Commercial Bank Garant-Invest
(Joint Stock Company)
Financial Statements at 31 December 2018

Contents

FINANCIAL STATEMENTS AT 2018 DECEMBER 2018

Notes to the Financial Statements

FINEXPERTIZA

47/3, Leningradsky prospekt, Moscow, 125167, Russia
phone: +7 (495) 775-22-00
mailing address: 125167, Moscow, 55
e-mail: info@finexpertiza.com | www.finexpertiza.com

Ref № 1015 of 30.04.2019

INDEPENDENT AUDITOR'S REPORT

on financial statements of

Commercial Bank Garant-Invest

(Joint Stock Company)

for 2018

INDEPENDENT AUDITOR'S REPORT

To the shareholders and Board of Directors of CB Garant-Invest (JSC)

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

OPINION

We have audited the financial statements of Commercial bank Garant-Invest (Joint Stock Company) (hereinafter referred to as the "Bank") (OGRN 1027739127734, 127051, Moscow, 1-y Kolobovskiy pereulok, 23) which comprise:

- Statement of Financial Position at 31 December 2018;
- Income Statement for the year ended 31 December 2018;
- Statement of Comprehensive Income for the year ended 31 December 2018;
- Statement of Changes in Equity for the year ended 31 December 2018;
- Statement of Cash Flows for the year ended 31 December 2018;
- Notes to the Financial Statements.

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

BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Bank in accordance with the *Independence Rules of Auditors and Audit Firms* and with the *Code of Professional Ethics of Auditors* that complies with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants (IESBA Code)*, and we have fulfilled our other responsibilities in accordance with these requirements of the professional ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

OTHER INFORMATION

Management is responsible for the other information. The other information comprises the information included in the annual report but does not include the financial statements and our auditor's report thereon. The annual report will presumably be presented after the auditor's report date.

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

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

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

RESPONSIBILITIES OF MANAGEMENT AND THOSE CHARGED WITH GOVERNANCE FOR FINANCIAL STATEMENTS

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

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

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

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with 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 financial statements.

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

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

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

REPORT ON AUDIT IN ACCORDANCE WITH THE REQUIREMENTS OF FEDERAL LAW OF 2 DECEMBER 1990 NO 395-1 *BANKS AND BANKING ACTIVITIES*

The Bank's management is responsible for compliance with the statutory ratios set by the Bank of Russia and for compliance of the internal control and arranging risk management systems of the Bank to the requirements of the Bank of Russia to such systems.

We have audited the following in the course of the audit of the financial statements of the Bank for 2018 in accordance with Art. 42 of Federal Law of 2 December 1990 No-395-1 *Banks and Banking Activities:*

- Compliance by the Bank with the mandatory ratios set by the Bank of Russia as at 1 January 2019;
- Compliance of the quality control and risk management systems of the Bank with the requirements of the Bank of Russia to such systems.

The audit was limited by selected audit procedures based on our judgement as inquiries, analysis and study of documents, comparing the Bank's approved requirements, policies and procedures with the requirements of the Bank of Russia and recalculation and reconciliation of figures and other information.

Our audit resulted in the findings as follows:

1. Bank's compliance with the statutory ratios set by the Bank of Russia:

   The Bank's statutory ratios as at 1 January 2019 were within the limits set by the Bank of Russia.

   We have not performed any procedures with regard to the accounting records of the Bank except for those which we considered appropriate with the purposes to form an opinion whether the financial statements present fairly in all material respects its financial position as at 31 December 2018, financial performance and cash flows for 2018 in accordance with the Russian financial reporting standards for credit organizations.

2. Compliance of the quality control and risk management systems of the Bank with the requirements of the Bank of Russia to such systems:

   a) in accordance with the requirements and recommendations of the Bank of Russia as at 31 December 2018, the Bank's internal audit service is subordinated to and reports to the Bank's Board of Directors, the Bank's risk management departments are not subordinated to and do not report to the departments that take correspondent risks, directors of the internal audit service and risk management department of the Bank meet the qualification requirements as set out by the Bank of Russia.

   b) the Bank's internal documents as at 31 December 2018 that set out the procedures to identify and manage significant risks for the Bank such as credit, operational, market, interest rate, legal, liquidity and goodwill risks as well as stress testing procedures have been approved by the authorised management bodies of the Bank in accordance with the requirements and recommendations of the Bank of Russia;

   c) existence in the Bank as at 31 December 2018 of the reporting system with regard to significant for the Bank credit, operational, market, interest rate, legal, concentration, liquidity and goodwill risks as well as to the Bank's equity;

   d) regular and consistent reports prepared by the Bank's risk management departments and internal audit service during 2018 regarding management of credit, operational, market, interest rate, liquidity and goodwill risks complied with the Bank's internal documents. These reports comprised observations made by the Bank's risk management departments and internal audit service on assessing whether the procedures adopted by the Bank are efficient as well as recommendations to improve the procedures;

   e) as at 31 December 2018, the Bank's Board of Directors and its executive management bodies were responsible for control over the Bank's compliance with the maximum risk exposures and capital adequacy as set out in the Bank's internal documents. In order to control efficiency of the risk management procedures performed by the Bank and their consistency during 2018, the Bank's Board of Directors and its executive management bodies discussed the reports prepared by the Bank's risk management departments and internal audit service on a regular basis and considered action required to eliminate weaknesses.

We have performed audit procedures with regard to the quality control and risk management systems of the Bank for the purposes to verify compliance of the Bank's quality control and risk management systems to the requirements of the Bank of Russia for such systems.

Engagement Partner
Acting on the basis of letter of attorney No 02-01/-180662
of 1 July 2018 valid through 30 June 2019

Ms. Natalia Borzova

ОБЩЕСТВО С ОГРАНИЧЕННОЙ ОТВЕТСТВЕННОСТЬЮ "ФинЭкспертиза" МОСКВА Г.Р.№ 937341

Audit firm:
Limited Liability Company FinExpertiza
OGRN 1027739127734,
125167, Moscow, Leningradskiy prospekt, 47 bldg 3, premises X, floor 3, office 1,
member of self-regulating organization of auditors Russian Union of Auditors (Association),

ORNZ 11603076287
30 April 2019

CB Garant-Invest (JSC)
INCOME STATEMENT for 2018
(in thousands of Russian roubles, unless otherwise specified)

	Note	*2018*	2017
Interest income	5	1 181 494	1 401 354
Interest expense	5	(508 696)	(473 868)
Net interest income before provision for loan impairment		**672 798**	**927 486**
Reversal / (origination) of provision for loan impairment	6	406 192	(896 974)
Net interest income		**1 078 990**	**30 512**
Net gains from transactions with securities at fair value through other comprehensive income		8 154	37 940
Net gains from foreign currency transactions		21 539	63 737
Fee and commission income	7	125 173	128 746
Fee and commission expense	7	(43 059)	(41 243)
Provisions for other assets	11, 13, 15, 19	(78 357)	14 913
Other operating income		18 203	98 312
Operating income		**1 130 643**	**332 917**
Administrative and other operating expenses	8	(254 799)	(170 934)
Profit before income tax		**875 844**	**161 983**
Income tax (expense) /recovery	9	(425 436)	3 213
Net profit		**450 408**	**165 196**

Signed on behalf of the Board of the Bank on 29 April 2019

Chairman of the Board
I.L. Kasyanov

Chief Accountant
N.P. Bagdashkina

КБ
"Гарант-Инвест"
(АО)
Акционерное общество Коммерческий банк "Гарант-Инвест"
Москва
1037739429320

The notes on pages 13-58 are an integral part of the financial statements.

CB Garant-Invest (JSC)
STATEMENT OF COMPREHENSIVE INCOME for 2018
(in thousands of Russian roubles, unless otherwise specified)

	2018	2017
Profit for the period recognised in income statement	**450 408**	**165 196**
Other comprehensive income:		
Change in revaluation reserve of property and equipment	-	(586)
Change in revaluation reserve of investment securities at fair value through other comprehensive income	(54 753)	12 848
Income tax attributable to comprehensive income	10 951	(2 570)
Other comprehensive income after tax	**(43 802)**	**9 692**
Comprehensive income for the period	**406 606**	**174 888**

Signed on behalf of the Board of the Bank on 29 April 2019

Chairman of the Board
I.L. Kasyanov

Chief Accountant
N.P. Bagdashkina

Акционерное общество Коммерческий банк "Гарант-Инвест" ОГРН 1037739429320
КБ
"Гарант-Инвест"
(АО)
МОСКВА

The notes on pages 13-58 are an integral part of the financial statements.

CB Garant-Invest (JSC)
STATEMENT Of FINANCIAL POSITION AT 31 DECEMBER 2018
(in thousands of Russian roubles, unless otherwise specified)

	Note	31 December 2018	31 December 2017
ASSETS			
Cash and cash equivalents	10	872 303	484 418
Mandatory cash balances with the Central Bank of the Russian Federation		71 172	69 342
Due from other banks	11	59 544	19 072
Loans to customers	12	6 502 045	7 945 786
Securities at fair value through other comprehensive income	13	2 783 188	2 533 451
Property and equipment	14	8 312	9 951
Deferred tax asset	9	-	27 652
Other assets	15	215 277	256 804
TOTAL ASSETS		10 511 841	11 346 476
LIABILITIES			
Due to other banks	16	1 390 673	1 930 872
Customer accounts	17	6 737 961	6 712 556
Debt securities issued	18	14 634	171 991
Deferred tax liability	9	156 319	-
Other liabilities	19	122 153	84 191
Subordinated borrowings	20	-	403 934
TOTAL LIABILITIES		8 421 740	9 303 544
EQUITY			
Share capital	21	909 512	909 512
Share premium		40 295	40 295
Additional capital	21	775 500	775 500
Indefinite-term subordinated loans	20	478 646	-
Revaluation reserve of investment securities at fair value through other comprehensive income		(17 072)	14 294
Retained earnings		(96 780)	303 331
TOTAL EQUITY		2 090 101	2 042 932
TOTAL LIABILITIES AND EQUITY		10 511 841	11 346 476

Signed on behalf of the Board of the Bank on 29 April 2019

Chairman of the Board
I.L. Kasyanov

АКЦИОНЕРНОЕ ОБЩЕСТВО Коммерческий банк "Гарант-Инвест" ОГРН 1037739429920
КБ "Гарант-Инвест" (АО)
МОСКВА

Chief Accountant
N.P. Bagdashkina

The notes on pages 13-58 are an integral part of the financial statements.

CB Garant-Invest (JSC)
STATEMENT OF CASH FLOWS for 2018
(in thousands of Russian roubles, unless otherwise specified)

	Note	2018	2017
Cash flows from operating activities			
Interest and fee and commission receipts		1 487 932	1 497 650
Interest and fee and commission payments		(484 539)	(518 888)
Net gains on transactions with financial assets at fair value through profit or loss and available-for-sale		(629)	1 750
Net gains on foreign currency transactions		(111 476)	103 788
Other operating income		27 054	22 704
Administrative and other operating expenses		(426 145)	(312 217)
Income tax paid		(20 597)	(58 060)
Cash flows from operating activities before changes in operating assets and liabilities		**471 600**	**736 727**
(Increase)/decrease in operating assets and liabilities			
Net decrease / (increase) in mandatory cash balances with the Central Bank of the Russian Federation		(1 830)	14 747
Net decrease /(increase) in due from other banks		(42 769)	(9 691)
Net decrease / (increase) in loans to customers		907 019	(84 108)
Net decrease / (increase) in other assets		(39 414)	76 406
Net (increase)/ decrease in due to other banks		(539 943)	803 111
Net (increase) / decrease in customer accounts		21 633	(609 067)
Net (increase) / decrease in other liabilities		(154 136)	4 582
Net cash provided from operating activities		**622 160**	**932 707**
Cash flows from investing activities			
Securities at fair value through other comprehensive income		(372 700)	(983 260)
Additions and disposals of property and equipment and intangible assets		(1 207)	(4 629)
Net cash (used in) investing activities		**(373 907)**	**(987 889)**
Cash flows from financing activities			
Additional issue of shares		-	222 472
Dividends paid		(1)	-
Net cash provided from / (used in) financing activities		**(1)**	**222 472**
Effect of exchange rate changes on cash and cash equivalents		139 633	(37 993)
Net increase / (decrease) in cash and cash equivalents		**387 885**	**129 297**
Cash and cash equivalents at the beginning of the period		484 418	355 121
Cash and cash equivalents at the end of the period		872 303	484 418

Signed on behalf of the Board of the Bank on 29 April 2019

Chairman of the Board
I.L. Kasyanov

КБ «Гарант-Инвест» (АО)

Chief Accountant
N.P. Bagdashkina

The notes on pages 13-58 are an integral part of the financial statements.

CB Garant-Invest (JSC)
STATEMENT OF CHANGES IN EQUITY for 2018
(in thousands of Russian roubles, unless otherwise specified)

	Share capital	Share premium	Additional capital	Indefinite-term subordinated loans	Revaluation reserve of investment securities at fair value through other comprehensive income	Revaluation reserve of property and equipment	Retained earnings	Total
31 December 2016	687 040	40 295	775 500	-	4 016	586	138 135	1 645 572
Additional issue of shares	222 472	-	-	-		-	-	222 472
Comprehensive income for the period	-	-	-	-	10 278	(586)	165 196	174 888
31 December 2017	909 512	40 295	775 500	-	14 294	-	303 331	2 042 932
Impact of adopting IFRS 9	-	-	-	-	12 436	-	(850 519)	(838 083)
31 December 2017 restated under IFRS 9	909 512	40 295	775 500	-	26 730	-	(547 188)	1 204 849
Modification of terms in subordinated loan	-	-	-	478 646	-	-	-	478 646
Comprehensive income for the period	-	-	-	-	(43 802)	-	450 408	406 606
31 December 2018	909 512	40 295	775 500	478 646	(17 072)	-	(96 780)	2 090 101

Signed on behalf of the Board of the Bank on 29 April 2019

Chairman of the Board
I.L. Kasyanov

КБ
"Гарант-Инвест"
(АО)

Chief Accountant
N.P. Bagdashkina

The notes on pages 13-58 are an integral part of the financial statements.

(in thousands of Russian roubles, unless otherwise specified)

1. INTRODUCTION

Commercial bank Garant-Invest (Close Joint Stock Company) (hereinafter referred to as "the Bank") is a credit organization established by reorganization of Commercial bank Garant-Invest (Limited Liability Company) based on decision of the general shareholders meeting (minutes No 19 of 9 June 1999). In November 2014, CB Garant-Invest CJSC was renamed into CB Garant-Invest JSC.

The Bank operates on the basis of the license issued by the Bank of Russia on 24 October 2014 No 2567 to perform bank transactions with funds of corporations and individuals in Roubles and foreign currencies.

The Bank is a holder of the licenses as follows: license to perform banking transactions in Roubles in foreign currencies No 2567 (with corporations and individuals) of 24 October 2014; license to perform broker activities No 077-07634-100000 of 23 April 2004 (unlimited); license to perform dealer activities No 077-07636-010000 of 23 April 2004 (unlimited); license to perform security management activities No 077-07638-001000 of 23 April 2004 (unlimited); license of a professional participant of security market for depositary activities No 045-14061-000100 issued by the Bank of Russia on 28 May 2018 (unlimited).

CB Garant-Invest (JSC) was registered in the system of obligatory deposit insurance on 15 July 2005 with registration number 838.

The Bank is member of Association of Russian Banks, Moscow Interbank Currency Exchange, International Payment Systems VISA, MasterCard Worldwide, DinersClub, Russian National Association SWIFT (ROSSWIFT), as well as the founder of Non-profit partnership Russian Trade Centres Council.

The principal activities of the Bank are deposit taking and customer accounts maintenance, lending and issuing guarantees, cash and settlement operations of legal persons, including correspondent banks, and individuals as well as operations with securities and foreign exchange.

Registered address and location is 127051, Moscow, 1-y Kolobovskiy pereulok, 23.

The average number of the Bank's personnel for 2018 amounted to 107 persons (2017:: 108 persons).

The following table provides information on the major Bank's shareholders as at 31 December 2018 and as at 31 December 2017:

Name	31 December 2018 Share, %	31 December 2017 Share, %
A.Yu. Panfilov	57,24	57,24
A.G. Kozovoy	9,00	11,00
ZAO Formulainvest	10,75	10,75
V.A. Korobchenko	6,93	6,93
T.V. Bulavintseva	2,55	0,55
V.F. Smirnov	2,37	2,37
I.P. Biryukova	1,71	1,71
E.V. Biryukova	1,71	1,71
Yu.V. Panfilov	1,35	1,35
A.M. Sayglov	1,11	1,11
N.A. Gorbunova	1,09	1,09
T.G. Panfilova	1,03	1,03
O.P. Panfilova	0,91	0,91
Others with less than 1% of the share capital	2,25	2,25
Total	100,00	100,00

As at 31 December 2018 and 31 December 2017, the ultimate beneficiary of ZAO Formulainvest is Oleg Nikolaevich Semenyutin.

2. OPERATING ENVIRONMENT OF THE BANK

Background

The economy of the Russian Federation displays certain characteristics of an emerging market including its dependence on prices on oil and gas. The legal, tax and regulatory systems continue to evolve, however, are subject to varying interpretations and changes which can occur frequently. The recent conflict in Ukraine and related events has increased the perceived risks of doing business in the Russian Federation. The imposition of economic sanctions on Russian individuals and legal entities by the European Union, the United States of America, Japan, Canada, Australia and others, as well as retaliatory sanctions imposed by the Russian government, has resulted in increased economic uncertainty including more volatile equity markets, a reduction in both local and foreign direct investment inflows and a significant tightening in the availability of credit.

At the same time there are indications that the economy has adapted to the international sectorial sanctions imposed against the Russian Federation. Thus, GDP dynamics remains in the positive zone and GDP growth in 2018 is estimated at 2.3% year-on-year while in 2017 GDP growth was estimated at 1.6% year-on-year. The situation in the labour market has improved: the unemployment rate at the end of 2018 decreased to 4.8% versus 5.1% in December 2017; the real accrued wages increased by 6.8% in annual terms against growth by 2.9% in 2017. The growth of wages in the economy was supported by the increase in wages of state employees under decrees of President of the Russian Federation and in the increase in the minimum wage. The real disposable income of households decreased by 0.2% year-on-year against a decline by 1.2% in 2017. The retail sales increased by 2.6% in 2018 while in 2017 the growth rate comprised 1.3%.

However there are certain negative factors. The consumer confidence index which reflects the total consumer expectations of the public decreased by 6.0% to (17.0)% in the fourth quarter of 2018 compared to the fourth quarter of 2017. Annualized inflation accelerated to 4.3% by the end of 2018 compared to 2.5% in December 2017. The acceleration is explained by the preparation for the increase in VAT from 18% to 20%, the weakening of the Russian Rouble on the background of capital outflows and the growth of geopolitical tensions, as well as a weak harvest. This led to a tightening of monetary policy by the Bank of Russia in the second half of the year: the key rate was decreasing during 2018, however by the end of 2018 it returned to its initial level which was in the end of 2017 and remained at 7.75% p.a.

Oil prices increased in 2018: the average price for Urals oil in 2018 was 69.8 US dollars per barrel versus 53.4 US dollars per barrel in 2017. The average Russian Rouble exchange rate for the fourth quarter of 2018 weakened (66.6 Russian Roubles per 1 US dollar) compared to the first quarter of 2018 (56.9 Russian Rouble per 1 US dollar). The weakening of the exchange rate is mainly due to the outflow of capital from developing countries and the growth of geopolitical tensions. The average Russian Rouble exchange rate was 62.8 Russian Roubles per US dollar in 2018.

In 2018 the Russian banking sector earned profit of RUB 1,345 billion versus RUB 790 billion in 2017. In 2018 assets of the Russian banking system adjusted for the foreign exchange revaluation increased by 6.9% compared to 2017. The loan portfolio of the banking sector increased by 10.7% in 2018 due to growth in loans to non-financial organizations and individuals by 5.8% and 22.8% respectively (adjusted for the foreign exchange revaluation).

The situation on the Russian stock markets has deteriorated. The RTS index decreased by 7.4% in 2,018 compared to 2017. However, MOEX Russia index increased by 12% due to Russian Rouble exchange rate weakening.

International rating agencies improved the outlook for the sovereign credit ratings of the Russian Federation. In January 2018 Moody's improved the outlook from "stable" to "positive" keeping the rating at Ba1. In February 2018 the international rating agency Standard & Poor's increased the sovereign credit rating of the Russian Federation from the speculative level of BB+ to the investment BBB- with the "stable" outlook. In August 2018, Fitch confirmed the sovereign credit rating of the Russian Federation at the investment level BBB- with the positive outlook.

The conflict in Ukraine and related events has increased the perceived risks of doing business in the Russian Federation. The longer term effects of recently implemented sanctions, as well as the threat of additional future sanctions, are difficult to determine.

Economic progress in the Russian Federation rely heavily on external factors and domestic ones as well including action taken by the Russian Government to sustain economic growth and improving the legal, regulatory bases.

The economic environment significantly influences the Bank's activities and its financial position. The Bank takes all necessary measures to sustain stability and business development, however, the effect of the economic situation is hardly possible to forecast and the management's estimates and expectations may differ from actual results.

(in thousands of Russian roubles, unless otherwise specified)

Inflation

The Russian economy is characterized by a relatively high inflation. The following table provides for inflation rates applicable during the previous five years.

	Inflation for the period
31 December 2018	4,3%
31 December 2017	2,5%
31 December 2016	5,4%
31 December 2015	12,9%
31 December 2014	11,4%

Currency transactions and currency control

Foreign currencies especially US dollars and EUR have a significant effect on identifying economic parameters of many economic events in the Russian Federation.

The rates of USD and EUR against RUB are given in the table below:

	USD	EUR
31 December 2018	69,4706	79,4605
31 December 2017	57,6002	68,8668
31 December 2016	60,6569	63,8111
31 December 2015	72,8827	79,6972
31 December 2014	56,2584	68,3427

3. BASIS OF PREPARATION

General

These financial statements are prepared in compliance with International Financial Reporting Standards. The Bank maintains its records in accordance with the applicable legislation in the Russian Federation. These financial statements are based on the Bank's statutory books and records, adjusted and reclassified to comply with IFRSs.

Functional and presentation currency

The functional currency is the currency which mostly influences selling prices of goods and services (this is the currency in which selling prices of goods and services are denominated, payments on them, labour, material and other expenditure and other expenses related to delivery of goods and services are settled).

The presentation currency is the currency in which the financial statements are presented.

Functional currency of the Bank is the rouble of the Russian Federation that is the functional currency of the Bank and the presentation currency of these financial statements.

Estimates and assumptions

Preparation of financial statements in accordance with IFRS requires the management of the Bank to make estimates and assumptions that affect the amounts of assets and liabilities of the Bank, disclosure of contingent assets and liabilities as at the reporting date and the income and expenses amounts for the reporting period. Actual results may differ from those estimates. Estimates different fro the actual results are most probably related to formation of provisions for losses, impairment of assets and measurement of fair value of financial assets.

Going concern

These financial statements reflect the Bank management's assessment of the impact of the Russian business environment on the operations and the financial position of the Bank. Economic progress in the Russian Federation rely heavily on the efficiency of actions taken by the Russian Government and other factors including legal and political events beyond the Bank's control. The Bank management can't foresee the effect of the aforementioned factors on the Bank's financial position.

The financial statements of the Bank have been prepared on the going concern assumption.

Changes in the accounting policies

The accounting policies and calculation methods used in preparing these financial statements are consistent with those accounting policies and calculation methods applied and described in the Bank's financial statements for the year ended 31 December 2017 except for the application of the new standards as specified below since 1 January 2018.

The Bank has not adopted new standards, interpretations and amendments that have not become effective.

The Bank has adopted the new standards and interpretations specified below since 1 January 2018. The nature and effect of them are disclosed below.

IFRS 9 Financial Instruments

IFRS 9 replaces IAS 39 Financial Instruments: Recognition and Measurement and is effective for annual periods beginning on or after 1 January 2018. The Bank has not restated the comparative information for 2017 with regard to financial instruments which are within the scope of IFRS 9. The comparative information for 2017 is presented in accordance with IAS 39 and is not consistent with the information presented for 2018. The differences arisen due to transition to IFRS 9 have been recognised directly in equity as at 1 January 2018 and are disclosed below.

(a) Classification and measurement

Under IFRS 9, all debt financial assets that do not qualify for "solely payments of principal and interest" ("SPPI) requirement are initially recognised as financial assets at fair value through profit or loss (FVPL). Under this requirement debt instruments that are not consistent with a basic lending arrangement such as instruments a convertible instrument or a non-recourse loan are measured at FVPL.

For those debt financial instruments that meet the SPPI requirement, initial classification is based on the business model for managing the instruments:

- instruments held within a business model whose objective is to collect contractual cash flows are measured at amortised cost;
- instruments held within a business model whose objective is both to collect contractual cash flows and to sell are measured at fair value through other comprehensive income (FVOCI);
- Instruments held for other purposes are measured at FVPL.

Loans to customers that meet the SPPI requirement are held to collect contractual cash flows and measured at amortised cost.

Equity financial assets at initial recognition are classified as measured at FVPL except for the case when the Bank irrevocable designates an equity financial asset as measured at FVOCI. For equity financial instruments classified as measured at FVOCI, all realized and unrealized gains and losses except dividend income are recognised in other comprehensive income and further reclassification into profit or loss is not permitted.

Classification and measurement of financial liabilities remain unchanged compared to the requirements of IAS 39.

Derivative financial instruments will continue to be classified at FVPL. Embedded derivatives will no longer be separated from the basic financial asset.

(b) Impairment

Application of IFRS 9 changes the Bank's accounting treatment for impairment loss on loans to customers that are now based on expected credit losses (ECL) instead of the incurred loss model required by IAS 39. Since 1 January 2018, the Bank has recognised a credit loss allowance for ECL on all granted loans and other debt financial instruments other than measured at FVPL and on loan commitments and financial guarantee contracts named here as "financial instruments". Under IFRS 9, the impairment requirements do not apply to equity instruments.

Loss allowance for ECL is measured at an amount equal to the lifetime expected credit losses if the credit risk on that financial asset has increased significantly since initial recognition. In other cases a loss allowance is measured at an amount equal to the 12-month expected credit losses. 12-month expected credit losses are the portion of lifetime expected credit losses that result from default events on a financial instrument that are possible within the 12 months after the reporting date. Lifetime ECL and 12-month ECL are determined individually or collectively based on the financial instrument portfolio.

The Bank has applied a policy to determine, at each reporting period end, whether the credit risk on a financial instrument has increased significantly since initial recognition based on changes in default risk over the remaining lifetime of the financial instrument. The Bank groups loans granted as follows based on the procedure stated above:

Stage 1	The Bank recognised a loss allowance at initial recognition at an amount equal to 12-month ECL. Stage 1 also includes loans and credit lines where the credit risk has decreased to the extent they have been transferred out of Stage 2.
Stage 2	If the credit risk on a loan has increased significantly since initial recognition, the Bank recognises a loss allowance at an amount equal to lifetime ECL. Stage 2 also includes loans and credit lines where the credit risk has decreased to the extent they have been transferred out of Stage 3.
Stage 3	Credit-impaired loans. The Bank recognises a loss allowance at an amount equal to lifetime ECL.
POCI:	Purchased or originated credit-impaired (POCI) financial assets are assets that were credit-impaired at initial recognition. At initial recognition POCI financial assets are measured at fair value and subsequently interest income on them is recognised with use of the effective interest rate method (EIR) adjusted for credit risk. Loss allowance for ECL is recognised or derecognised only to the extent the amount of ECL is changed.

If the Bank does not objectively expect to recover a financial asset in full or in part, its gross carrying amount of such a financial asset is reduced. This reduction is considered as derecognition (partial derecognition) of the financial asset.

The Bank determines ECL based on risk-weighted scenarios so as to assess expected cash shortfalls which are discounted with use of EIR or its approximate amount. Cash shortfalls is the difference between all contractual cash flows that are due to an entity in accordance with the contract and all the cash flows that the entity expects to receive. The ECL assessment procedure is given below; its key components comprise:

Probability of default (PD)	Probability of default is an estimation of default over a certain period of time. Default can occur only a certain period of time during the period under consideration if the asset has not been derecognised and it is still a part of the portfolio.
Exposure at default (EAD)	Exposure at default (EAD) is the estimation of exposure at default at any date in the future based on the expected changes in the amount after the reporting date including repayment of the contractual principal amount and interest or otherwise and repayment of loans granted and interest accrued due to delays in payments.
Level of loss at default (LGD)	A level of the loss arising on default is the amount of losses of the debt at a time of possible default. LGD is based on the difference between contractual and expected cash flows also as a result of selling collateral. It is usually expressed as a percentage of the EAD.

When assessing ECL, the Bank determines PD, EAD and LGD for each loan. The Bank uses a wide range of information as economic input in its ECL assessment models. Impairment losses and their recovery are accounted for and presented separately from gains or losses from modification which adjust the gross carrying amount of financial assets.

The Bank considers that credit risk on a financial instrument has increased significantly since initial recognition of PD for one year doubled since initial recognition but no higher than 30 basic points. The Bank also applies an additional quality method to indicate a significant increase in credit risk on an asset such as a fact of problematic asset restructuring. Regardless of changes in the rating level, it is considered that if contractual payments are past due over 30 days, the credit risk has significantly increased since initial recognition.

The Bank considers that a default has occurred on a financial instrument and therefore classifies it within Stage 3 (credit-impaired assets) for the purposes of ECL assessment at any time when contractual payments become past due over 90 days. For treasury and interbank transactions, the Bank considers that a default has occurred and takes immediate action to eliminate it if at closing of the operational day all required daily payments in accordance with certain contracts have not been made.

(in thousands of Russian roubles, unless otherwise specified)

The Bank assesses ECL individually for the following assets: all assets within Stage 3, loan portfolio to corporate customers, treasury and interbank relationships (due from banks, reverse REPO agreements, debt instruments measured at amortised cost/at FVOCI), financial assets which were classified as POCI as result of debt restructuring at derecognition of the original loan and recognition of the new loan. The Bank assesses ECL collectively for all other types of assets which are grouped based on their external and internal features.

The table below shows the impact of IFRS 9 on the statement of financial position and retained earnings including the effect of replacing the incurred credit loss model under IAS 39 by ECL model under IFRS 9.

The table reconciles carrying amounts in accordance with IAS 39 with carrying amounts in accordance with IFRS 9 as at 1 January 2018:

	Measurement category under IAS 39 as at 31 December 2017		Reclassification	Measurement category under IFRS 9 as at 31 December 2018	
	Category	Amount		Amount	Category
Cash and cash equivalents	AC	484 418	-	484 418	Amortised cost
Mandatory cash balances with the Central Bank of the Russian Federation	AC	69 342	-	69 342	Amortised cost
Due from other banks	AC	19 072	(1 029)	18 043	Amortised cost
Loans to customers	AC	7 945 786	(995 095)	6 950 691	Amortised cost
Securities at fair value through other comprehensive income	FVPL	2 533 451	-	2 533 451	At fair value through other comprehensive income
Derivative financial instruments	FVPL	252	-	252	At fair value through profit or loss
Other financial assets	AC	5 951	-	5 951	Amortised cost
Other non-financial assets	-	260 552	-	260 552	-
Deferred tax asset	-	27 652	212 630	240 282	-
Total assets		11 346 476	(783 494)	10 562 982	
Financial liabilities	-	9 219 353	-	9 219 353	-
Non-financial liabilities	-	58 370	-	58 370	-
Provisions	-	25 821	51 480	77 301	-
Total liabilities		9 303 544	51 480	9 355 024	

Notes to the table above:

AC - measured at amortised cost

FVOCI - measured at fair value through other comprehensive income

FVPL - measured at fair value through profit or loss

The effect of transition to IFRS on reserves and retained earnings is given in the table below:

(in thousands of Russian roubles, unless otherwise specified)

	Reserves and retained earnings
Revaluation reserve of investment securities at fair value through other comprehensive income	
Closing balance under IAS 39 (31 December 2017)	14 294
Recognition of ECL under IFRS 9 for debt financial assets at FVOCI	12 436
Closing balance under IAS 9 (3 January 2018)	26 730
Retained earnings	
Closing balance under IAS 39 (31 December 2017)	303 331
Recognition of ECL under IFRS 9, including for financial assets at FVOCI	(850 519)
Closing balance under IAS 9 (3 January 2018)	(547 188)
Total changes in equity due to transition to IFRS 9	(838 083)

The table below reconciles the closing loss allowance for loans to customers in accordance with IAS 39 and provisions for loan commitments and financial guarantee contracts in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets to the credit loss allowance determined in accordance with IFRS 9:

	Impairment provision under IAS 39/IAS 37 31 December 2017	Reclassification	ECL under IFRS 9 1 January 2018
Loans and receivables at amortised cost	4 555 091	995 095	5 550 186
Loan commitments	8 790	452	9 242
Financial guarantees	17 031	51 028	68 059

IFRS 15 Revenue from Contracts with Customers

IFRS 15 was issued in May 2017 and amended in April 2016. The standard introduces a five-step model of accounting for revenue from contracts with customers. Under IFRS 15, the core principle is that an entity recognises revenue in an amount that reflects the consideration to which the entity expects to be entitled in exchange for the goods or services. However the standard does not apply to revenue from financial instruments and lease agreements and hence does not have a significant effect on the most part of the Bank's revenue including interest income, gains/(losses) from transactions with securities, revenue from leases which are within the scope of IFRS 9 Financial Instruments and IAS 17 Leases. Thus, most part of the Bank's revenue is not influenced by this standard.

New standards and interpretations not adopted yet

Certain new standards and interpretations have been published that are mandatory for the Bank's accounting periods beginning on or after 1 January 2019 and which the Bank has not early adopted:

IFRS 16 *Leases* (issued on 13 January 2016; effective for annual periods beginning on or after 1 January 2019). The new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. All lease agreements result in receiving the right of use of an asset by the lessee from the inception date of the lease agreement and in proceeds if lease payments are made over a period of time. Thus, IFRS 16 eliminates classification of leases into operating or finance leases in accordance with IAS 17 and introduces a single accounting model for leases by lessees. Lessees will be required to recognise: (a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and (b) depreciation of the right-of-use asset and interest on the lease liability separately in the profit and loss. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

IFRIC 23 - *Uncertainty over Income Tax Treatments* (issued on 7 June 2017 and effective for annual periods beginning on or after 1 January 2019). IAS 12 specifies how to account for current and deferred tax, but not how to reflect the effects of uncertainty. The interpretation clarifies how to apply the recognition and measurement requirements in IAS 12 when there is uncertainty over income tax treatments. An entity should determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments based on which approach better predicts the resolution of the uncertainty. An entity should assume that a taxation authority will examine amounts it has a right to examine and have full knowledge of all related information when making those examinations. If an entity concludes it is not probable that the taxation authority will accept an uncertain tax treatment, the effect of uncertainty will be reflected in determining the related taxable profit or loss, tax bases, unused tax losses, unused tax credits or tax rates, by using either the most likely amount or the expected value, depending on which method the entity expects to better predict the resolution of the uncertainty. An entity will reflect the effect of a change in facts and circumstances or of new information that affects the judgments or estimates required by the interpretation as a change in accounting estimate. Examples of changes in facts and circumstances or new information that can result in the reassessment of a judgment or estimate include, but are not limited to, examination or actions by a taxation authority, changes in rules established by a taxation authority or the expiry of a taxation authority's right to examine or re-examine a tax treatment. The absence of agreement or disagreement by a taxation authority with a tax treatment, in isolation, is unlikely to constitute a change in facts and circumstances or new information that affects the judgments and estimates required by the Interpretation.

Amendments to IFRS 9 *Prepayment Features with Negative Compensation* (issued on 12 October 2017 and effective for annual periods beginning on or after 1 January 2019). The amendments enable measurement at amortised cost of certain loans and debt securities that can be prepaid at an amount below amortised cost, for example at fair value or at an amount that includes a reasonable compensation payable to the borrower equal to present value of an effect of increase in market rate over the remaining life of the instrument. In addition, the text added to the standard's basis for conclusion reconfirms existing guidance in IFRS 9 that modifications or exchanges of certain financial liabilities measured at amortised cost that do not result in the derecognition will result in a gain or loss in profit or loss. Reporting entities will thus in most cases not be able to revise effective interest rate for the remaining life of the loan in order to avoid an impact on profit or loss upon a loan modification.

Annual Improvements to IFRSs 2015-2017 Cycle - amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23 (issued on 12 December 2017 and effective for annual periods beginning on or after 1 January 2019). The amendments impact four standards. IFRS 3 was clarified that an acquirer should remeasure its previously held interest in a joint operation when it obtains control of the business. Conversely, IFRS 11 now explicitly explains that the investor should not remeasure its previously held interest when it obtains joint control of a joint operation, similarly to the existing requirements when an associate become a joint venture and vice versa. The amended IAS 12 explains that an entity recognises all income tax consequences of dividends where it has recognised the transactions or events that generated the related distributable profits, e.g. in profit or loss or in other comprehensive income. It is now clear that this requirement applies in all circumstances as long as payments on financial instruments classified as equity are distributions of profits, and not only in cases when the tax consequences are a result of different tax rates for distributed and undistributed profits. The revised IAS 23 now includes explicit guidance that the borrowings obtained specifically for funding a specified asset are excluded from the pool of general borrowings costs eligible for capitalization only until the specific asset

Amendments to the Conceptual Framework for Financial Reporting (issued on 29 March 2018 and effective for annual periods beginning on or after 1 January 2020). The revised Conceptual Framework includes a new chapter on measurement; guidance on reporting financial performance; improved definitions and guidance - in particular the definition of a liability; and clarifications in important areas such as the roles of stewardship, prudence and measurement uncertainty in financial reporting.

Amendments to IFRS 1 and IAS 8 - Definition of Materiality (issued on 31 October 2018 and effective for annual periods beginning on or after 1 January 2020). The amendments clarify the definition of material and how it should be applied by including the definition guidance that until now has featured elsewhere in IFRS. Beside that the standard has improved explanations to the definition. The amendments provide consistency in use of the definition of materiality throughout the IFRS. Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.

The Bank is considering the implications of the above standards their impact on the Bank and the timing of their adoption by the Bank.

These financial statements include all the standards effective at the end of the reporting period.

4. SIGNIFICANT ACCOUNTING POLICIES

Cash and cash equivalents

Cash and cash equivalents are items which are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Cash and cash equivalents include cash balances, accounts balances in corresponded account with the Central Bank of the Russian Federation (other than mandatory cash balances with the Central Bank of the Russian Federation), account balances with settlement centres of Formal Securities market and Non-Bank Settlement and Credit Authority. Cash and cash equivalents do not include guarantee deposits for plastic cards. Funds restricted for a period of more than three months are excluded from cash and cash equivalents.

Mandatory cash balances with the Central Bank of the Russian Federation

Mandatory cash balances with the Central Bank of the Russian Federation represent cash deposited in the Central Bank and not intended for financing daily operations of the Bank. Hence they are not considered as part of cash and cash equivalents for the purposes of the cash flow statement.

Due from other banks

In the course of its normal operation the Bank places cash in other banks for various maturity periods. Due from other banks are carried at amortized cost on the basis of the effective interest rate method in case fixed maturity is provided. Loans that don't have fixed maturity dates are recorded in net cost accounts. Due from other banks are carried less provision for their impairment.

Financial assets

Since 1 January 2018, a financial asset at initial recognition is recognised as measured at amortised cost, fair value through other comprehensive income (FVOCI) or fair value through profit or loss (FVPL).

A financial asset shall be measured at amortised cost of both of the following conditions are met:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.
- A debt instruments shall be measured at fair value through other comprehensive income if both of the following conditions are met:
- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All other financial assets are classified as measured at FVPL.

However the Bank may make an irrevocable election at initial recognition for financial assets that would otherwise be measured at amortised cost or FVOCI as measured at FVPL if doing so eliminates or significantly reduces an accounting inconsistency that would otherwise arise.

Recognition and measurement of financial instruments

Financial assets and financial liabilities are recognised in the statement of financial position of the Bank when the Bank is a contractual party to a relevant financial instrument. The Bank records regular transactions of acquisition and sale of financial assets and liabilities at the settlement date.

Financial assets and liabilities are carried at cost that is the fair value of the consideration together with transactions costs. The accounting principles applied for subsequent measurement of financial assets and liabilities are disclosed in the relevant accounting policies provided below.

Fair value of financial instruments

The fair value of financial instruments is based on their quoted market price without any deduction for transaction costs.

For financial assets and financial liabilities recognised in the statement of financial position which fair value cannot be measured based on quoted market prices for similar financial instruments, valuation techniques including mathematic models are applied. Information for such models is taken from the observed market or a judgement. Judgement is based on such facts as time value of money, credit risk, volatility, market risk and others.

Amortized cost of financial instruments

Amortised cost of a financial asset or a financial liability is the amount at which the financial asset or the financial liability was recognised at initial recognition less any principal repayments, plus or minus accumulated amortization using the effective yield method, difference between the historical cost and the cost at settlement date, minus any write-down for incurred impairment loss.

Derecognition of financial assets

A financial asset is derecognised (or, if applicable, a part of a financial asset or a part of group of similar financial assets) when:

- the contractual rights to the cash flows from the financial asset expire;
- or it transfers or retains the rights to receive the contractual cash flows on the financial asset with a liability to pay them in full to third part without considerable delays; and
- when the Bank transferred substantially all of the risks and rewards of ownership of the financial asset or did not transfer but did not retain any risks and rewards from them but transferred the control over the asset. Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose additional restrictions.

When the Bank transferred the rights to receive the contractual cash flows on the financial asset or did not transfer but did not retain any risks and rewards from them and dif not transfer the control over the asset, recognition of such an asset is continued to the degree of the Bank's participation. Bank's participation in the asset which is then represented by a guarantee for the transferred asset is measured at the lower of initial carrying amount of the asset or its maximum recovery that the Bank might be claimed.

Securities at fair value through profit or loss

The Bank designates securities at fair value through profit or loss when they held for trading or other securities initially classified as financial assets at fair value through profit or loss.

A financial asset is designated as FVPL if it is acquired for being traded in the nearest future and is a part of identified financial instruments to be managed on comprehensive basis and which recent transactions evidence actual profitability.

Other securities designated as at fair value through profit or loss include financial assets that were initially recognised in this category. The management of the Bank designates financial assets as this category only of such designation eliminates or minimizes inconsistencies in the accounting that would otherwise arise due to measurement of assets of recognition of relevant income and expenses using other methods. The Bank also designates assets as this category if the Bank manages the group of financial assets and assesses their efficiency on the basis of fair value in accordance with the documented risk management strategy or investment strategy. The management of the Bank regularly discloses and revises the information on the group of financial assets managed on the basis of fair value.

Initially and subsequently securities at fair value through profit or loss are recorded at fair value that is based on quoted market prices or on the basis of different valuation techniques using an assumption on profitability to realize these financial assets in the future. Depending on circumstances, different valuation techniques can be applied. Available published quoted market prices are the best basis for the fair value of an instrument. When quoted market prices are not available, techniques related to the information on recent market transactions between knowledgeable willing and independent parties or to current fair value of similar instruments or to analysis of the discounted cash flow, or model for option price measurement are used. When a reliable valuation technique widely used by the market participants is available, it is advisable to apply such a technique.

Realized and unrealized income and expenses of transactions with financial assets at fair value through profit and loss to be recorded immediately at the period when they occur as income less transaction costs related to financial assets at fair value through profit or loss. Interest income from financial assets at fair value through profit and loss is calculated by effective interest method and is recorded in the income statement as interest income. Dividends received are recognized in the income statements as part of the operating expenses.

Under usual payment conditions, purchase and sale of securities at fair value through profit or loss are recorded at the transaction date, i.e. at the date when the Bank shall purchase or sell this asset (as an alternative the Bank can apply a recognition method at the settlement date).

Repurchase and reverse repurchase agreements (repos and reverse repos)

Repurchase agreements (REPO) are accounted for as financing transactions with collateral securities. Securities sold under REPO are recorded against Financial Assets at Fair Value through Profit or Loss Transferred without Derecognition, Financial Assets Measured at Amortised Cost Transferred without Derecognition or as Financial Assets at Fair Value through Other Comprehensive Income Transferred without Derecognition, based on the category the securities are recognized. Liabilities are recorded against Due to Other Banks or under similar items. Securities purchased under reverse repo agreements are classified as secured borrowings granted. The value of the securities is recognised against items Due from Other Banks or Loans to customers.

In case securities were sold to third parties, the financial performance from the sale shall be recognised in profit or loss through item Net Gains on Transactions with Financial Assets at Fair Value through Profit and Loss. The liability with regard to return of the securities shall be recognised in the statement of financial position as trade payables.

The Bank classifies the difference the selling (purchase) price and the reverse repurchase (reselling) as an interest income or expense and accrues it over the term of the repo agreement.

Loans to customers

Loans to customers represent financial assets that the Bank provided directly to the borrower as cash. Loans to customers are recorded in the accounts by the amortized cost on the basis of the effective interest rate method if they have fixed maturity dates. Loans to customers are carried less provision for possible losses.

Loans are initially recognized at historical cost that is the fair value of the provided cash. Subsequently loans to customers are measured at amortized cost using the effective interest method less provision for impairment.

Interest-bearing loans other than market interest rates are measured at payment date at fair value that is the principal and future interest payments discounted by interest market rates for similar loans. The difference between the fair and par values of the loan is recorded in the income statement as income from assets at rates higher than the market rates or as an expense from assets at rates lower than the market rates. Subsequently, the carrying amount of these loans will be adjusted by amortization of profit/(loss) from the loan and the correspondent profit is recorded in the income statement using the effective interest method.

Promissory notes purchased from third party issuers are carried as loans given.

Loans are recognized when cash is provided to borrowers.

For loans to customers, the Bank assesses loss allowance in an amount equal to lifetime ECL except for the instruments where the loss allowance is equal to 12-month ECL such as loans to customers with low credit risk, loans to customers where credit risk has not changed significantly since initial recognition.

Other credit related commitments

In its normal course of business, the Bank enters into other off-balance sheet credit related commitments including commitments to provide loans and guarantees. The accounting policy and methodology in respect to such commitments are similar to those in respect to loans provided as set above. The Bank creates other provisions for other credit related commitments if losses arising from such commitments are probable.

Securities measured at fair value through other comprehensive income

This category of securities include debt and equity investment securities that the Bank intends to hold during an uncertain period of time and that can be sold (exchanged) depending on the need to support liquidity of the Bank or on changes in interest rates, exchange rates or securities quotations.

The Bank classifies financial assets at the acquisition date. Securities at FVOCI at initial recognition are measured at fair value less costs incurred. As a rule the fair value is represented by its acquisition cost.

Securities at FVOCI are subsequently measured at fair value based on quotations of financial assets. Securities at FVOCI that do not have a quoted market price are measured at fair value of recent sale of similar equity securities by independent third parties, based on analysis of other information such as discounted cash flows and other financial information on the investment object and other valuation techniques.

Depending on circumstances there can be applied different valuation techniques. Unrealised gains and losses arising from change in the fair value of securities at FVOCI are recognised in other comprehensive income. Upon disposal of securities at FVOCI relevant accumulated unrealised gains and losses are recognised in profit or loss within Gains less losses from transactions with securities at FVOCI. Interest income from securities at FVOCI is based on the effective interest method and recognised in profit or loss within Interest Income. Dividends received are recognised in Other Income of the Income Statement when the Bank receives the right to obtain the payment and on condition that dividends are probable.

Financial liabilities

Financial liabilities are classified either as financial liabilities at fair value through profit or loss or as financial liabilities at amortised cost.

A financial liability is initially measured at its fair value plus, in the case of a financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial liability.

A financial liability is derecognised when a correspondent liability is settled, cancelled or expired.

When one existent financial liability is exchanged for another liability to the same creditor under significantly different conditions or if significant changes are made to the conditions of the existent liability, the initial liability is derecognised and a new one is recognised with a difference in the amount of the liability in the statement of comprehensive income.

Financial liabilities at amortized cost

Financial liabilities at amortized cost include loans and due to other banks, customer accounts, debt securities issued and subordinated borrowings.

Due to other banks. Amounts due to other banks are recorded when money or other assets are advanced to the Bank by counterparty banks.

Customer accounts. Customer accounts are non-derivative financial liabilities to individuals, state or corporate customers on settlement accounts and deposits.

Debt securities issued. Debt securities issued include promissory notes issued by the Bank. In the event the Bank repurchases own debt securities, these securities are removed from the statement of financial position and the difference between the carrying amount of the liability and the amount paid is included in other operating income as gains arising from retirement of debt.

Subordinated borrowings. Subordinated borrowings received by the Bank are recognised when the Bank receives cash.

Offsetting

Financial assets and liabilities are offset and the net amount is reported in the 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 realize the asset and settle the liability simultaneously.

Property and equipment

The cost of an item of property and equipment shall be recognises as an asset if it is probable that future benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably.

Measurement techniques for all groups of property and equipment are as follows:

- Initial measurement - at cost that comprises its purchase price, import duties, non-refundable purchase taxes, any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating;
- Subsequent measurement - at cost less any accumulated depreciation and impairment losses.

Subsequent expenditure is capitalized if the expenditure proposes future inflow of benefits to the Bank from the asset than it was supposed before.

Property and equipment acquired before 1 January 2003 are carried at cost with inflation indices prior to 1 January 2003 less accumulated depreciation and impairment losses.

Depreciation is charged to write off the assets over their useful lives. Depreciation for all groups of property and equipment is based on straight-line method with the following useful lives:

	Useful lives, years
Office equipment	5-20
Furniture	5-7
Transport and motor vehicles	3-5

Depreciation of construction in progress and assets not put into operation starts from the date of their putting into operation.

The Bank measures whether the carrying amount of the property and equipment does not exceed their recoverable amount at each reporting date. If the carrying amount of the property and equipment is higher than their recoverable amount, the Bank reduces the carrying amount to the recoverable amount. Impairment loss of property and equipment is recognised in the correspondent reporting period and charged to operating expenses of the income statement. Subsequent to recognition of the impairment loss, the depreciation charge on property and equipment are adjusted in the subsequent periods in order to allocate the recalculated carrying amount less their residual value (if any) on a straight-line basis over the residual useful lives.

Amortization of inseparable improvements of leased fixed assets is charged over the term of lease. Repair and capital repair are recognised when such expenditure incurs and are charged to operating expenses of the income statement except for when they are subject to capitalization.

Operating leases - the Bank as a lessor

The Bank recognises assets under an operating lease in the statement of financial position based on the nature of such assets. The lease income under an operating lease agreement is recognised in the income statement on a straight-line basis over the lease term within operating income. The total incentives granted to lessees are recognised as a reduction of lease income over the lease term on a straight-line basis. Initial direct costs incurred on operating lease agreements are added to the carrying amount of a leased out assets and recognised as an expense over the lease term equal to the lease income.

Other assets

Other assets include receivables, prepayments, conversion settlements, accrued income (fee and commission) and assets other than recognised in other accounts within the statement of financial positions.

Other liabilities

Other liabilities include taxes payable, settlements on conversion transactions, transactions with derivative financial instruments, provisions for credit related commitments and payables other than were recognised within the other liabilities of the Bank.

Dividends

Dividends are recognized as liabilities and are deductible from the capital at the reporting date in the event they were recognized prior to the reporting date inclusively. Information on dividends declared subsequent to the reporting date is disclosed in the notes on subsequent events. Russian legislation identifies the basis of distribution as the current year net profit.

Dividends are recognised as distribution of profit in financial statements when a general shareholders meeting approves them.

Taxation

Income tax expenses/recovery include current tax payments and deferred taxes and are recognized in the income statement. The taxation charge is calculated in accordance with the laws and regulations of the Russian Federation. Current taxes are based on the estimated taxable income for the year at the current income tax rate.

Current tax is an amount of income tax payable (recoverable) in respect of the taxable profit or taxable loss for current or prior period. If financial statements are authorised for issuance before correspondent tax returns are submitted, the taxes in the financial statements are based on estimated amounts.

Deferred income tax is calculated on the basis of balance assets and liabilities method in relation to all tax losses to be forwarded and temporary differences between the tax base of assets and liabilities and their carrying amount in accordance with the financial statements.

Deferred income taxes are measured at tax rates effective at the reporting date or expected to be effective when recovering temporary differences or use of tax losses carried forward. An entity shall offset deferred taxes and deferred liabilities if the entity has a legally enforceable right to set off current tax assets against current tax liabilities; and the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same organization - tax payer of the Bank or taxation authority. Deferred tax assets with regard to deductible temporary differences and tax loss are presented to the extent sufficient taxable income against which such deductions can be used is probable. Judgement is required to determine deferred tax assets that can be recognised in the financial statements based on probable period and amount of future taxable income as well as future strategies for tax planning.

Besides, different taxes that concern the Bank's activity exist in the Russian Federation. These taxes are recorded in the profit and loss accounts as part of the operating expenses.

Income and expense recognition

Interest income and expense are recorded in the income statement for all debt instruments on an accrual basis using the effective interest method. The effective interest method is a method of allocating interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument to the cost of the financial asset or financial liability. When the Bank calculates the effective interest rate, it assesses cash flows accounting all contractual conditions in relation to the financial instrument but does not account future credit losses. This method defers, as part of interest income or expense, all fees paid or received between the parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Interest income includes coupon income from financial assets with fixed income, discount or premium on promissory notes and other discount instruments. When loans become doubtful of collection, they are written down to present value of expected cash inflows and interest income is thereafter recorded for the unwinding of the present value discount based on the asset's effective interest rate which was used to measure the impairment loss.

Fee and commission income and other income and expenses are recorded on accrual basis over the period of rendering services. Fee and commission income from loans not granted but possible are recorded as other assets and subsequently accounted when the loan effective interest rate is calculated. Fee and commission income from third party transactions, e.g. from acquisition of loans, shares and other securities or purchase or sale of entities are recorded in the income statement upon completion of the transaction. Fee and commission income from investing portfolio management and other consulting services are recorded under provisions of relevant services contracts.

Foreign currency

Transactions in foreign currency are translated into Russian Roubles at the official exchange rate of the Central Bank of the Russian Federation at the transaction date. Foreign exchange gains and losses resulting from the settlement of the transactions in foreign currency are included in the income statement at the exchange rate at the transaction date.

Monetary assets and liabilities denominated in a foreign currency are translated into Russian Roubles at the official exchange rate of the Bank of Russia at the financial position date. Foreign exchange gains and losses arisen from revaluation of assets and liabilities are recognized through profit or loss as Net Gains from Foreign Exchange Translations.

Derivative financial instruments

All derivative financial instruments are carried at fair value as assets when the fair value is positive and as liabilities when the fair value is negative. Fair value is based on quoted market prices available.

Provisions

A provision is recognised when the Bank has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits that can be reliably measured will be required to settle the obligation.

Employee benefits and charges to social insurance funds

The Bank pays social charges in the Russian Federation. The charges are accrual-based. Insurance charges include charged to the Pension Fund, Social Insurance Fund, Obligatory Medical Insurance Fund related to the Bank's employees. The Bank does not provide for a pension benefit plan. Wages, salaries, contributions to the Russian Federation state pension and social 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 the employees of the Bank.

Operating leases - the Bank as a lessee

A lease when the lessor retains substantially all the risks and rewards incidental to ownership is classified as an operating lease. Payments under an operating lease agreement are recognised as expense within operating expenses in the income statement on a straight-line basis over the lease term.

Related party transactions

For the purposes of these financial statements, parties are considered to be related if one party has a direct or indirect ability to control the other party, is under common control, or can exercise significant influence over the other party in making financial or operational decisions under IAS 24. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

In the normal course of operation the Bank performs transactions with its major shareholders, managers and other related parties. These transactions include payments, loans granting, raising placements, providing guarantees, financing of trade transactions and transactions with foreign currency. The Bank's policy prescribes to perform, generally, related party transactions under similar conditions to those with third parties.

Effective interest method

The effective interest method is a method of calculating the amortised cost of financial asset or a financial liability (or a group of financial assets or of financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, if appropriate, to the net carrying amount of the financial instrument. When calculating the effective interest rate, the Bank shall estimate cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but shall not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs, and all other premiums or discounts. There is a presumption that the cash flows and the expected life of similar financial instruments can be estimated reliably. However, in those rare cases when it is not possible to estimate reliably the cash flows or the expected life of a financial instrument (or a group of financial instruments), the Bank uses the contractual cash flows over the full contractual term of the financial instrument (or a group of financial instruments).

(in thousands of Russian roubles, unless otherwise specified)

5. NET INTEREST INCOME BEFORE PROVISION FOR LOAN LOSSES

	2018	2017
Interest income		
Loans to customers	1 020 884	1 300 285
Debt securities	160 337	98 559
Due from other banks	273	2 510
Total interest income	**1 181 494**	**1 401 354**
Interest expense		
Customer accounts	363 734	340 599
Debt securities issued	2 368	19 072
Due to other banks	142 594	114 197
Total interest expenses	**508 696**	**473 868**
Net interest income before provision for loan losses	**672 798**	**927 486**

6. PROVISION FOR IMPAIRMENT OF LOANS TO CUSTOMERS

Movement in provision for impairment of loans given to customers is disclosed below:

	Corporations	Individuals	Total
31 December 2016	**3 391 334**	**266 783**	**3 658 117**
Creation of provisions	865 496	31 478	896 974
31 December 2017	**4 256 830**	**298 261**	**4 555 091**
Restated under IFRS 9	995 095	-	995 095
Creation of provisions	(465 625)	59 433	(406 192)
31 December 2018	**4 786 300**	**357 694**	**5 143 994**

The table below analyses changes in loss allowance for loans to corporations for the 12 months ended 31 December 2018. The comparative information for 2017 is the credit loss allowance and shows the assessment in accordance with IFRS 9.

	Stage 1	Stage 2	Stage 3	Total
Loss allowance for ECL as at 1 January 2018	956 546	1 770 056	2 525 323	5 251 925
Net restatement of loss allowance for ECL	(792 983)	1 211 229	(883 871)	(465 625)
Loss allowance for ECL as at 31 December 2018	**163 563**	**2 981 285**	**1 641 452**	**4 786 300**

(in thousands of Russian roubles, unless otherwise specified)

The table below analyses changes in loss allowance for loans to individuals for the 12 months ended 31 December 2018. The comparative information for 2017 is the credit loss allowance and shows the assessment in accordance with IFRS 9.

	Stage 1	Stage 2	Stage 3	Total
Loss allowance for ECL as at 1 January 2018	2 632	-	295 629	298 261
Net restatement of loss allowance for ECL	(2 571)	1 436	60 568	59 433
Loss allowance for ECL as at 31 December 2018	**61**	**1 436**	**356 197**	**357 694**

7. FEE AND COMMISSION INCOME AND EXPENSES

	2018	2017
Fee and commission income:		
Acquiring services for banking cards	33 884	43 496
Cash and settlement transactions	31 360	28 869
Commission on guarantees issued	22 831	11 756
Transactions with currency assets	15 523	22 165
Bank account opening and maintaining	4 899	6 045
Currency control	1 656	2 021
Other	15 020	14 394
Total fee and commission income	**125 173**	**128 746**
Fee and commission expense:		
Commissions to settlement and payment systems	9 928	4 137
Cash and settlement transactions	3 891	1 915
Processing transactions for banking cards	26 943	33 773
Other	2 297	1 418
Total fee and commission expense	**43 059**	**41 243**

8. ADMINISTRATIVE AND OTHER OPERATING EXPENSES

	2018	2017
Staff costs	94 978	86 044
Insurance	91 794	26 754
Other administrative and general expenses	28 408	21 171
Security	10 704	10 648
Rent	9 455	6 728
Communication services	7 563	6 160
Taxes other than on income	5 161	5 943
Right to use intellectual property	4 203	4 393
Depreciation	1 564	1 972
Expenses related to property and equipment	969	1 121
Total administrative and other operating expenses paid	**254 799**	**170 934**

(in thousands of Russian roubles, unless otherwise specified)

9. INCOME TAX

Differences between IFRS and Russian statutory taxation regulations give rise to some temporary differences between the carrying amount of some assets and liabilities for financial reporting purposes and their tax bases.

	2018	2017
Current income tax expense	20 993	28 704
Change in deferred tax due to origination and write-off of temporary differences less deferred tax recognised directly in comprehensive income	194 922	(31 917)
Less deferred tax recognised directly in retained earnings due to transition to IFRS 9	209 521	-
Income tax expense for the year	**425 436**	**(3 213)**

Reconciliation between the expected and the actual taxation charge is provided below.

	2018	2017
IFRS profit before tax	**875 844**	**161 983**
Theoretical tax charge at statutory rate (2018: 20 %; 2017: 20%)	175 169	32 397
Income from state securities taxable at 15% rate	(20 761)	(2 866)
Non-deductible expenses less non-taxable income	271 028	(32 744)
Income tax expense	**425 436**	**(3 213)**

	31 December 2018	Movement	31 December 2017
Tax effect of temporal differences deducting tax base			
Other	4 080	(14 848)	18 928
Total deferred tax assets	**4 080**	**(14 848)**	**18 928**
Tax effect of temporal differences increasing tax base			
Loans to customers	(148 467)	(176 078)	27 611
Customer accounts	-	15 122	(15 122)
Financial assets at FVOCI	(11 866)	(8 292)	(3 574)
Property and equipment	(31)	160	(191)
Other	(35)	(35)	-
Total deferred tax liabilities	**(160 399)**	**(169 123)**	**8 724**
Net deferred tax asset/(liability)	**(156 319)**	**(183 971)**	**27 652**

(in thousands of Russian roubles, unless otherwise specified)

	31 December 2017	Movement	31 December 2016
Tax effect of temporal differences deducting tax base			
Loans to customers	27 611	45 689	(18 078)
Other	18 928	2 167	16 761
Total deferred tax assets	**46 539**	**47 856**	**(1 317)**
Tax effect of temporal differences increasing tax base			
Financial assets	(3 574)	(3 887)	313
Customer accounts	(15 122)	(15 122)	-
Property and equipment	(191)	(191)	-
Total deferred tax liabilities	**(18 887)**	**(19 200)**	**313**
Net deferred tax asset/(liability)	**27 652**	**28 656**	**(1 004)**

10. CASH AND CASH EQUIVALENTS

	31 December 2018	31 December 2017
Cash balances with the Central Bank of Russia (other than mandatory cash balances)	328 078	327 485
Petty cash	439 903	57 989
Correspondent accounts and overnight placements with other banks:	104 322	98 944
- Russian Federation	102 257	90 681
- other countries	2 075	8 263
Total cash and cash equivalents	**872 303**	**484 418**

As at 31 December 2018, the Bank placed RUB 328,078 thousand at Nostro account with the Central Bank of the Russian Federation which excesses 10% of the Bank's equity (as at 31 December 2017: RUB 327,485 thousand placed at Nostro account with the Central Bank of the Russian Federation).

11. DUE FROM OTHER BANKS

	31 December 2018	31 December 2017
Nostro accounts	51 910	1 054
Placed with banks	11 053	19 140
Impairment provision	(3 419)	(1 122)
Total due from other banks	**59 544**	**19 072**

As at 31 December 2018 and 31 December 2017, the Bank had no deposits exceeding 10% of the Bank's equity.

The table below analyses changes in loss allowance for ECL for the 12 months ended 31 December 2018:

	Stage 1	Total
Loss allowance for ECL as at 1 January 2018	2 151	2 151
Originated or purchased assets	1 527	1 527
Derecognised or settled assets (except for write-offs)	(259)	(259)
Loss allowance for ECL as at 31 December 2018	3 419	3 419

The table below analyses changes in impairment provision for the 12 months ended 31 December 2018:

	Stage 1

Impairment provision as at 1 January 2017	1 114
Origination of provision	8
Impairment provision as at 31 December 2017	**1 122**

12. LOANS TO CUSTOMERS

	31 December 2018	31 December 2017
Loans to corporations	11 281 203	12 176 911
Loans to individuals	364 835	323 966
Total loans to customers at amortised cost	**11 646 038**	**12 500 877**
Less provision for loan impairment	(5 143 994)	(4 555 091)
Total loans to customers, net	**6 502 045**	**7 945 786**

Corporate loans and loans to small and medium entities represent loans to legal entities. The Bank provides loans to legal entities for current purposes (working capital increase, acquisition of movable and immovable property, business expansion and others). Loans are repaid with cash flows from current operating and financing activities of the borrower.

Loans to individuals represent loans given to individuals to purchase real estate and consumer purposes.

Movement in provision for impairment of loans for 2018 and 2017 is disclosed in Note 6.

The table below shows credit quality and maximum credit exposure of loans to customers based on the Bank's internal level of credit quality and ECL stage as at 31 December 2018.

Categories:	Loans to corporations	Loans to individuals	Total
Stage 1 (production assets with high and medium credit ability)	1 276 226	2 240	1 278 466
Stage 2 (production assets with acceptable credit ability)	8 362 791	6 398	8 369 189
Stage 3 (individually impaired assets)	1 642 186	356 197	1 998 383
Total loans to customers	11 281 203	364 835	11 646 038

(in thousands of Russian roubles, unless otherwise specified)

The following table provides credit quality analysis for loans to customers as at 31 December 2017:

Categories:	Loans to corporations	Loans to small and medium entities	Loans to individuals	Total
Quality category 1	-	-	1 275	1 275
Quality category 2	477 545	1 396 684	4 311	1 878 540
Quality category 3	-	6 820 765	9 272	6 830 037
Quality category 4	275 869	2 062 175	13 478	2 351 522
Quality category 5	-	1 143 873	295 630	1 439 503
Total loans to customers	**753 414**	**11 423 497**	**323 966**	**12 500 877**

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

	31 December 2018		31 December 2017	
	Amount	%	Amount	%
Trade	3 292 006	28,27%	6 039 693	48,32%
Construction, leases out and maintenance of real estate	3 053 041	26,22%	2 428 952	19,43%
Restaurants	1 776 194	15,25%	1 274 055	10,19%
Advertising, marketing and entertainment	1 365 366	11,72%	790 356	6,32%
Other services	791 829	6,80%	382 683	3,06%
Individuals	364 835	3,13%	323 966	2,59%
Manufacturing	259 500	2,23%	248 500	1,99%
Consulting services	70 800	0,61%	165 088	1,32%
Other	672 467	5,77%	847 584	6,78%
Total loans to customers	**11 646 038**	**100,00%**	**12 500 877**	**100,00%**

As at 31 December 2018 and 31 December 2017, the Bank provided no loans with 10% share of the comprehensive loans to customers.

Security analysis of loans to customers as at 31 December 2018 is disclosed below:

Categories:	Loans to corporations	Loans to individuals	Total
Securities	142 367	-	142 367
Guarantee	1 761 965	2 489	1 764 454
Real estate	1 176 431	34 526	1 210 957
Goods in circulation	40 095	-	40 095
Other	751 587	458	752 045
Total	3 872 446	37 473	3 909 919

(in thousands of Russian roubles, unless otherwise specified)

Security analysis of loans to customers as at 31 December 2017 is disclosed below:

Categories:	Loans to corporations	Loans to individuals	Total
Securities	580 813	33 984	614 797
Guarantee	3 956 421	1 231 022	5 187 443
Real estate	652 261	25 000	677 261
Goods in circulation	165 681	-	165 681
Other	70 141	2 018	72 159
Other	10	-	10
Total	**5 425 327**	**1 292 024**	**6 717 351**

Collateral value of security may insignificantly differ from its fair value.

13. SECURITIES MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	Interest rate to the par, %	31 December 2018	Interest rate to the par, %	31 December 2017
Financial assets at fair value through other comprehensive income transferred without derecognition	4,95-8,25	2 212 650	4,95-10,61	1 744 743
Corporate bonds	4,95-14,00	60 116	6,13-13,00	612 006
Municipal bonds	-	-	7,39-8,15	23 445
Federal loan bonds	8,25%	591 091	10,61	135 389
Revaluation of financial assets at FVOCI		(80 669)		17 868
Total securities at fair value through other comprehensive income		**2 783 188**		**2533451**

As at 31 December 2018, financial assets at FVOCI transferred without derecognition comprise:

- corporate interest-bearing bonds denominated in USD issued by GAZ CAPITAL S.A., TMK Capital S.A., MMC FINANCE DAC, SB Capital S.A., ALFA BOND Issuance PLC, RZD CAPITAL PLC with annual coupon interest from 4.95% to 7.75% and freely tradable in the international market;

- bonds of the Russian Finance Ministry denominated in Russian Roubles with annual coupon interest of 8.25%.

Federal loan bonds of the Russian Federation are represented by bonds of the Russian Finance Ministry to mature in January 2025.

Corporate bonds comprise bonds denominated in USD and RUB issued by OOO Legenda, GAZ CAPITAL S.A. with annual coupon interest from 4,95% to 14% based on the issuer.

As at 31 December 2017, financial assets at FVOCI transferred without derecognition comprise:

- corporate interest-bearing eurobonds denominated in USD issued by GAZ CAPITAL S.A. with annual coupon income of 4.95% and freely tradable in international markets;

- bonds of the Russian Finance Ministry denominated in Russian Roubles with annual coupon interest of 10.61%.

The municipal bonds are represented bonds of Lipetskaya and Samarskaya Regions denominated in Russian Roubles with annual coupon income from 7.39% to 8.15% depending on the issue.

Federal loan bonds of the Russian Federation are represented by bonds of the Russian Finance Ministry to mature in January 2025.

Corporate bonds are represented by bonds denominated in USD and RUB issued by TMK Capital S.A., MMC FINANCE DAC, SB Capital S.A., ALFA BOND Issuance PLC and Commercial Real Estate of Financial and Industrial Corporation Garant-Invest, AO with annual coupon income from 6.13% to 13.00% depending on the issue.

The table below analyses changes in loss allowance for ECL for securities at fair value through other comprehensive income for the 12 months ended 31 December 2018. The comparative information for 2017 represents a credit loss allowance and reflects the assessment in accordance with IFRS 9.

	Stage 1
Loss allowance as at 1 January 2018	15 545
Origination of allowance	43 785
Loss allowance as at 31 December 2018	59 330

(in thousands of Russian roubles, unless otherwise specified)

14. PROPERTY AND EQUIPMENT

	Buildings	Office equipment and furniture	Transport and motor vehicles	Intangible assets	Total
Carrying amount at 31 December 2016	1 771	2 199	671	2 588	7 229
Cost	2 163	6 757	16 352	2 842	28 114
Accumulated depreciation and amortisation	(392)	(4 558)	(15 681)	(254)	(20 885)
Carrying amount at 31 December 2016	1 771	2 199	671	2 588	7 229
Additions	-	2 523	-	2 211	4 734
Disposals	(66)	(233)	(1 145)	(53)	(1 497)
Depreciation and amortisation charges	(70)	(994)	(477)	(431)	(1 972)
Disposal of accumulated depreciation and amortisation	66	230	1 145	16	1 457
Carrying amount at 31 December 2017	1 701	3 725	194	4 331	9 951
Cost	2 097	9 047	15 207	5 000	31 351
Accumulated depreciation and amortisation	(396)	(5 322)	(15 013)	(669)	(21 400)
Carrying amount at 31 December 2017	1 701	3 725	194	4 331	9 951
Additions	-	-	-	1 207	1 207
Disposals	-	(787)	(3 377)	(1 475)	(5 639)
Depreciation and amortisation charges	(69)	(679)	(68)	(747)	(1 563)
Disposal of accumulated depreciation and amortisation	-	787	3 360	209	4 356
Carrying amount at 31 December 2018	1 632	3 046	109	3 525	8 312
Cost	2 097	8 260	11 830	4 732	26 919
Accumulated depreciation and amortisation	(465)	(5 214)	(11 721)	(1 207)	(18 607)
Carrying amount at 31 December 2018	1 632	3 046	109	3 525	8 312

(in thousands of Russian roubles, unless otherwise specified)

15. OTHER ASSETS

	31 December 2018	31 December 2017
Outstanding receivables	410 782	422 876
Non-current assets held for sale	48 255	49 815
Income tax prepaid	11 755	28 260
Receivables and prepayments	3 585	4 467
Broker transactions and stock exchange settlements	61	5 159
Other	2 318	2 325
Total other assets	476 756	512 902
Less provision for possible losses	(261 479)	(256 098)
Total other assets, net	215 277	256 804

Non-current assets held for sale comprise real estate received by the Bank as collection of loans where borrowers failed to repay their debt.

Carrying amount of the non-current assets held for sale will be recovered through sale. The Bank management approved the sales plan and initiated marketing events to sell the assets.

The Bank tests carrying amounts of the non-current assets for impairment. Fair value is measured both individual appraisers and by the Bank individually. The Bank applies comparative method to measure fair value. The Bank uses current prices for similar real estate items at an active market, information on prices available from mass media and special literature, expert opinions on fair values of items and other resources to measure the fair value.

The other assets are represented by conversion transactions which are the fair value of currency forwards, spots and swaps. Transactions with derivative financial instruments are represented by transactions performed at customers' requests and own transactions of the Bank performed for liquidity management and risk hedging. Bank's own transactions are mainly represented by swap currency transactions and forward transactions in the domestic market.

Derivative financial instruments with which the Bank performs transactions are tradable in exchange and OTC markets. Derivatives have potentially favourable (assets) or unfavourable (liabilities) conditions as a result of fluctuations in market interest rates, foreign exchange rates or other variables relative to their terms. The aggregate fair values of derivative financial assets and liabilities can fluctuate significantly from time to time.

Outstanding transactions with derivative financial instruments as at 31 December 2017 are disclosed below:

		31 December 2018
	Face value	Fair value
Currency swaps	300 890	(1 040)
Total derivative assets at FVPL	300 890	(1 040)

(in thousands of Russian roubles, unless otherwise specified)

Outstanding transactions with derivative financial instruments as at 31 December 2017 are disclosed below:

		31 December 2017
	Face value	Fair value
Currency swaps	1 431 110	252
Total derivative assets at FVPL	**1 431 110**	**252**

Movements in the provision for impairment of other assets for 2018 and 2017 are as follows:

	Provision for possible losses
Provision for impairment of other assets at 31 December 2016	**266 132**
Charges to/(reversal of) provision for impairment	(10 034)
Provision for impairment of other assets at 31 December 2017	**256 098**
Charges to/(reversal of) provision for impairment	5 381
Provision for impairment of other non-financial assets at 31 December 2018	**261 479**

16. DUE TO OTHER BANKS

	31 December 2018	31 December 2017
Raised from the Central Bank of the Russian Federation under repurchase agreements	1 390 673	-
Raised from other banks under repurchase agreements	-	1 930 869
Raised from other banks	-	3
Total due to other banks	**1 390 673**	**1 930 872**

As at 31 December 2018, amounts under repurchase transactions were raised from the Bank of Russia of RUB 1,390,673 thousand. The amounts are secured by financial assets at FVOCI pledged (Note 13).

As at 31 December 2017, amounts under repurchase transactions were raised from a Russian credit organization of RUB 1,930,869 thousand. The amounts are secured by financial assets at FVOCI pledged (Note 13).

(in thousands of Russian roubles, unless otherwise specified)

17. CUSTOMER ACCOUNTS

The customer accounts include as follows:

	31 December 2018	31 December 2017
Corporations		
Term deposits	2 047 730	1 534 808
Amounts raised under REPO transactions		
Current/settlement accounts and demand deposits	856 479	529 534
Individuals		
Term deposits	3 399 971	4 278 798
Current/settlement accounts and demand deposits	433 781	369 416
Total customer accounts	6 737 961	**6 712 556**

Economic sector concentration analysis of customer accounts is provided below:

	31 December 2018		31 December 2017	
	Amount	%	Amount	%
Economic sector concentration analysis:				
Individuals	3 833 752	56,90%	4 648 214	69,25%
Financial services	435 981	6,47%	829 068	12,35%
Education	568 964	8,44%	503 803	7,51%
Real estate	289 004	4,29%	246 207	3,67%
Other services	443 093	6,58%	151 693	2,26%
Trade	197 564	2,93%	144 365	2,15%
Computers and technologies	2 260	0,03%	23 549	0,35%
Construction	280 400	4,16%	10 445	0,16%
Other	686 942	10,20%	155 212	2,30%
Total customer accounts	**6 737 961**	**100%**	**6 712 556**	**100,00%**

As at 31 December 2018, the balance of one large customer amounted to RUB 583,315 thousand or 8.66% of the total customer accounts (as at 31 December 2017: RUB 811,194 thousand or 12.08% of the total customer accounts).

As at 31 December 2018, the Bank attracted 9 customers of RUB 2,941,973 where payables to each customer exceeded 10% of the Bank's equity (as at 31 December 2017: 8 customers of RUB 2,598,769 thousand).

18. DEBT SECURITIES ISSUED

Debt securities issued included as follows:

	31 December 2018	31 December 2017
Own promissory notes	-	155 684
Savings certificates	14 634	16 307
Total debt securities issued	14 634	**171991**

As at 31 December 2018, debt securities issued by the Bank included savings certificates of RUB 14,634 thousand denominated in the Russian Roubles with interest rate from 7.00% to 8.25% p.a. to mature in 2019.

As at 31 December 2017, debt securities issued by the Bank include own promissory notes of RUB 155,684 thousand denominated in Russian Roubles and USD to mature from January 2018 to March 2018 with interest rate from 2% to 9.5% with regard to promissory notes; and savings certificates of RUB 16,307 thousand denominated in Russian Roubles with interest rate from 7.25% to 10.0% p.a. to mature in 2018-2019.

(in thousands of Russian roubles, unless otherwise specified)

19. OTHER LIABILITIES

	31 December 2018	31 December 2017
Provision for contingencies	105 224	25 821
Deferred income	7 109	33 704
Employee benefits payables and social charges	4 512	4 626
Accounts payable	1 286	1 305
Tax payable	2 533	18 242
Other liabilities	1 489	493
Total other liabilities	**122 153**	**84191**

The table below analyses changes in loss allowance for ECL on loan commitments for the 12 months ended 31 December 2018: The comparative information for 2017 represents a credit loss allowance and reflects the assessment in accordance with IFRS 9.

	Commitments on loans and undrawn credit lines, Stage 1	Guarantees issued, Stage 1	Total
Loss allowance as at 1 January 2017	9 242	68 059	77 301
Revaluation of ECL including due to derecognition of liabilities and recognition of new liabilities	(699)	28 622	27 923
Loss allowance as at 31 December 2018	**8 543**	**96 681**	**105 224**

20. SUBORDINATED BORROWINGS

	31 December 2018	31 December 2017
Subordinated borrowing	478 646	403 934
Total subordinated borrowings	**478 646**	**403 934**

In June 2007, the Bank raised a subordinated borrowing from a non-resident entity with an annual interest rate of 5.25% to mature in June 2022.

In 2017, the creditor's rights under the subordinated borrowing were assigned to a resident company where the interest rate remained the same but to mature in June 2042.

In May 2018, the Bank entered into an additional agreement to amend terms of granting a subordinated borrowing. In accordance with the additional agreement, the subordinated borrowing has an indefinite maturity.

Under the contract, the Bank has the right to unilaterally refuse from repayment of interest. At this, when the Bank exercises this right, this shall not arise financial sanctions for failure to settle the obligation to repay loan interest.

Taking into consideration the unlimited maturity of the indefinite-term subordinated borrowing, the Bank recognises the indefinite-term subordinated borrowing as an equity instrument that can be included in 1-tier capital with the purpose to calculate capital adequacy ratio in accordance with Basel requirements. It should be noted the Central Bank of the Russian Federation has improved that the subordinated borrowing was included in the capital adequacy ratio of the Bank.

(in thousands of Russian roubles, unless otherwise specified)

21. SHARE CAPITAL

The authorised, issued and fully paid share capital comprises as follows:

	31 December 2018	31 December 2017
Ordinary shares:		
Number of shares	725 035 190	725 035 190
Face value	725 035	725 035
Inflation adjusted amount	909 512	909 512

In September 2017, the Bank issued additional shares of RUB 222,472 thousand. The additional issue under close subscription comprised 222,471,910 ordinary uncertified shares with par value of RUB 1 each (offer price of RUB 1).

In 2016, the Bank received assistance from the shareholders, free of charge, recognised in additional capital of RUB 775,000 thousand.

The maximum dividends payable by the Bank is limited by the retained earnings of the Bank to be determined under the Russian laws and regulations. As at 31 December 2018, the funds available for distribution amounted to RUB (828,625) thousand (as at 31 December 2017: RUB (118,923) thousand. The Bank did not distribute dividends to the shareholders in 2018 and 2017.

The Bank's capital management is aimed at as follows: adherence to capital requirements set by the Bank of Russia; ensuring the Bank's ability to operate continuously and maintaining capital base at a level necessary to ensure capital adequacy level of 8% as set by the Bank of Russia.

Monthly reports with regard to calculation of the capital adequacy level set by the Bank of Russia are reviewed Under the current capital requirements set by the Bank of Russia the Bank maintains a ratio of capital to risk weighted assets above the prescribed minimum level.

As at 31 December 2018, the capital ratio (N1.0) amounted to 13.2%; as at 31 December 2017 - 17.5%.

22. CONTINGENT FINANCE COMMITMENTS

In the course of operations to satisfy the customers' needs, the Bank applies financial instruments with off-balance sheet risks. These instruments involve varying degrees of credit risk which are not reflected in the statement of financial position.

As at 31 December 2018 and 2017, the nominal amounts or the contractual amounts and the amounts weighted against the credit risk group for financial instruments with off-balance-sheet risk were as follows:

	31 December 2018	31 December 2017
Contingent and credit commitments (nominal amount)		
Guarantees issued	504 379	474 947
Commitments for loans and undrawn credit lines	51 230	41 193
Total contingent and credit commitments	**555 609**	**516 140**

Capital investments commitments. As at 31 December 2018 and 31 December 2017, the Bank did not have capital investments commitments.

(in thousands of Russian roubles, unless otherwise specified)

Operating leases. Expected minimal lease payments of the Bank related to non-cancellable operating lease agreements for property and equipment as at 31 December 2018 and 2017 are disclosed below.

	31 December 2018	31 December 2017
Not more than one year	8 071	6 380
Between one and five years	6 169	8 387
Total operating lease	**14 240**	**14 767**

The Bank's operating lease expenses for 2018 recognised within operating expenses of the income statements amounted to RUB 9,455 thousand (2017: RUB 6,728 thousand).

Assets pledged and assets limited for use. As at 31 December 2018 and 31 December 2017, the Bank had assets pledged as collateral as follows:

		31 December 2018		31 December 2017	
	Note	Assets pledged	Related liability	Assets pledged	Related liability
Securities at FVOCI transferred without derecognition	13	2 212 650	1 973 988	1 744 743	1 930 869
Total		**2 212 650**	**1 973 988**	**1 744 743**	**1 930 869**

Litigations. The Bank is involved in litigations with customers and contractors from time to time in the operation process. The management believes, it will not occur significant losses from them.

Taxation. For the reason of existence of provisions in the Russian commercial and tax legislation that can be interpreted in more than one way, as well as because of the tax authorities' habit to make judgments concerning the taxpayer's activity, in case if some certain actions based on the interpretation of the law in relation to the Bank's activity on the part of the management will be questioned by the tax authorities, it can lead to the accrual of additional fines, taxes and penalties. Such indefiniteness can be connected with the determination of the financial instrument value, creation of provisions for losses and market price levels on transactions. The Bank management is sure that all necessary tax charges are made and, accordingly, any reserves were not accrued in the statements. The tax authorities can make taxation data inspection for the last three years.

Pension benefit plans. In accordance with the laws of the Russian Federation all employees of the Bank have the right to the state pension benefits. As at 31 December 2018 and 31 December 2017, the Bank had no liabilities to the present or former employees on additional pension benefit plans, medical care coverage after retirement, insurance payments or other benefits after retirement.

Economic environment. The main economic activity of the Bank is carried out in the Russian Federation. Legislation and normative documents that affect the economic circumstances in the Russian Federation are subject to frequent changes, and the Bank's assets and operations may be exposed to the risk in case of the worsening of the political and economic situation.

23. RELATED PARTY TRANSACTIONS

For the purposes of these financial statements, parties are considered to be related if one party has a direct or indirect ability to control the other party, is under common control, or can exercise significant influence over the other party in making financial or operational decisions under IAS 24. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

In the normal course of operation the Bank performs transactions with its major shareholders, managers and other related parties. These transactions include payments, loans granting, raising placements, providing guarantees, financing of trade transactions and transactions with foreign currency. The Bank's policy prescribes to perform, generally, related party transactions under similar conditions to those with third parties.

The information about the Banks related party transactions is presented below:

(in thousands of Russian roubles, unless otherwise specified)

	31 December 2018	31 December 2017
Loans to customers		
including:		
- shareholders	190 155	218 056
- key management personnel	30	-
- other related parties	540 910	294 955
Securities at FVOCI		
including:		
- other related parties	-	14 838
Customer accounts		
including:		
- shareholders	54 133	62 787
- key management personnel	1 953	172 879
- other related parties	154 947	645 939

The income statement for 2018 and 2017 recognised the following amounts arisen from related party transactions:

	2018	2017
Interest income	101 309	14 529
Interest, fee and commission expense related to transactions with foreign currencies	9 703	46 130
Gains from services and fee and commission received	21 533	21 847

The key management remuneration amounted to RUB 15,435 thousand in 2018 (2017: RUB 17,971 thousand).

The related party transactions performed by the Bank during the periods ended 31 December 2018 and 31 December 2017 and not completed as at 31 December 2018 and 31 December 2017 were mainly carried out in the course of its ordinary activities. The Bank performs, generally, related party transactions under similar conditions to those with third parties.

24. FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value is the amount for which as asset could be exchanged, or a liability settled, between knowledgeable, willing partied in an arm's length transaction except for the case of forced sale or liquidation. Fair value of financial instruments is best represented by a quoted market price of the financial market. As there is absence of the market for the majority of the Bank's financial instruments, in order to define their fair value the valuation that takes into account economic conditions and specific risks connected with a particular instrument should be resorted to. The valuations below may not coincide with the amount the Bank is able to receive if a certain portfolio is sold in the market.

The Bank adopts the following methods and assumptions upon measuring the financial instruments:

Financial instruments at fair value. Cash and cash equivalents, financial assets and liabilities at fair value through profit or loss and financial assets available-for-sale are carried on the statement of financial position at their fair value. For some financial assets available-for-sale independent market quotations are not available. Fair value of such assets is based on recent sales of shares in companies that have been invested in by third parties, on analysis of other information such as discounted cash flows and financial information on other companies being invested in and on other measurement methods.

Due from other banks. Fair value of cash with floating rate is equal to its carrying amount. Estimated fair value of cash with fixed interest rate is based on discounted cash flows using interest rates in the monetary market for instrument with similar level of credit risk and maturity date. In the Bank management's opinion, the fair value of loans to banks as at 31 December 2018 and as at 31 December 2017 did not significantly differ from their carrying amount due to their short-term nature.

Loans to customers. Loans to customers are measured less impairment provision. Estimated fair value of loans to customers is the discounted amount of expected estimated future cash flows. Expected cash flows are discounted at current market rated to measure fair value. In the management's opinion, the fair value of loans to customers as at 31 December 2018 and as at 31 December 2017 did not significantly differ from their carrying amount.

(in thousands of Russian roubles, unless otherwise specified)

Due to other banks. The fair value of due to other banks to mature within three months is nearly equal to their carrying amount due to a considerably short period of maturity. Due to other banks to mature within periods over three months have a fair value of a present value of future cash flows discounted with market interest rate implicit in similar financial instrument. In the Bank management's opinion, the fair value of due to other banks as at 31 December 2018 and as at 31 December 2017 was insignificantly different from their carrying amount.

Customer accounts. The fair value of obligations with uncertain maturity date is the amount payable on demand. The estimated fair value of fixed interest rate raised funds and other attractions for which a quoted market price is not available is based on discounted cash flows at interest rates with similar credit risk and maturity. In the Bank's opinion, the fair value of customer accounts as at 31 December 2018 and at 31 December 2017 was insignificantly different (did not differ significantly) from their carrying amount. It is explained by the existent practice when interest rate is restated in order to reflect current market conditions. As a result, interest for most balances is based on rates similar to market ones.

Debt securities issued. The estimated fair value of debt securities issued with a fixed interest is based on discounted cash flows using interest rates in the monetary market for instrument with similar level of credit risk and maturity date. For quoted debt securities issued, the fair value is based on quoted markets.

Subordinated borrowings. The estimated fair value of subordinated borrowings with fixed interest rate for which a quoted market price is not available is based on discounted cash flows at interest rates with similar credit risk and maturity. The estimated fair value of subordinated borrowings as at 31 December 2018 amounted to RUB 478,646 thousand (as at 31 December 2017: RUB 403,934 thousand).

Derivative financial instruments. All derivative financial instruments are carried at fair value as assets when the fair value is positive and as liabilities when the fair value is negative. Fair value is based on quoted market prices available.

The following table provides fair value measurements of the Bank's financial instruments as at 31 December 2018 and 31 December 2017:

	30 December 2018		31 December 2017	
	Carrying amount	Fair Value	Carrying amount	Fair Value
Financial assets				
Cash	872 303	872 303	484 418	484 418
Due from other banks	59 544	59 544	19 072	19 072
Loans to customers	6 502 045	6 502 045	7 945 786	7 945 786
Securities at FVOCI	2 783 188	2 783 188	2 533 451	2 533 451
Financial liabilities				
Due to other banks	1 390 673	1 390 673	1 930 872	1 930 872
Customer accounts	6 737 961	6 737 961	6 712 556	6 712 556
Debt securities issued	14 634	14 634	171 991	171 991
Subordinated borrowings	478 646	478 646	403 934	403 934

The fair value hierarchy of financial assets as at 31 December 2018 is disclosed below. Level 1 are financial assets with quoted prices in active markets. Level 2 are financial assets where various techniques are used to measure fair values. The models are based on available inputs which have a significant effect on the fair value. Level 3 are financial assets where fair value is based on judgements and models where fair value measurements are not based on observable market data.

	Level 1	Level 2	Level 3	Total
Securities at FVOCI	2 783 188	-	-	2 783 188

The fair value hierarchy of financial assets as at 31 December 2017 is disclosed below.

	Level 1	Level 2	Level 3	Total
Financial assets available-for-sale	2 533 451	-	-	2 533 451

(in thousands of Russian roubles, unless otherwise specified)

25. TYPES OF FINANCIAL INSTRUMENTS RECONCILED WITH MEASUREMENT CATEGORIES

The Bank classifies its financial assets into the following categories in accordance with IFRS 9: 1) financial assets at fair value through profit or loss; 2) financial assets at amortised cost; 3) financial assets at fair value through other comprehensive income.

At the same time, IFRS 7 *Financial Instruments: Disclosures* requires to disclose different types of financial instruments.

The table below presents a reconciliation of the types of financial instruments with the stated above measurement categories as at 31 December 2018:

	Financial assets at FVPL	Financial assets at amortized cost	*Financial assets at FVOCI*	Total
Assets				
Cash and cash equivalents	-	872 303	-	872 303
Securities at fair value through other comprehensive income				
- Corporate debt securities	-	-	2 783 188	2 783 188
Due from other banks	-	59 544	-	59 544
Loans to customers	-			
- Loans to corporations	-	6 494 903	-	6 494 903
- Loans to individuals	-	7 142	-	7 142
Financial assets within other assets	-			
- Settlements on broker operations	-	61	-	61
- Plastic cards settlements	-	865	-	865
Total financial assets	-	**7 435 217**	**2 783 188**	**10 218 006**
Non-financial assets				**293 835**
Total assets				**10 511 841**

The table below presents a reconciliation of the types of financial instruments with the stated above measurement categories as at 31 December 2017 (comparative information not restated):

	Financial assets at FVPL	Financial assets at amortized cost	Financial assets at FVOCI	Total
Assets				
Cash and cash equivalents	-	484 418	-	484 418
Financial assets available-for-sale				
- Corporate debt securities	-	-	2533451	2 533 451
Due from other banks	-	19 072	-	19 072
Loans to customers				
- Loans to corporations	-	7 920 081	-	7 920 081
- Loans to individuals	-	25 705	-	25 705
Financial assets within other assets				
- Broker transactions and stock exchange settlements	-	5 159	-	5 159
- Settlements on conversion operations	-	252	-	252
- Plastic cards settlements	-	792	-	792
Total financial assets	-	**8 455 479**	**2 533 451**	**10 988 930**
Non-financial assets				**357 546**
Total assets				**11 346 476**

The Bank's financial liabilities except for return of securities are carried at amortized cost.

(in thousands of Russian roubles, unless otherwise specified)

26. RISK MANAGEMENT POLICY

The Bank shall disclose information that enables users of its financial statements to evaluate the nature and extent of risks arising from financial instruments to which the Bank is exposed at the end of the reporting period.

Risk management plays an important role in the Bank's activity The main risks that are characteristic for the Bank's activity include credit risks, liquidity risks, interest rate risk, market risks - interest risk, currency risk and other price risk. The description of the Bank's risk management is given below.

The following kinds of risk management are exercised in the Bank:

- Credit risk is the risk of financial loss occurring as a result of default by a borrower or counterparty on their obligation to the Bank.
- Liquidity risk is the risk that the Bank will encounter difficulty in raising funds to meet its commitments.
- Market risk is a risk that the fair value of future cash flows related to the financial instrument will change due to market fluctuations. There are three types of market risk: Currency risk, interest risk and other price risk;
- Currency risk is a risk that arises upon creation of assets and raising funds denominated in foreign currencies. Currency risk is divided into foreign exchange risk, open currency position risk.
- Interest risk is a risk and the Bank's profit will be adversely affected by unforeseen changes in general interest rates.
- Price risks are risks that fair value of the Bank's assets and liabilities may change.

Liquidity risk

Liquidity risk is defined as the risk when the maturity of assets and liabilities does not match. The Bank is exposed to daily calls on its available cash resources from overnight deposits, current accounts, maturing deposits, loan draw downs, guarantees and from margin and other calls on cash settled derivative instruments. The Bank does not maintain cash resources to meet all of these needs as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty. The liquidity risk in the Bank is managed by the Committee on Assets and Liabilities Management.

With the purposes of liquidity risk management the Bank monitors the estimated future inflows from transactions with customers and banks that is a part of assets and liabilities management. The Bank calculates mandatory liquidity ratios on a daily basis in accordance with the requirements and methods of the Bank of Russia. These ratios include:

- - Quick liquidity ratio (N2) that is a ratio of highly liquid assets to demand liabilities;
- - Current liquidity ratio (N3) that is a ratio of liquid assets to liabilities due within 30 calendar days;
- - Long-term liquidity ratio (N4) that is a ratio of assets to be matured over one year to equity and liabilities with remaining period due over one year.

	Standard ratios	31 December 2018	31 December 2017
Quick liquidity ratio (N2)	15% min	84,9%	93,1%
Current liquidity ratio (N3)	50% min	168,1%	140,7%
Long-term liquidity ratio (N4)	120% max	68,6%	70,7%

(in thousands of Russian roubles, unless otherwise specified)

The following table presents analysis to liquidity risk and to balance interest risk as at 31 December 2018.

	Demand and less than 1 month	1- 6 mths	6 mths-1 year	More than 1 year	Past due	Indefinite maturity	Total
ASSETS							
Due from other banks	59 544	-	-	-	-	-	59 544
Loans to customers	74 955	869 062	753 978	4 744 106	59 944	-	6 502 045
Securities at FVOCI	2 783 188	-	-	-	-	-	2 783 188
Total interest bearing assets	2 917 687	869 062	753 978	4 744 106	59 944	-	9 344 777
Cash and cash equivalents	872 303	-	-	-	-	-	872 303
Mandatory cash balances with the Central Bank	-	-	-	-	-	71 172	71 172
Property and equipment	-	-	-	-	-	8 312	8 312
Deferred tax asset	-	-	-	-	-	-	0
Other assets		11 395	-	-	-	203 882	215 277
TOTAL ASSETS	3 789 990	880 457	753 978	4 744 106	59 944	283 366	10 511 841
LIABILITIES							
Due to other banks	1 390 673		-	-	-	-	1 390 673
Customer accounts	1 418 262	1 812 885	2 144 281	127 391	-	895	5 503 714
Debt securities issued	8 926	4 505	1 203	-	-	-	14 634
Subordinated borrowings	-		-	-	-	-	0
Total interest bearing liabilities	2 817 861	1 817 390	2 145 484	127 391	-	895	6 909 021
Customer accounts	1 234 247	-	-	-	-	-	1 234 247
Deferred tax liability	-	-	-	-	-	156 319	156 319
Other liabilities	109 880	5 359	1 896	5 018	-	-	122 153
TOTAL LIABILITIES	4 161 988	1 822 749	2 147 380	132 409	-	157 214	8 421 740
Difference between assets and liabilities	(371 998)	(942 292)	(1 393 402)	4 611 697	59 944	126 152	2 090 101
Difference between interest bearing assets and liabilities	99 826	(948 328)	(1 391 506)	4 616 715	59 944	(895)	2 435 756
Difference between interest bearing assets and liabilities, progressive total	99 826	(848 502)	(2 240 008)	2 376 707	2 436 651	2 435 756	

(in thousands of Russian roubles, unless otherwise specified)

The following table presents analysis to liquidity risk and to balance interest risk as at 31 December 2017.

	Demand and less than 1 month	1- 6 mths	6 mths - 1 year	More than 1 year	*Past due*	Indefinite maturity	Total
ASSETS							
Due from other banks	19 072	-	-	-	-	-	19 072
Loans to customers	214 188	675 167	704 056	5 730993	621 382	-	7 945 786
Securities at FVOCI	2 533 451	-	-	-	-	-	2 533 451
Total interest bearing assets	2 766 711	675 167	704 056	5 730 993	621 382	-	10 498 309
Cash and cash equivalents	484 418	-	-	-	-	-	484 418
Mandatory cash balances with the Central Bank	-	-	-	-	-	69 342	69 342
Property and equipment	-	-	-	-	-	9 951	9 951
Deferred tax asset	27 652	-	-	-	-	-	27 652
Other assets	178 729	28 260	-	-	-	49 815	256 804
TOTAL ASSETS	**3 457 510**	**703 427**	**704 056**	**5 730 993**	**621 382**	**129 108**	**11 346 476**
LIABILITIES							
Due to other banks	1 930 872	-	-	-	-	-	1 930 872
Customer accounts	601 252	2 823 206	1 541 098	848 050	-	-	5 813 606
Debt securities issued	127 021	40 886	1 492	2 592	-	-	171 991
Subordinated borrowings	-	-	-	403 934	-	-	403 934
Total interest bearing liabilities	**2 659 145**	**2 864 092**	**1 542 590**	**1 254 576**	-	-	**8 320 403**
Customer accounts	898 950	-	-	-	-	-	898 950
Other liabilities	32 512	17 975	74	33 630	-	-	84191
TOTAL LIABILITIES	**3 590 607**	**2 882 067**	**1 542 664**	**1 288 206**	-	-	**9 303 544**
Difference between assets and liabilities	(133 097)	(2 178 640)	(838 608)	4 442 787	621 382	129 108	2 042 932
Difference between interest bearing assets and liabilities	107 566	(2 188 925)	(838 534)	4 476 417	621 382	-	2 177 906
Difference between interest bearing assets and liabilities, progressive total	107 566	(2 081 359)	(2 919 893)	1 556 524	2 177 906	2 177 906	

The matching and/or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the Bank. It is unusual for banks ever to be completely matched since business transacted is often of an uncertain term and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses. The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature, are important factors in assessing the liquidity of the Bank.

The table below shows liabilities as at 31 December 2018 by their remaining contractual maturity. The amounts represent contractual undiscounted cash flows. These undiscounted cash flows differ from the amounts recognised in the statements of financial position as these amounts are based on the discounted cash flows. When the amount payable is not fixed, the sum in the table is based on the conditions valid at the reporting date. Currency amounts are recalculated at the exchange rate at the reporting date.

The following are the contractual maturities (including additional agreements) of financial liabilities unmatured as at 31 December 2018.

	On demand and less 1 months	1 -6 mths	6 mths - 1 year	Over 1 year	Total
Liabilities					
Due to other banks	1 390 673	-	-	-	1 390 673
Customer accounts	2 655 150	1 828 743	2 221 173	139 934	6 845 000
Debt securities issued	8 926	4 604	1 284		14 814
Subordinated borrowings	-	-	-	-	0
Total potential future payments related to liabilities	4 054 749	1 833 347	2 222 457	139 934	8 250 487

(in thousands of Russian roubles, unless otherwise specified)

The following are the contractual maturities (including additional agreements) of financial liabilities unmatured as at 31 December 2017.

	On demand and less 1 months	1- 6 mths	6 mths. - 1 year	Over 1 year	Total
Liabilities					
Due to other banks	1 935 089	-	-	-	1 935 089
Customer accounts	1 501 223	2 854 099	1 592 636	921 932	6 869 890
Debt securities issued	127 947	41 199	1 591	2 794	173 531
Subordinated borrowings	2 134	10 396	12 599	1 068 798	1 093 927
Total potential future payments related to liabilities	3 566 393	2 905 694	1 606 826	1 993 524	10 072 437

Customer accounts are classified in the above analysis based on contractual maturities. However, in accordance with Russian Civil Code, individuals have a right to withdraw their deposits prior to maturity if they forfeit their right to accrued interest.

Interest rate risk

The Bank takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes but may reduce or create losses in the event that unexpected movements arise.

The Bank is exposed to interest rate primarily as a result of granting loans at fixed interest rates and for periods other than periods of receiving loans at fixed rates. In practice, interest rates are set for a short period of time.

The Committee on Assets and Liabilities Management monitors and sets limits on the level of mismatch of interest rate repricing that may be undertaken.. In the absence of any available hedging instruments, the Bank normally seeks to match its interest rate positions.

The table below presents the analysis of average effective interest rates of main currencies for major monetary financial instruments: The analysis is based on the average effective interest rates at the end of the year. The interest rates as at 31 December 2018 and 31 December 2017 are presented by types of financial assets and liabilities in order to reveal interest risks by each type of assets and liabilities and the efficiency policy to the interest rates of the Bank. The Board of the Bank analyses and approves the Bank's interest rates policy.

	31 December 2018			31 December 2017		
	RUB	USD	EUR	RUB	USD	EUR
ASSETS						
Financial assets measured at fair value through other comprehensive income	8,50	6,13	-	10,50	6,23	-
Due from other banks	0,25	-	-	3,06	-	-
Loans to customers	11,07	9,12	8,82	12,74	8,37	8,98
LIABILITIES						
Due to other banks	8,57	-	-	7,57	-	-
Deposits of legal entities	5,82	5,00	2,88	6,58	5,18	4,30
Deposits of individuals	6,03	1,30	0,57	7,20	1,67	0,87
Debt securities issued	7,57	-	-	9,43	2,00	-
Subordinated borrowings	-	-	-	5,25	-	-

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate because of changes in foreign currency rates. The Bank takes on exposure to effects of fluctuations of exchange rates on its financial position and cash flows. The Management Board sets limits on the level of exposure by currency (USD and EUR) by economic sectors and as a whole. These limits are adherent to the regulative requirements of the Bank of Russia.

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

(in thousands of Russian roubles, unless otherwise specified)

	RUB	USD	EUR	Other currency	Total
ASSETS					
Cash and cash equivalents	773 606	45 517	40 903	12 277	872 303
Mandatory cash balances with the Central Bank	71 172	-	-	-	71 172
Due from other banks	43 628	15916	-	-	59 544
Loans to customers	5 025 671	1 371 340	105 034	-	6 502 045
Securities at FVOCI	1 664 425	1 118 763	-	-	2 783 188
Property and equipment	8 312	-	-	-	8 312
Deferred tax asset	-	-	-	-	0
Other assets	215 132	145	-	-	215 277
TOTAL ASSETS	7 801 946	2 551 681	145 937	12 277	10 511 841
LIABILITIES					
Due to other banks	1 390 673	-	-	-	1 390 673
Customer accounts	3 392 274	2 750 059	588 376	7 252	6 737 961
Debt securities issued	14 634	-	-	-	14 634
Deferred tax liability	156 319	-	-	-	156 319
Other liabilities	122 140	-	13	-	122 153
Subordinated borrowings	-	-	-	-	0
TOTAL LIABILITIES	5 076 040	2 750 059	588 389	7 252	8 421 740
NET BALANCE POSITION	2 725 906	(198 378)	(442 452)	5 025	2 090 101

The Bank's exposure to currency risk as at 31 December 2017 is provided below:

	RUB	USD	EUR	Other currency	Total
ASSETS					
Cash and cash equivalents	399 616	21 042	51 235	12 525	484 418
Mandatory cash balances with the Central Bank	69 342	-	-	-	69 342
Due from other banks	19 072	-	-	-	19 072
Loans to customers	5 800 003	1 894 924	250 859	-	7 945 786
Securities at FVOCI	1 744 383	789 068	-	-	2 533 451
Property and equipment	9 951	-	-	-	9 951
Deferred tax asset	27 652	-	-	-	27 652
Other assets	251 524	528	4 752	-	256 804
TOTAL ASSETS	8 321 543	2 705 562	306 846	12 525	11 346 476
LIABILITIES					
Due to other banks	1 930 872	-	-	-	1 930 872
Customer accounts	3 242 623	2 640 204	825 760	3 969	6 712 556
Debt securities issued	137 895	34 096	-	-	171 991
Other liabilities	83 444	747	-	-	84 191
Subordinated borrowings	403 934	-	-	-	403 934
TOTAL LIABILITIES	5 798 768	2 675 047	825 760	3 969	9 303 544
NET BALANCE POSITION	2 522 775	30 515	(518 914)	8 556	2 042 932

The following table provides movement of the financial performance and equity resulted from likely changes in exchange rates applied at the reporting date with other variables unchanged:

(in thousands of Russian roubles, unless otherwise specified)

	31 December 2018		31 December 2017	
	Effect on profit	Effect on equity	Effect on profit	Effect on equity
5% appreciation of USD	(9 919)	(7 935)	1 526	1 221
5% appreciation of Euro	(22 123)	(17 698)	(25 946)	(20 757)
5% appreciation of other currencies	251	201	428	342
5% depreciation of USD	9 919	7 935	(1 526)	(1 221)
5% depreciation of Euro	22 123	17 698	25 946	20 757
5% depreciation of other currencies	(251)	(201)	(428)	(342)

The Bank provides loans to customers denominated in foreign currencies. Depending on cash flows received by borrower, increase in foreign currency rates to the currency of the Russian Federation may adversely affect the borrowers' repayment ability.

Other price risks

The Bank is exposed to repayment risk at the expense of loans with a fixed interest rate that allow the borrower to repay the debt early. The Bank's financial performance and equity for the current year and as at the current reporting date would not have significantly depend on changes in the rates at early repayment as such loans are carried at amortized cost and the repayment amount corresponds or almost corresponds to the amortized cost of loans and accounts receivable.

Credit risk

The Bank takes on exposure to credit risk which is the risk that one party defaults their obligations related to a financial instrument that may result in financial loss to the other party.

The Bank's exposure to credit risk is stipulated if debtors of the Bank delay or default their obligations related to the principle and interest payments under the appropriate contract terms

The Bank's maximum exposure to on balance sheet credit risk is generally reflected in the carrying amounts of financial assets in the statement of financial position. The impact of possible netting of assets and liabilities to reduce potential credit exposure is not significant. For loan guarantees and obligations, the maximum exposure to credit risk amounts to the sum of the liabilities

The Bank applies a flexible credit risk management system. The key principle of this system is the credit policy approved by the Management Board of the Bank accompanying by uniformed credit standards and instructions developed by various structures of the Bank's management hierarchy.

The major principles of the credit risk management system are as follows: Organizational support of crediting, setting limits, estimating credit proposals and analysis of solvency of borrowers, correlating credits to the set limits, assessing interest rates considering possible credit losses, distributing authorities for credit decision-making - authorising credits, credit monitoring, credit portfolio management and recovery of problem credits.

An effective credit risk management system is based on real assessment of and control over relationships with the borrower and on a careful and reasonable approach to credit portfolio management.

An effective credit risk management system is also based on a unified credit culture with standard instructions for initiation, analysis, decision -making and monitoring individual credits. The frameworks for the unified credit culture, unified credit instructions and approaches to risk management, setting acceptable risk level are elements of the approved credit policy.

(in thousands of Russian roubles, unless otherwise specified)

Geographic concentration

The following table provides geographic concentration of the assets and liabilities as at 31 December 2018:

	Russia	OECD	Non-OECD countries	Total
ASSETS				
Cash and cash equivalents	870 180	2 123	-	872 303
Mandatory cash balances with the Central Bank	71 172	-	-	71 172
Due from other banks	59 544	-	-	59 544
Loans to customers	6 502 045	-	-	6 502 045
Securities at FVOCI	1 664 425	1 118 763	-	2 783 188
Property and equipment	8 312	-	-	8 312
Deferred tax asset	-	-	-	-
Other assets	215 132	145	-	215 277
TOTAL ASSETS	9 390 810	1 121 031	-	10 511 841
LIABILITIES				
Due to other banks	1 390 673	-	-	1 390 673
Customer accounts	6 223 749	51 698	462 514	6 737 961
Debt securities issued	14 634	-	-	14 634
Deferred tax liability	156 319	-	-	156 319
Other liabilities	122 140	13	-	122 153
Subordinated borrowings	-	-	-	0
TOTAL LIABILITIES	7 907 515	51 711	462 514	8 421 740
NET BALANCE POSITION	1 483 295	1 069 320	(462 514)	2 090 101

The following table provides geographic concentration of the assets and liabilities as at 31 December 2017:

	Russia	OECD	Non-OECD countries	Total
ASSETS				
Cash and cash equivalents	476 155	8 243	20	484 418
Mandatory cash balances with the Central Bank	69 342	-	-	69 342
Due from other banks	19 072	-	-	19 072
Loans to customers	7 945 786	-	-	7 945 786
Securities at FVOCI	2 533 451	-	-	2 533 451
Property and equipment	9 951	-	-	9 951
Deferred tax asset	27 652	-	-	27 652
Other assets	256 804	-	-	256 804
TOTAL ASSETS	11 338 213	8 243	20	11 346 476
LIABILITIES				
Due to other banks	1 930 872	-	-	1 930 872
Customer accounts	5 877 104	17 986	817 466	6 712 556
Debt securities issued	171 991	-	-	171 991
Other liabilities	84 191	-	-	84 191
Subordinated borrowings	403 934	-	-	403 934
TOTAL LIABILITIES	8 468 092	17 986	817 466	9 303 544
NET BALANCE POSITION	2 870 121	(9 743)	(817 446)	2 042 932

27. EVENTS SUBSEQUENT TO THE REPORTING DATE

Subsequent events under International Financial Reporting Standards did not occur.

Signed on behalf of the Board of the Bank on 29 April 2019

Chairman of the Board	Chief Accountant
I.L. Kasyanov	N.P. Bagdashkina