, 2018 (continued)

Impairment losses are recognised in profit or loss for the year as they arise as a result of one or more events (“loss events”) that occurred after the initial recognition of investment securities available-for-sale. A significant or prolonged decline in the fair value of a share security below its acquisition cost is a sign of its impairment. The cumulative impairment loss, defined as the difference between the cost of an acquisition and the current fair value less an impairment loss on the asset, which was initially recognised in profit or loss, is transferred from the category of other comprehensive income to profit or loss for the year. Impairment losses on equity instruments are not reversed, and subsequent income is recorded as part of other comprehensive income. If, in a subsequent reporting period, the fair value of a debt instrument classified as available for sale increases, and such an increase can be objectively attributed to an event that occurred after the impairment loss was recognised in profit or loss, the impairment loss is restored through profit or loss for the year.

Credit and non-credit related commitments. The Group assumes credit-related commitments, including commitments to extend loans, letters of credit and financial guarantees. Financial guarantees and letters of credit are irrevocable commitments to make payments in the event that a client fails to fulfill its obligations to third parties and are subject to the same credit risk as loans. Financial guarantees and letters of credit are initially recorded at fair value, confirmed, as a rule, by the amount of received commissions. This amount is amortised on a straight-line basis over the life of the obligations, with the exception of the commitment to extend the loan, if it is probable that the Group will enter into a specific loan agreement and will not plan the implementation of the loan within a short period after it is granted. Such fee and commission income associated with the loan commitment is recorded as deferred income and is included in the carrying amount of the loan upon initial recognition. At each reporting date, liabilities are measured at the highest of (i) the unamortised amount of initial recognition; and (ii) the best estimate of the expenditure required to settle the obligation at the reporting date.

Liabilities of a non-credit nature mainly include guarantees of performance of obligations - these are contracts providing for receipt of compensation if the other party to the contract does not fulfill the obligation specified in the contract. Such contracts do not transfer credit risk. Performance guarantees are initially recorded at fair value, confirmed, as a rule, by the amount of the consideration received. This amount is amortised on a straight-line basis over the term of the agreement. At the end of each reporting period, contracts performance guarantees are valued at the largest of (i) the unamortised balance of the initial recognition amount; and (ii) the best estimate of the costs necessary to settle the obligation at the end of the reporting period, discounted to the present value. If the Bank has a contractual right to apply to the client for reimbursement of sums paid to settle contracts for guarantees of fulfillment of obligations, these amounts should be recognised as loans and receivables as part of other assets after the transfer of compensation for loss to the beneficiary under the guarantee. In cases where the amount of remuneration is received on a periodic basis, the remuneration received is recognized in revenue evenly over the term of the contract.

The Group makes estimates and assumptions that affect the amounts of assets and liabilities recorded in the consolidated financial statements. Estimates and assumptions are continually analysed based on management experience and other factors, including expectations regarding future events that management believes are reasonable in the light of current circumstances. In the process of applying accounting policies, the management of the Group also uses professional judgments and estimates. Professional judgment, which has the most significant effect on the amounts recognized in the consolidated financial statements and estimates, which may result in significant adjustments to the carrying value of assets and liabilities during the next financial year, include:

36 Principles of Accounting Policies Applied until January 1, 2018 (continued)

Impairment losses on loans and advances. The Group reviews its loan portfolio for impairment on a regular basis. When determining whether an impairment loss should be reflected in profit or loss for the period, the Group applies professional judgments of the presence of visible signs indicating a measurable decrease in the estimated future cash flows for the loan portfolio before a decrease in a specific loan can be detected portfolio. Such an indicator may include measurable data on the negative change in the payment status of borrowers in a group or national or local economic conditions associated with default on assets in a group

Management applies estimates based on historical loss data on assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio that were used to predict future cash flows. The methodology and assumptions used to estimate the amounts and timing of future cash flows are regularly analyzed to reduce any discrepancy between estimated and actual losses.

Revaluation of investment securities available for sale. Investment securities available for sale are carried at fair value.

If for some types of equity securities classified in this category, it is not possible to estimate their fair value with a reasonable degree of reliability (no quotes in an active market, as well as other observable data, such as the price of an identical instrument in an active market), This type of securities is carried at cost less impairment.

A.V. Savelyev
Chairman of the Management Board

N.G. Tomilina
Chief Accountant