TCS Group Holding PLC

International Financial Reporting Standards Consolidated Financial Statements and Independent Auditor's Report

31 December 2018

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Board of Directors
Constantinos Economides, Chairman
Alexios Ioannides
Mary Trimithiotou
Philippe Delpal
Jacques Der Megreditchian
Martin Robert Cocker

All served throughout the year ended 2018 and through to the date of these consolidated financial statements.

The Company's Articles of Association include regulations for the retirement by rotation of Directors at each annual general meeting. These regulations will operate in 2019 on the basis of the composition of the Board at the relevant date.

Company Secretary
Caelion Secretarial Limited
25 Spyrou Araouzou
Berengaria 25, 5th floor,
3036, Limassol, Cyprus

Registered office
25 Spyrou Araouzou
Berengaria 25, 5th floor,
3036, Limassol, Cyprus

1. The Board of Directors presents its report together with the audited consolidated financial statements of TCS Group Holding PLC (the "Company") and its subsidiaries (collectively the "Group") for the year ended 31 December 2018.

Principal activities and nature of operations of the Group

2. The Group's principal activities are undertaken within the Russian Federation being on-line retail banking operations through its subsidiary JSC "Tinkoff Bank" (the "Bank") and insurance operations through its subsidiary JSC "Tinkoff Insurance" (the "Insurance Company").

3. The Bank specialises in retail banking for individuals and small and medium-sized enterprises (SME) and brokerage services. The Bank which is fully licensed by the Central Bank of Russia and launched its operations in the Summer of 2007 is a member of the Russian Deposit Insurance System. The Insurance Company specialises in providing non-life insurance coverage such as accident, property, travelers', financial risks and auto insurance. The founder and controlling shareholder of the Company is Oleg Tinkov.

Changes in group structure

4. During 2018 the Group acquired a minority stake in Kassir.ru, one of Russia's biggest ticket sales companies by the number of tickets sold. The acquisition is in line with the Group's strategy of developing its ecosystem to offer customers a greater choice of financial and related services through the Tinkoff.ru platform.

5. During 2018 the Bank founded the non-commercial organization ANO "Tinkoff Education" with no share capital. This entity is in the process of receiving an educational license and did not perform any activity during 2018.

Review of developments, position and performance of the Group's business

6. The Bank operates a flexible business model. Its virtual network enables it to quickly and easily increase business or slow down customer acquisition depending on the availability of funding and market conditions. The Bank's primary customer acquisition channels are Internet and Mobile, but it also uses Direct Sales Agents and partnerships (co-brands) to acquire new customers. These customer acquisition models, combined with the Bank's virtual network, afford it a geographic reach across all of Russia's regions resulting in a highly diversified portfolio.

7. During 2018 the Company was actively developing its operations in Cyprus connected with provision of call-center and software development services.

8. During 2018 the Bank started providing new types of loans: i) car loans, ii) secured loans which represent loans secured by cars or real estate, and iii) loans provided to individual entrepreneurs and small and medium businesses for the purpose of working capital management.

9. The key offerings of JSC "Tinkoff Insurance" are accident insurance, travel insurance, property insurance and voluntary insurance of vehicles (KASKO) and Obligatory Motor Third Party Liability (OMTPL). The Insurance Company focuses on online sales.

10. In terms of financial performance the profit of the Group for the year ended 31 December 2018 was RR 27,122 million (2017: RR 19,023 million). This result is driven by two major continuing trends: an ongoing quality growth of the Group's consumer finance business, a growing contribution from the non-credit fees-and-commission business lines. Net margin increased by 28.5% to RR 59,217 million (2017: by 37.3% to RR 46,076 million) on the back of credit and investment portfolio growth. The growth of the credit portfolio was driven not only by the credit cards part but also by other types of loans, such as, Cash and POS loans. Starting from the middle of 2018 the Bank introduced car and secured loans for its customers which accounted for about 3% of net Loans and advances to customers as at the year-end. The quality of loans continued to improve. The 90 days plus overdue loans ratio (NPL) reduced to 9.4% as at 31 December 2018 compared to 13.4% as at 1 January 2018 under IFRS 9 (2017: 8.8% under IAS 39). The NPL coverage ratio increased to 164% as at 31 December 2018 and to 166% as at 1 January 2018 under IFRS 9 (2017: 126% under IAS 39). The Investment in debt securities portfolio (according to IFRS 9) increased by 39.7% to RR 100,140 million (2017: the Investment Securities Available for Sale (according to IAS 39) portfolio increased by 115.3% to RR 71,676 million). The reason for these dynamics is the development of the debit

cards and SME business lines. The Group continues to maintain a good quality and diversification of its securities portfolio. During the year the Bank launched its Tinkoff Investments product giving its customers a platform to buy and sell market securities. The Group's Insurance business continues to develop at a good pace. This year Insurance premiums earned increased by 144.0% to RR 6,674 million (2017: by 102.9% to RR 2,735 million). The reason behind the growth of insurance premiums is a continuous development of auto (including KASKO and OSAGO) and travel insurance, as well as the growth of personal accident insurance along with the credit portfolio.

11. The Group has adopted IFRS 9 with a date of transition of 1 January 2018, which resulted in changes in accounting policies for recognition, classification and measurement of financial assets and liabilities and impairment of financial assets. The equity attributable to shareholders' of the Company decreased at 1 January 2018 by RR 9.8 billion as a result of adoption of IFRS 9. This impact primarily arises from an increase in credit loss allowance for loans and advances to customers less the related deferred tax credit. Other impacts of IFRS 9 adoption on the Group are disclosed in Note 5 of consolidated financial statements.

Environmental matters

12. As the Group is an online only financial institution, the management of the Group believe none of the Group's business relationships, products or services are likely to have any significant actual or potential significant environmental impacts and do not believe its operations are exposed to any material environmental risks. Management, in reaching this view, have taken into account the risk of adverse impacts that may stem from the Company's own activities as well as its business relationships including its supply and subcontracting chains. This belief is based on continuous scrutiny of the business. The Group is continuously reviewing its processes to identify opportunities to reduce their environmental impact.

Human resources

13. The Group has a flat organizational culture. The Group practices delegation of decision making to the levels deep below the management team and actively promotes discussion and idea generation and exchange. The Group believes in creating an environment where highly talented people are empowered. Empowerment is an important ingredient in the success of our organization. It's also about the workplace environment – having an open leadership style where information can move freely – where ideas are constantly channeled up, down and sideways around the Group. The Group does not have 'a rule by committee' approach. The Group utilizes all types of forums to promote continual dialogue – using email, various online chat rooms, flash meetings, as well as formalized meeting structures. Anyone can talk to anyone and transparency is promoted. The Group offers a clear far-reaching career path for its employees, unique work environment and a fair and transparent compensation.

14. Clear performance evaluation process and fair compensation are essential. Compensation is a combination of fixed rate salary and bonuses and is based on employee performance. Employees are evaluated on a regular basis in order to monitor their achievement against KPIs, to determine incentive compensation, and to provide feedback which can be used for their career development.

15. Prior to its IPO in 2013, the Group set up share based long term incentive plans as retention and motivational tools for key and senior managers. In March 2016, the Group announced a consolidated long-term management incentive and retention plan, covering around 50 key, senior and middle managers. In 2017 and 2018, the Group announced the expansion of the plan. The number of participants increased to over 80. Total target size of the MLTIP pool is 5.6% of the Group's current share capital. The plan is designed to align more closely managers' interests with those of shareholders to grow the Group's value. The plan is awarded over four years with each such annual award vesting over the subsequent three years. The Group believes that participation in its share capital is an effective motivation and retention tool. The new management incentive and retention plan now embraces more managers, for two main reasons: firstly, internal promotions as some employees were promoted to key managerial positions, and secondly, as part of its expansion and transformation into a financial marketplace, the Group has hired a significant number of new managers to develop and manage new business lines.

Non-Financial Information and Diversity Statement

16. The Group's policies and information for an understanding of the development, performance, position and impact of the activity of the Group in the spheres of environmental, social and employee matters, respect for human rights, anti-corruption and bribery matters can be found in the Group's most recently published Non-Financial Information and Diversity Statement. The Group will publish its Non-Financial Information and Diversity Statement for the year ended 2018, on the Company's website, www.tcsgh.com.cy (and www.tinkoff.ru/eng) by 30 June 2019, within six months of the reporting date.

Principal risks and uncertainties

17. The Group's business and financial results are impacted by the uncertainties and volatility of the Russian economic environment. For example in April 2018 the Russian Rouble decreased by about 10% against the US Dollar and Euro in the space of a few days and international sanctions continue to impact Russia. With respect of Rouble interest rates, during 2018 the CBRF "key rate" fluctuated between 7.25% and 7.75%. It was at the top end of the range at both the beginning and the end of 2018.

18. The Group is subject to a number of principal risks which might adversely impact its performance. The principal activities of the Group are banking and insurance operations and so it is within this area that the principal risks occur. Management considers that those principal risks are: financial risks, operational risks and legal risks. Financial risk comprises market risks (including currency risk, interest rate risk and other price risk), credit risk and liquidity risk.

19. The Board has adopted a formal process to identify, evaluate and manage principal risks and uncertainties faced by the Group. The Group has an established risk management program that focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial performance. This is overseen by a dedicated Risk Management function, which works directly with the Board of Directors in this area. The primary objectives of the financial risk management function are to establish risk limits, and then ensure that the exposure to risks stays within these limits. The operational and legal risk management functions are intended to ensure the proper functioning of internal policies and procedures to minimize operational and legal risks. Risk management strategy is established so as to identify, assess, monitor and manage the risks arising from Group's activities. These risks as well as other risks and uncertainties, which affect the Group and how these are managed, are presented in Notes 34 and 36 of the consolidated financial statements.

Contingencies

20. The Group's contingencies are disclosed in Note 36 to the consolidated financial statements.

Future developments

21. The Group's strategic objective is to be a full service, online financial supermarket with a broad range of financial, insurance and quasi-financial products, serving customers through a high-tech online and mobile platform that offers premium quality service and convenience, while maintaining high growth rates, profitability and effective data-driven risk management.

Results

22. The Group's results for the year are set out on page 2 of the consolidated financial statements. Information on distribution of profits is presented in Note 31.

Any important events for the Group that have occurred after the end of the financial year

23. Important events for the Group that have occurred after the end of the financial year are presented in Note 42.

Share capital

24. During 2018 the Company's shareholders approved a resolution to increase authorised share capital to USD 7,670,830.64 by the creation of 1,291,266 new undesignated ordinary shares of nominal value USD 0.04 each. As at 31 December 2018 the total number of authorised shares is 191,770,766 shares (31 December 2017: 190,479,500 shares) with a par value of USD 0.04 per share (31 December 2017: USD 0.04 per share).

25. As at 31 December 2018 the issued share capital of the Company which remains unchanged from the prior year, comprised 96,239,291 "class A" ordinary shares and 86,399,534 "class B" ordinary shares with a par value of USD 0.04 per share.

Research and development activities

26. During the year ended 31 December 2018 the Group has undertaken research and development activities related to software including greater use of biometrics.

Treasury shares

27. At 31 December 2018 the Group held 6,604,353 (2017: 6,315,121) of its own GDRs that is equivalent of approximately RR 3,670 million (2017: RR 1,587 million) representing 3.6% (2017: 3.5%) of the issued share capital.

28. Treasury shares are GDRs of TCS Group Holding Plc that are held by the special purpose trust which has been specifically created for the long-term incentive programme for Management of the Group (MLTIP) (see Note 41 for further information).

29. In 2018 the Group repurchased 2,094,126 GDRs (2017: 602,148 GDRs) at market price for RR 2,455 million (2017: RR 397 million) representing 1.1% (2017: 0.3%) of the issued share capital.

30. During 2018 the Group transferred 1,804,894 GDRs (2017: 1,326,464 GDRs) out of treasury shares upon vesting under the MLTIP to retained earnings that is equivalent of RR 372 million (2017: RR 283 million) representing 1.0% (2017: 0.7%) of the issued share capital.

Board of Directors

31. The members of the Board of Directors as of 31 December 2018 and at the date of this report are presented above.

32. There were no significant changes in the assignment of responsibilities and remuneration of the Board of Directors.

Branches

33. The Group did not operate through any branches during the year.

Independent auditor

34. The Board of Directors in accordance with the requirements of the EU introduced into Cypriot legislation undertook a mandatory audit tender in respect of the 2019 audit. Following this the Independent Auditor, PricewaterhouseCoopers Limited, has expressed their willingness to continue in office. A resolution giving authority to the Board of Directors to fix their remuneration will be proposed at the Annual General Meeting.

Going concern

35. The Directors have access to all information necessary to exercise their duties. The Directors continue to adopt the going concern basis in preparing the consolidated financial statements based on the fact that, after making enquiries and following a review of the Group's budget for 2019, including cash flows and funding facilities, the Directors consider that the Group has adequate resources to continue in operation for the foreseeable future.

Corporate Governance Statement

Overview

GDRs of TCS Group Holding PLC (a Cyprus company), issued under a deposit agreement dated on or about 24th October 2013 with JPMorgan Chase Bank N.A. as depositary representing one class A share, are listed on the London Stock Exchange (LSE) and the Company is required to comply with its corporate governance regime to the extent it applies to foreign issuers of GDRs. No shares of TCS Group Holding PLC are listed on any exchange. As the class A shares themselves or the GDRs are not listed on the Cyprus Stock Exchange, the Cypriot corporate governance regime is not applicable for the Company and accordingly the Company does not monitor its compliance with that regime. The rights of shareholders include the right to vote on the appointment and removal of Directors and to amend the Articles of Association.

TCS Group Holding PLC has two classes of ordinary shares, Class B shares carry or confer enhanced voting rights (10 votes per class B share) as opposed to class A (one vote per class A share); a concise description of these is set out in the Company's most recent annual report: a detailed description of the Articles of Association, including the rights of shareholders, and the Terms and Conditions of the GDRs can be found in the Company's October 2013 Prospectus on the website at www.tinkoff.ru/eng.

Board of Directors

The role of the Board is to provide entrepreneurial leadership to the Group within a framework of prudent and effective controls which enables risk to be assessed and managed. The Board sets the Group's strategic objectives, ensures that the necessary financial and human resources are in place for the Group to meet its objectives and reviews management's performance. The Board also sets the Group's values and standards and ensures that its obligations towards the shareholders and other stakeholders are understood and met.

The authorities of the members of the Board are specified by the Articles of Association of the Company and by law. The current six strong Board of directors is comprised of three executive directors including the chairman, and three non-executive directors two of whom are independent. There was no change in the composition of the Board in 2018. The board of directors currently contains no B Directors.

The longest serving director is Mr Constantinos Economides who became a director in 2008, and later took over the role of Chairman of the Board of Directors in June 2015. The names of the people who served on the Board during 2018 are listed above. The Group has established two Committees of the Board. Specific responsibilities have been delegated to those committees as described below.

The Board is required to undertake a formal and rigorous review annually of its own performance, that of its committees and of its individual directors. That review was carried out, in-house, in relation to 2018, looking at overall performance but focused mainly on late 2017 and 2018. All directors completed detailed questionnaires on the Board's performance. Analysis of the resultant feedback did not show up any deficiencies in the performance of the Board, its committees or individual directors of a nature that required changes to be made, which was discussed at a meeting of the Board of Directors on 11 March 2019.

Committees of the Board of directors

The Company has established two Committees of the Board of directors: the Audit Committee and the Remuneration Committee and their terms of reference are summarized below. Both Committees were constituted in October 2013. The Board reserves the right to amend their terms of reference and arranges a periodic review of each Committee's role and activities and considers the appropriateness of additional committees.

Committee composition

The Audit Committee is chaired by an independent non-executive director Mr Martin Cocker, and has two other members both non-executive directors one of whom is independent.

The Remuneration Committee is also chaired by an independent non-executive director Mr Jacques Der Megreditchian, and has two other members both non-executive directors one of whom is independent.

Audit Committee

The Audit Committee's primary purpose and responsibility is to assist the Board in its oversight responsibilities. In executing this role the Audit Committee monitors the integrity of the consolidated financial statements of the Group prepared under IFRS and any formal announcements relating to the Group's and the Company's financial performance, reviewing significant financial reporting judgments contained in them, oversees the financial reporting controls and procedures implemented by the Group and monitors and assesses the effectiveness of the Company's internal financial controls, risk management systems internal audit function, the independence and qualifications of the independent auditor and the effectiveness of the external audit process. The Audit Committee is required to meet at appropriate times in the reporting and audit cycle but in practice meets more often as required.

Under its terms of reference the Audit Committee is required at least once a year to review its own performance, constitution and terms of reference to ensure it is operating at maximum effectiveness and to recommend any changes it considers necessary for Board approval. The Audit Committee met this obligation in two main ways, through members participating in the main Board review described above in the second half of 2017 and by arranging a complementary committee review on a rolling basis driven by the audit cycle March to March. After consideration of the Audit Committee's own review, no further changes to those adopted in the preceding year were proposed to the committee's terms of reference. During the second half of 2017 the Audit Committee determined to set a more structured framework around the extensive work it had been doing between its quarterly meetings to review the consolidated financial statements by adding at least two additional meetings to its annual schedule, at least one of which would be held at the Bank's head office in Moscow, to consider specific non-financial statement related areas within its terms of reference such as risk management issues including internal audit procedures, and the financial and reputational dimensions of cyber security measures put in place by the Group. Two such meetings were held in 2018 with a further two at least planned for 2019.

The Audit Committee has developed a risk matrix which constantly evolves to reflect new risks, the perceived impact of, and the Group's appetite for, any given risk and the measures taken to mitigate those risks. This matrix is run in conjunction with the internal audit function.

Remuneration Committee

The Remuneration Committee is responsible for determining and reviewing among other things the framework of remuneration of the executive directors, senior management and its overall cost and the Group's remuneration policies. The objective is to ensure that the executive management of the Group are provided with appropriate incentives to encourage enhanced performance and are in a fair and responsible manner rewarded for their individual contributions to the success of the Group. The Remuneration Committee's Terms of Reference include reviewing the design and determining targets for any performance related pay schemes and reviewing the design of all share incentive plans for approval by the Board. The Remuneration Committee is required to meet at least twice a year but in practice meets far more often.

The Remuneration Committee continued work into 2018 on its ongoing review of the operation of the Group's equity based incentive and retention plan for key, senior and middle management (MLTIP) which launched and in considering additional awards to both existing and new participants for this and subsequent years.

Under its terms of reference the Remuneration Committee is required at least once a year to review its own performance, constitution and terms of reference to ensure it is operating at maximum effectiveness and to recommend any changes it considers necessary for Board approval. The Remuneration Committee met this obligation through members participating in the main Board review (described above) under which detailed questionnaires were completed by all directors assessing the operation of the Board and both committees. Although earlier reviews had resulted in certain minor changes to the Remuneration Committee's terms of reference to clarify certain procedural matters and to align them more closely with how the committee operated in practice, no further changes were felt required in 2018 and 2019.

Significant direct/indirect holdings

For the significant direct and indirect shareholdings held in the share capital of the Company, please refer to Note 1 of the consolidated financial statements.

Internal control and risk management systems in relation to the financial reporting process

Policies, procedures and controls exist around financial reporting. Management is responsible for executing and assessing the effectiveness of these controls.

Financial reporting process

The Board of Directors is responsible for the preparation of the consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of the Cyprus Companies Law, Cap.113, and for such internal control as the Board of Directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error. In preparing the consolidated financial statements, the Board of Directors is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The Board has delegated to the Audit Committee the responsibility for reviewing the consolidated financial statements to ensure that they are in compliance with the applicable framework and legislation and for recommending these to the Board for approval. The Audit Committee is responsible for overseeing the Group's financial reporting process.

Internal Controls and Risk Management

Management is responsible for setting the principles in relation to risk management. The risk management organisation is divided between Policy Making Bodies and Policy Implementation Bodies. Policy Making Bodies are responsible for establishing risk management policies and procedures, including the establishment of limits. The main Policy Making Bodies are the Board of Directors, the Management Board, the Finance Committee, the Credit Committee and the Business Development Committee.

In addition the Group has implemented an online analytical processing management system based on a common SAS data warehouse that is updated on a daily basis. The set of daily reports includes but is not limited to sales reports, application processing reports, reports on the risk characteristics of the card portfolios, vintage reports, transition matrix (roll rates) reports, reports on the pre-, early and late collections activities, reports on compliance with CBR requirements, capital adequacy and liquidity reports, operational liquidity forecast reports and information on intra-day cash flows.

Diversity policy

The Group is committed to offering equal opportunity to all current and prospective employees, such that no applicant or employee is discriminated in favour of or against on the grounds of sex, racial or ethnic origin, religion or belief, disability, age or sexual orientation in recruitment, training, promotion or any other aspect of employment.

Recruitment, training and promotion are exclusively based on merit. All the Group employees involved in the recruitment and management of staff are responsible for ensuring the policy is fairly applied within their areas of responsibility. The Group applies this approach throughout, at all levels. This includes its administrative, management and supervisory bodies, including the Board of Directors of the Company.

The composition and diversity information of the Board of Directors of the Group for the year ended and as at 31 December 2018 is set out below:

Name	Age	Male/Female	Educational/professional background
Constantinos Economides	43	Male	ICAEW, MSc in Management Sciences, experience in 'Big Four' professional services firms
Alexios Ioannides	42	Male	ICAEW, ICPAC, BSc in Business Administration, experience in 'Big Four' professional services firms
Mary Trimithiotou	41	Female	ICPAC, FCCA, Licensed insolvency practitioner, experience in 'Big Four' professional services firms
Martin Robert Cocker	59	Male	ICAEW, BSc in Mathematics and Economics, experience in 'Big Four' professional services firms
Philippe Delpal	45	Male	BSc in IT, Telecoms and Economics, senior executive experience in banking industry
Jacques Der Megreditchian	59	Male	BSc in Business Administration and in Financial Analysis, banking and finance experience

Further details of the corporate governance regime of the Company can be found on the website: https://www.tinkoff.ru/eng/investor-relations/corporate-governance/.

By Order of the Board

Constantinos Economides
Chairman of the Board
Limassol
11 March 2019

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Independent Auditor's Report

To the Members of TCS Group Holding PLC

Report on the Audit of the Consolidated Financial Statements

Our opinion

In our opinion, the accompanying consolidated financial statements of TCS Group Holding PLC (the "Company") and its subsidiaries (together the "Group") give a true and fair view of the consolidated financial position of the Group as at 31 December 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and the requirements of the Cyprus Companies Law, Cap. 113.

What we have audited

We have audited the consolidated financial statements which are presented in pages 1 to 95 and comprise:

- the consolidated statement of financial position as at 31 December 2018;
- the consolidated statement of profit or loss and other comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

The financial reporting framework that has been applied in the preparation of the consolidated financial statements is International Financial Reporting Standards as adopted by the European Union and the requirements of the Cyprus Companies Law, Cap. 113.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the Group throughout the period of our appointment in accordance with the *International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code)* together with the ethical requirements that are relevant to our audit of the consolidated financial statements in Cyprus and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

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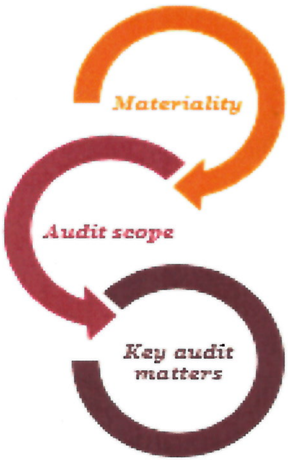
Our audit approach

Overview

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the consolidated financial statements. In particular, we considered where the Board of Directors made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.



- Overall group materiality: Russian Roubles ("RR") 1 760 million, which represents approximately 5% of profit before tax

- We planned and conducted our audit to cover the two most significant business components of the Group being the Banking and Insurance operations for which we performed an audit of their complete financial information.
- For the non-significant components, we performed substantive audit procedures where necessary.

We have identified the following key audit matters:

- Credit loss allowance for loans and advances to customers, using the expected credit loss model in line with the requirements of IFRS 9 "Financial Instruments" including impact of adoption on 1 January 2018;
- Recognition of interest income calculated using the effective interest rate method on loans and advances to customers.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall group materiality for the consolidated financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the consolidated financial statements as a whole.

Overall group materiality	RR 1 760 million
How we determined it	Approximately 5% of profit before tax
Rationale for the materiality benchmark applied	We chose profit before tax as the benchmark because, in our view, it is the benchmark against which the performance of the Group is most commonly measured by the users of the consolidated financial statements, and it is a generally accepted benchmark. We chose 5%, which in our experience is an acceptable quantitative threshold for this materiality benchmark.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above RR 176 million as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

How we tailored our group audit scope

TCS Group Holding PLC is the parent of a group of companies. The financial information of this Group of companies is included in the consolidated financial statements of TCS Group Holding PLC.

Considering our ultimate responsibility for the opinion on the Group's consolidated financial statements we are responsible for the direction, supervision and performance of the group audit. In this context, we tailored the scope of our audit and determined the nature and extent of the audit procedures for the components of the Group to ensure that we performed sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the significance and/or risk profile of the group entities or activities, the accounting processes and controls, and the industry in which the Group operates.

The Group is structured into two significant business components being Banking (which includes retail business for individuals and small and medium-sized entities business) and Insurance operations, both of which operate primarily in the Russian Federation. The Banking operations business component comprises a number of business reporting units being JSC Tinkoff Bank, LLC Microfinance company T-Finans and LLC Phoenix. The Insurance operations business component comprises one business reporting unit being JSC Tinkoff Insurance. Full scope audit procedures were performed in respect of the two significant business components.

Other Group business reporting units, such as TCS Group Holding PLC, TCS Finance D.A.C., Goward Group Ltd, LLC TCS, Tinkoff Software DC, LLC Tinkoff Mobile, LLC CloudPayments, ANO Tinkoff Education and Tinkoff Long-Term Incentive Plan Employee Benefit Trust, are not considered to be significant business components for audit purposes. Where necessary, additional substantive audit procedures were carried out across these non-significant components at the financial statement item level in order to achieve the desired level of audit evidence. The consolidated financial statements are a consolidation of all of the above business reporting units.

We determined the level of involvement we needed to have in the audit work at the business reporting units to be able to conclude whether sufficient appropriate audit evidence was obtained as a basis for our opinion on the consolidated financial statements as a whole. We worked with other PwC network firms in relation to the activity of the Group in the Russian Federation and Cyprus. Overall, we have obtained sufficient and appropriate audit evidence regarding the consolidated financial information of the Group as a whole to provide a basis for our audit opinion on the consolidated financial statements.

Key audit matters incorporating the most significant risks of material misstatements, including assessed risk of material misstatements due to fraud

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

Key Audit Matter	How our audit addressed the Key Audit Matter
Credit loss allowance for loans and advances to customers, using the expected credit loss model in line with the requirements of IFRS 9 "Financial Instruments" including impact of adoption on 1 January 2018. We focused on this area because this is a new and complex accounting standard for which new models have been developed by the Group to calculate expected credit losses ("ECL") on adoption of IFRS 9 as of 1 January 2018 and for the year ended 31 December 2018 and significant judgement and estimates are involved in estimating expected credit losses on loan and advances to customers. The basis of credit loss allowance under IFRS 9 is significantly different from the impairment provision basis previously applied under IAS 39 and additional new enhanced disclosure requirements are also introduced together with the adoption of IFRS 9. Therefore we applied additional focus to the design and application of the new comprehensive "expected credit loss" models introduced by the Management for the purpose of compliance with IFRS 9. The detailed description of these models is disclosed in Note 3 "Significant accounting policies" and Note 34 "Financial risk management" to the consolidated financial statements. An assessment of the credit loss allowance for loans and advances to customers is performed on a portfolio basis, with the key assumptions being the probability of an account falling into arrears and subsequently defaulting (which is impacted by the definition of significant increase in credit risk and the definition of default), the estimated recoveries from defaulted loans and lifetime period for revolving credit facilities. Statistical models are used for the assessment of the probability of default, recovery rate and lifetime period for revolving credit facilities. In addition, calculation of the expected credit loss allowance incorporates forward-looking information, taking into consideration different macro-economic scenarios and adjusting the probability of default. Note 3 "Significant Accounting Policies", Note 4 "Critical Accounting Estimates and Judgments in Applying Accounting Policies", Note 5 "Adoption of New or Revised Standards and Interpretations", Note 9 "Loans and Advances to Customers" and Note 34 "Financial Risk Management" to the consolidated financial statements provide detailed information on the credit loss allowance for loans	In relation to implementation of the new ECL models for measuring credit loss allowance both on adoption of IFRS 9 on 1 January 2018 and as at 31 December 2018, we assessed the appropriateness of the key assumptions used in the methodologies and models of the Group and their compliance with the requirements of IFRS 9. We engaged our credit risk technical experts to assist us in undertaking this assessment. We tested on a sample basis the design and operating effectiveness of the key controls over the implementation of the new credit loss allowance models in the systems. For a sample of loans we recalculated probabilities of default on the basis of the new methodologies and compared the results with the models' outputs. Additionally, we reviewed the Group's backtesting of probabilities of default estimated on the basis of the models by comparing them to the actual default rates evidenced in the loan portfolios. With regard to the controls relating to the credit loss allowance, we assessed and tested on a sample basis the design and operating effectiveness of the key controls over credit loss data and calculations. These key controls included those over loan classification by type of loan portfolio, allocation of cash received from customers to respective loans and advances to customers, identification of the overdue loans and the data transfer from source systems to the credit loss allowance models. We determined that we could place reliance upon these key controls for the purposes of our audit. In addition, we tested on a sample basis the correctness of loan classification by type of loan portfolio and performed testing on a sample basis of the statistical models used to calculate credit loss allowance. This testing of the models varied by portfolio including testing of the coding used, re-performance of the calculation including calculation of the effect of forward looking information on credit loss allowance and testing the extraction of data used in the models. We tested a sample of post model accounting adjustments where applicable, including considering the basis for the adjustment, the logic applied, the source data used and the key assumptions adopted.

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Key Audit Matter	How our audit addressed the Key Audit Matter
and advances to customers and the effect of adoption of new credit loss allowance models.	We assessed the disclosures made against the relevant accounting standards for their completeness and accuracy. Based on the evidence obtained we found the models used to be appropriate and the outputs from the models to be reasonable.
Recognition of interest income calculated using the effective interest rate method on loans and advances to customers We focused on this area mainly because the calculation of interest income uses, in addition to relevant nominal interest rates, a number of different fees and costs, incorporates significant assumptions around expected lives of loans and involves judgement as to which fees and costs are included in interest income calculated using the effective interest rate method and which are included in net commission income. As the Group has over ten year history of lending in different economic conditions, it has a significant amount of information from which to assess trends in payment, redemption and product transfers. These detailed patterns are used to obtain a more accurate estimate of future customer behaviour and performance, resulting in lower subjectivity of the assumptions around expected lives of loans. Note 3 "Significant Accounting Policies", Note 4 "Critical Accounting Estimates and Judgments in Applying Accounting Policies", Note 23 "Net margin" and Note 34 "Financial Risk Management" included in the consolidated financial statements provide detailed information on the interest income calculated using the effective interest rate method and effective interest rates of loans and advances to customers.	Our audit procedures in relation to the effective interest rates of loans originated by the Group included testing on a sample basis of the key controls in relation to the nominal interest income, fee income and costs incurred all of which contribute to interest income calculated using the effective interest rate method. These controls included those over calculation and accrual of the nominal interest income and fee income parts of interest income calculated using the effective interest rate method and the data transfer from the source system to the accounting system. We determined that we could place reliance upon these key controls for the purposes of our audit. We analysed the appropriateness and consistency of the methodology and its application across each of the loan portfolios and loans' credit quality stages within these portfolios and assessed the reasonableness of the models' key assumptions, including the fee income and costs components of the effective interest income rate and expected repayment periods of the loans by considering historic information. We also assessed the mathematical accuracy of the models through re-performance of the model calculations, which were tested substantively on a sample basis. In addition, we performed substantive analytical procedures to assess the reasonableness of the interest income calculated using the effective interest rate method recognised by the Group. We determined that the methodologies and models used are appropriate and the outputs are reasonable.

Reporting on other information

The Board of Directors is responsible for the other information. The other information comprises the information included in the Consolidated Management Report including the Corporate Governance Statement, which we obtained prior to the date of this auditor's report, and the Company's complete Annual Report, which is expected to be made available to us after that date. Other information does not include the consolidated financial statements and our auditor's report thereon.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

When we read the Company's complete Annual Report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance and if not corrected, we will bring the matter to the attention of the members of the Company at the Company's Annual General Meeting and we will take such other action as may be required.

Responsibilities of the Board of Directors and those charged with governance for the Consolidated Financial Statements

The Board of Directors is responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of the Cyprus Companies Law, Cap. 113, and for such internal control as the Board of Directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

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

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

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

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters.

Report on Other Legal and Regulatory Requirements

Pursuant to the requirements of Article 10(2) of the EU Regulation 537/2014 we provide the following information in our Independent Auditor's Report, which is required in addition to the requirements of International Standards on Auditing.

Appointment of the Auditor and Period of Engagement

We were first appointed as auditors of the Group in 2008 by the members of the Company for the audit of the consolidated financial statements for the year ended 31 December 2007. Our appointment has been renewed annually, since then, by shareholder resolution. In December 2008 the Company listed Euro denominated bonds on the Swedish Stock Exchange (NASDAQ OMX Stockholm) and accordingly the first financial year after the Company qualified as an EU PIE was the year ended 31 December 2009. Since then, the total period of uninterrupted engagement appointment was 10 years.

Consistency of the Additional Report to the Audit Committee

We confirm that our audit opinion on the consolidated financial statements expressed in this report is consistent with the additional report to the Audit Committee of the Company, which we issued on 11 March 2019 in accordance with Article 11 of the EU Regulation 537/2014.

Provision of Non-audit Services

We declare that no prohibited non-audit services referred to in Article 5 of the EU Regulation 537/2014 and Section 72 of the Auditors Law of 2017 were provided. In addition, there are no non-audit services which were provided by us to the Group and which have not been disclosed in the consolidated financial statements or the consolidated management report.

Other Legal Requirements

Pursuant to the additional requirements of the Auditors Law of 2017, we report the following:

- In our opinion, based on the work undertaken in the course of our audit, the consolidated management report has been prepared in accordance with the requirements of the Cyprus Companies Law, Cap. 113, and the information given is consistent with the consolidated financial statements.
- In light of the knowledge and understanding of the Group and its environment obtained in the course of the audit, we are required to report if we have identified material misstatements in the consolidated management report. We have nothing to report in this respect.
- In our opinion, based on the work undertaken in the course of our audit, the information included in the corporate governance statement in accordance with the requirements of subparagraphs (iv) and (v) of paragraph 2(a) of Article 151 of the Cyprus Companies Law, Cap. 113, and which is included as a specific section of the consolidated management report, have been prepared in accordance with the requirements of the Cyprus Companies Law, Cap, 113, and is consistent with the consolidated financial statements.
- In our opinion, based on the work undertaken in the course of our audit, the corporate governance statement includes all information referred to in subparagraphs (i), (ii), (iii), (vi) and (vii) of paragraph 2(a) of Article 151 of the Cyprus Companies Law, Cap. 113.
- In light of the knowledge and understanding of the Group and its environment obtained in the course of the audit, we are required to report if we have identified material misstatements in the corporate governance statement in relation to the information disclosed for items (iv) and (v) of subparagraph 2(a) of Article 151 of the Cyprus Companies Law, Cap. 113. We have nothing to report in this respect.

Other Matter

This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Article 10(1) of the EU Regulation 537/2014 and Section 69 of the Auditors Law of 2017 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whose knowledge this report may come to.

The engagement partner on the audit resulting in this independent auditor's report is Anna Loizou.

Anna Loizou
Certified Public Accountant and Registered Auditor
for and on behalf of

PricewaterhouseCoopers Limited
Certified Public Accountants and Registered Auditors
City House, 6 Karaiskakis Street,
CY-3032 Limassol, Cyprus

11 March 2019

In millions of RR	Note	31 December 2018	31 December 2017
ASSETS			
Cash and cash equivalents	7	33,802	23,850
Mandatory cash balances with the CBRF		2,435	1,675
Due from other banks	8	776	777
Loans and advances to customers	9	198,489	140,245
Financial derivatives	38	1,710	2,424
Investments in debt securities	10	100,140	-
Investment securities available for sale	11	-	71,676
Repurchase receivables	12	1,182	798
Guarantee deposits with payment systems	13	4,603	3,660
Current income tax assets		1,104	301
Tangible fixed assets	14	8,369	6,140
Intangible assets	14	4,223	3,056
Other financial assets	15	15,642	10,969
Other non-financial assets	15	3,024	3,257
TOTAL ASSETS		**375,499**	**268,828**
LIABILITIES			
Due to banks	16	2,708	595
Customer accounts	17	280,916	179,045
Debt securities in issue	18	9,605	10,819
Financial derivatives	38	3	240
Current income tax liabilities		51	25
Deferred income tax liabilities	30	1,821	1,479
Subordinated debt	19	20,644	22,001
Insurance provisions	20	2,859	1,840
Other financial liabilities	21	11,201	8,043
Other non-financial liabilities	21	3,441	2,796
TOTAL LIABILITIES		**333,249**	**226,883**
EQUITY			
Share capital	22	188	188
Share premium	22	8,623	8,623
Treasury shares	22	(3,670)	(1,587)
Share-based payment reserve	41	1,232	1,286
Retained earnings		36,785	31,797
Revaluation reserve for investments in debt securities		(1,144)	1,436
Equity attributable to shareholders of the Company		**42,014**	**41,743**
Non-controlling interest		**236**	**202**
TOTAL EQUITY		**42,250**	**41,945**
TOTAL LIABILITIES AND EQUITY		**375,499**	**268,828**

Approved for issue and signed on behalf of the Board of Directors on 11 March 2019.

Constantinos Economides
Director

Mary Trimithiotou
Director

In millions of RR	Note	2018	2017
Interest income calculated using the effective interest rate method	23	75,041	59,317
Other similar income	23	456	224
Interest expense calculated using the effective interest rate method	23	(15,106)	(12,824)
Expenses on deposit insurance	23	(1,174)	(641)
Net margin		**59,217**	**46,076**
Credit loss allowance for loans and advances to customers	9	(11,607)	(7,614)
Credit loss allowance for debt securities at FVOCI	10	(192)	-
Total credit loss allowance for debt financial instruments		**(11,799)**	**(7,614)**
Net margin after credit loss allowance		**47,418**	**38,462**
Fee and commission income	24	27,423	15,531
Fee and commission expense	24	(10,751)	(5,618)
Customer acquisition expense	25	(13,100)	(9,719)
Net gains/(losses) from operations with foreign currencies	26	10	(256)
Net gains from disposals of debt securities at FVOCI		378	-
Net gains from disposals of investment securities available for sale		-	270
Net losses from debt instruments at FVTPL		(808)	-
Insurance premiums earned		6,674	2,735
Insurance claims incurred	27	(1,968)	(815)
Administrative and other operating expenses	28	(23,023)	(16,206)
Net gains/(losses) from repurchase of subordinated debt	19	1	(619)
Other operating income	29	2,970	1,220
Profit before tax		**35,224**	**24,985**
Income tax expense	30	(8,102)	(5,962)
Profit for the year		**27,122**	**19,023**
Other comprehensive (loss)/income:			
Items that may be reclassified subsequently to profit or loss			
Debt securities at FVOCI and Repurchase receivables:			
- Net losses arising during the year, net of tax		(2,608)	-
- Net gains reclassified to profit or loss upon disposal, net of tax		(303)	-
Investment securities available for sale and Repurchase receivables:			
- Net gains arising during the year, net of tax		-	1,061
- Net gains reclassified to profit or loss upon disposal or impairment, net of tax		-	(216)
Other comprehensive (loss)/income for the year, net of tax		**(2,911)**	**845**
Total comprehensive income for the year		**24,211**	**19,868**
Profit is attributable to:			
- Shareholders of the Company		27,088	19,019
- Non-controlling interest		34	4
Total comprehensive income is attributable to:			
- Shareholders of the Company		24,177	19,864
- Non-controlling interest		34	4
Earnings per share for profit attributable to the Shareholders of the Company, basic (expressed in RR per share)	22	**153.54**	**107.88**
Earnings per share for profit attributable to the Shareholders of the Company, diluted (expressed in RR per share)	22	**149.14**	**104.42**

		Attributable to shareholders of the Company								
In millions of RR	**Note**	**Share capital**	**Share premium**	**Share-based payment reserve**	**Revaluation reserve for investments in debt securities**	**Treasury shares**	**Retained earnings**	**Total**	**Non-controlling Interest**	**Total equity**
Balance at 1 January 2017		**188**	**8,623**	**704**	**591**	**(1,473)**	**20,885**	**29,518**	**-**	**29,518**
Profit for the year		-	-	-	-	-	19,019	19,019	4	**19,023**
Other comprehensive income:										
Investment securities available for sale and Repurchase receivables		-	-	-	845	-	-	845	-	**845**
Total comprehensive income for the year		**-**	**-**	**-**	**845**	**-**	**19,019**	**19,864**	**4**	**19,868**
GDRs buy-back	22	-	-	-	-	(397)	-	(397)	-	(397)
Business combinations		-	-	-	-	-	-	-	198	198
Share-based payment reserve	22,41	-	-	582	-	283	172	1,037	-	1,037
Dividends declared	31	-	-	-	-	-	(8,279)	(8,279)	-	(8,279)
Balance at 31 December 2017		**188**	**8,623**	**1,286**	**1,436**	**(1,587)**	**31,797**	**41,743**	**202**	**41,945**
Effect of initial application of IFRS 9 – ECL remeasurement, net of tax	5	-	-	-	292	-	(10,108)	(9,816)	-	(9,816)
Effect of initial application of IFRS 9 – other, net of tax		-	-	-	39	-	(39)	-	-	-
Restated balance at 1 January 2018		**188**	**8,623**	**1,286**	**1,767**	**(1,587)**	**21,650**	**31,927**	**202**	**32,129**
Profit for the year		-	-	-	-	-	27,088	27,088	34	27,122
Other comprehensive loss:										
Investments in debt securities at FVOCI and Repurchase receivables		-	-	-	(2,911)	-	-	(2,911)	-	(2,911)
Total comprehensive income/(loss) for the year		**-**	**-**	**-**	**(2,911)**	**-**	**27,088**	**24,177**	**34**	**24,211**
GDRs buy-back	22	-	-	-	-	(2,455)	-	(2,455)	-	(2,455)
Share-based payment reserve	22,41	-	-	(54)	-	372	312	630	-	630
Dividends declared	31	-	-	-	-	-	(12,265)	(12,265)	-	(12,265)
Balance at 31 December 2018		**188**	**8,623**	**1,232**	**(1,144)**	**(3,670)**	**36,785**	**42,014**	**236**	**42,250**

The notes № 1-43 are an integral part of these Consolidated Financial Statements.

In millions of RR	Note	2018	2017
Cash flows from operating activities			
Interest income calculated using the effective interest rate method received		72,169	58,431
Other similar income received		300	214
Interest expense calculated using the effective interest rate method paid		(14,240)	(12,159)
Recoveries from written-off loans	9	4,083	1,991
Expenses on deposits insurance paid		(1,001)	(593)
Fees and commissions received		27,143	15,521
Fees and commissions paid		(10,569)	(6,099)
Customer acquisition expense paid		(14,419)	(8,162)
Cash received/(paid) from trading in foreign currencies and operations with financial derivatives		2,962	(267)
Cash received from insurance operations		5,152	2,603
Other operating income received		1,597	940
Administrative and other operating expenses paid		(22,451)	(9,986)
Income tax paid		(5,416)	(5,077)
Cash flows from operating activities before changes in operating assets and liabilities		**45,310**	**37,357**
Changes in operating assets and liabilities			
Net increase in CBRF mandatory reserves		(760)	(457)
Net decrease/(increase) in due from banks		1	(176)
Net increase in loans and advances to customers		(78,453)	(44,256)
Net decrease in debt securities measured at FVTPL		469	-
Net increase in guarantee deposits with payment systems		(132)	(815)
Net increase in other financial assets		(2,512)	(3,909)
Net increase in other non-financial assets		(436)	(2,226)
Net increase in due to banks		2,113	106
Net increase in customer accounts		97,263	50,307
Net increase in other financial liabilities		177	3,488
Net decrease in other non-financial liabilities		(141)	(29)
Net cash from operating activities		**62,899**	**39,390**
Cash flows used in investing activities			
Acquisition of tangible fixed assets		(2,835)	(1,702)
Acquisition of intangible assets		(1,859)	(1,744)
Acquisition of debt securities at FVOCI and repurchase receivables	10,12	(102,204)	-
Proceeds from sale and redemption of debt securities at FVOCI	10	74,401	-
Acquisition of investments available for sale	11	-	(67,814)
Proceeds from sale and redemption of investments available for sale	11	-	29,610
Net cash used in investing activities		**(32,497)**	**(41,650)**
Cash flows (used in)/from financing activities			
Proceeds from debt securities in issue	32	3,622	7,819
Repayment of debt securities in issue	32	(5,425)	-
Repayment of subordinated debt	32	(5,209)	(6,623)
Repayment of perpetual loan participation notes	32	(49)	-
Dividends paid	31	(11,946)	(7,970)
GDR's buy-back	22	(2,455)	(397)
Proceeds from perpetual loan participation notes	32	-	17,109
Perpetual loan participation notes issue costs	32	-	(256)
Net cash (used in)/from financing activities		**(21,462)**	**9,682**
Effect of exchange rate changes on cash and cash equivalents		1,012	231
Net increase in cash and cash equivalents		**9,952**	**7,653**
Cash and cash equivalents at the beginning of the year	7	**23,850**	**16,197**
Cash and cash equivalents at the end of the year	7	**33,802**	**23,850**

1 Introduction

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union for the year ended 31 December 2018 for TCS Group Holding PLC (the "Company") and its subsidiaries (together referred to as the "Group"), and in accordance with the requirements of the Cyprus Companies Law, Cap.113.

The Company was incorporated, and is domiciled, in Cyprus in accordance with the provisions of the Companies Law, Cap.113.

The Board of Directors of the Company at the date of authorisation of these consolidated financial statements consists of: Constantinos Economides, Alexios Ioannides, Mary Trimithiotou, Philippe Delpal, Jacques Der Megreditchian and Martin Robert Cocker.

The Company Secretary is Caelion Secretarial Limited, 25 Spyrou Araouzou, 25 Berengaria, 5th floor, Limassol 3036, Cyprus.

At 31 December 2018 and 2017 the share capital of the Group is comprised of "class A" shares and "class B" shares. A "class A" share is an ordinary share with a nominal value of USD 0.04 per share and carrying one vote. A "class B" share is an ordinary share with a nominal value of USD 0.04 per share and carrying 10 votes. As at 31 December 2018 the number of issued "class A" shares is 96,239,291 and issued "class B" shares is 86,399,534 (31 December 2017: the same).

On 25 October 2013 the Group completed an initial public offering of its "Class A" ordinary shares in the form of global depository receipts (GDRs) listed on the London Stock Exchange plc.

As at 31 December 2018 and 2017 the entities and the individuals holding either Class A or Class B shares of the Company were:

	Class of shares	31 December 2018	31 December 2017	Country of Incorporation
Guaranty Nominees Limited (JP Morgan Chase Bank NA)	Class A	52.70%	50.06%	United Kingdom
Altoville Holdings Limited	Class B	23.65%	-	Cyprus
Nemorenti Limited	Class B	23.65%	-	Cyprus
Ioanna Georgiou	Class A	0.00%	-	Cyprus
Panagiota Charalambous	Class A	0.00%	-	Cyprus
Maria Vyra	Class A	0.00%	-	Cyprus
Marios Panayides	Class A	0.00%	-	Cyprus
Chloi Panagiotou	Class A	0.00%	-	Cyprus
Leonora Chagianni	Class A	0.00%	-	Cyprus
Tadek Holding & Finance S.A.	Class B	-	47.31%	British Virgin Islands
Vostok Emerging Finance Limited	Class A	-	1.64%	Cyprus
Rousse Nominees Limited	Class A	-	0.99%	Guernsey
Tasos Invest & Finance Inc.	Class B	-	0.00%	British Virgin Islands
Vizer Limited	Class B	-	0.00%	British Virgin Islands
Maitland Commercial Inc.	Class B	-	0.00%	British Virgin Islands
Norman Legal S.A.	Class B	-	0.00%	British Virgin Islands
Total		**100.00%**	**100.00%**	

Guaranty Nominees Limited is a company holding class A shares of the Company for which global depositary receipts are issued under a deposit agreement made between the Company and JP Morgan Chase Bank NA signed in October 2013.

On 24 January 2018 Tadek Holding & Finance SA transferred its entire holding of B class shares (86,399,534 B class shares) to Altoville Holdings Limited. On 18 December 2018 Altoville Holdings Limited transferred 50% of its holding of B class shares (43,199,767 B class shares) to Nemorenti Limited. As at 31 December 2018 the beneficial owner of Altoville Holdings Limited and Nemorenti Limited was Russian entrepreneur Mr. Oleg Tinkov.

1 Introduction (Continued)

In September 2018, 6 A class shares were transferred to the individuals listed above. The individuals hold them as nominees of Altoville Holdings Limited.

As at 31 December 2017 the beneficial owner of Tadek Holding & Finance S.A., Tasos Invest & Finance Inc., Vizer Limited, Maitland Commercial Inc and Norman Legal S.A. was Mr. Oleg Tinkov and the beneficial owner of Rousse Nominees Limited was Baring Vostok Private Equity Fund IV, L.P.

As at 31 December 2018 and 2017 the ultimate controlling party of the Company is Mr. Oleg Tinkov. Mr. Oleg Tinkov controls approximately 89.98% of the aggregated voting rights attaching to the Class A and B shares as at 31 December 2018 (2017: 89.98%) excluding voting rights attaching to TCS Group Holding PLC GDRs he holds, if any.

The subsidiaries of the Group are set out below. Except where stated the Group owns 100% of shares and has 100% of voting rights of each of these subsidiaries as at 31 December 2018 and 2017.

JSC “Tinkoff Bank” (the “Bank”) provides on-line retail banking services in Russia. The Bank specialises in issuing credit cards.

JSC “Tinkoff Insurance” (the “Insurance Company”) provides insurance services such as accident, property, travelers', financial risks and auto insurance.

LLC "Microfinance company “T-Finans” provides micro-finance services.

TCS Finance D.A.C. is a structured entity which issued debt securities including subordinated perpetual bonds for the Group. The Group neither owns shares nor has voting rights in this company. However, this entity was consolidated as it was specifically set up for the purposes of the Group, and the Group has exposure to substantially all risks and rewards through outstanding guarantees of the entity’s obligations.

LLC “TCS” provides printing and distribution services to the Group.

Goward Group Ltd is an investment holding company which manages part of the Group’s assets. Since February 2018 Goward Group Ltd is in liquidation process.

LLC “Phoenix” is a debt collection agency.

Tinkoff Software DC provides software development services to the Group.

LLC “Tinkoff Mobile” is a mobile virtual network operator set up in 2017 to provide mobile services.

LLC “CloudPayments” is a developer of online payment solutions whose core business is online merchant acquiring in Russia. The Group owns a 55% shareholding in LLC CloudPayments.

ANO “Tinkoff Education” is a non-commercial organization set up by the Bank with no share capital. This entity is in the process of receiving of educational license.

EBT is a special purpose trust which has been specifically created for the long-term incentive programme for Management of the Group (MLTIP). The Group neither owns shares nor has voting rights in EBT.

Principal activity. The Group’s principal business activities are retail banking to private individuals, SME accounts and banking services, brokerage services and insurance operations within the Russian Federation through the Bank and the Insurance Company. The Bank operates under general banking license No. 2673 issued by the Central Bank of the Russian Federation (“CBRF”) on 8 December 2006. The Insurance Company operates under an insurance license issued by the CBRF. The Bank participates in the state deposit insurance scheme, which was introduced by Federal Law No. 177-FZ “Deposits of individuals insurance in the Russian Federation” dated 23 December 2003. The State Deposit Insurance Agency guarantees repayment of 100% of individual deposits up to RR 1.4 million per individual in case of the withdrawal of a license of a bank or a CBRF-imposed moratorium on payments.

1 Introduction (Continued)

Registered address and place of business. The Company's registered address is 25 Spyrou Araouzou, Berengaria 25, 5th floor, Limassol, Cyprus, and place of business is Office 403, Lophitis Business Centre, Corner of 28th October/Emiliou Chourmouziou Streets, Limassol 3035 Cyprus. The Bank's registered address is 1-st Volokolamsky proezd, 10, building 1, 123060, Moscow, Russian Federation. The Insurance Company's registered address is 2-nd Khutorskaya street, building 38A, 127287, Moscow, Russian Federation. The Group's principal place of business is the Russian Federation.

Presentation currency. These consolidated financial statements are presented in millions of Russian Rubles (RR).

2 Operating Environment of the Group

Russian Federation. The Russian Federation displays certain characteristics of an emerging market. Its economy is particularly sensitive to oil and gas prices. The legal, tax and regulatory frameworks continue to develop and are subject to frequent changes and varying interpretations (Note 36).

In recent year, the Russian economy has been negatively impacted by ongoing political tension in the region and international sanctions against certain Russian companies and individuals.

The financial markets continue to be volatile. For example in April 2018 the Russian Rouble decreased by about 10% against the US Dollar and Euro in the space of a few days. This operating environment has a significant impact on the Group's operations and financial position. Management regularly takes necessary measures to maximize the stability of the Group's operations. However, the future effects of the current economic situation are difficult to predict and management's current expectations and estimates could differ from actual results.

With respect of Rouble interest rates, since 1 January 2017 the CBRF "key rate" has decreased by 2.25% to 7.75% per annum as at 31 December 2018.

The Group actively monitors the situation in the Russian banking sector, and the activity of CBRF in response to current and newly developed requirements and any sanctions against the participants who breach them. Management of the Group believes it is highly important to participate in the discussion of legislation development in the banking sphere and supports the intention of the CBRF to make the finance market more transparent and disciplined.

For the purpose of measurement of expected credit losses ("ECL") the Group uses supportable forward-looking information, including forecasts of macroeconomic variables. As with any economic forecast, however, the projections and likelihoods of their occurrence are subject to a high degree of inherent uncertainty and therefore the actual outcomes may be significantly different from those projected. Note 34 provides more information of how the Group incorporated forward-looking information in the ECL models.

3 Significant Accounting Policies

Basis of preparation. These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union (EU) and the requirements of the Cyprus Companies Law Cap.113 .

The consolidated financial statements have been prepared under the historical cost convention, as modified by the initial recognition of financial instruments based on fair value, and by revaluation of financial instruments categorised at fair value through profit or loss ("FVTPL") and at fair value through other comprehensive income ("FVOCI") (2017: the historical cost convention, as modified by the initial recognition of financial instruments based on fair value, and by revaluation of derivatives, investment securities available for sale, securities at fair value through profit or loss, and repurchase receivables carried at fair value). The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. Apart from the accounting policy changes resulting from the adoption of IFRS 9 and IFRS 15 effective from 1 January 2018, these policies have been consistently applied to all the periods presented, unless otherwise stated. Refer to Notes 5 and 43.

3 Significant Accounting Policies (Continued)

Management prepared these consolidated financial statements on a going concern basis.

Consolidated financial statements. Subsidiaries are those investees, including structured entities, that the Group controls because the Group (i) has power to direct relevant activities of the investees that significantly affect their returns, (ii) has exposure, or rights, to variable returns from its involvement with the investees, and (iii) has the ability to use its power over the investees to affect the amount of investor's returns. The existence and effect of substantive rights, including substantive potential voting rights, are considered when assessing whether the Group has power over another entity. For a right to be substantive, the holder must have practical ability to exercise that right when decisions about the direction of the relevant activities of the investee need to be made. The Group may have power over an investee even when it holds less than majority of voting power in an investee.

In such a case, the Group assesses the size of its voting rights relative to the size and dispersion of holdings of the other vote holders to determine if it has de-facto power over the investee. Protective rights of other investors, such as those that relate to fundamental changes of investee's activities or apply only in exceptional circumstances, do not prevent the Group from controlling an investee. Subsidiaries are consolidated from the date on which control is transferred to the Group (acquisition date), and are deconsolidated from the date on which control ceases.

The acquisition method of accounting is used to account for the acquisition of subsidiaries other than those acquired from parties under common control. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest.

The Group measures non-controlling interest that represents present ownership interest and entitles the holder to a proportionate share of net assets in the event of liquidation on a transaction by transaction basis, either at: (a) fair value, or (b) the non-controlling interest's proportionate share of net assets of the acquiree. Non-controlling interests that are not present ownership interests are measured at fair value.

Goodwill is measured by deducting the net assets of the acquiree from the aggregate of the consideration transferred for the acquiree, the amount of non-controlling interest in the acquiree and fair value of an interest in the acquiree held immediately before the acquisition date. Any negative amount ("negative goodwill") is recognised in profit or loss, after management reassesses whether it identified all the assets acquired and all liabilities and contingent liabilities assumed, and reviews appropriateness of their measurement.

The consideration transferred for the acquiree is measured at the fair value of the assets given up, equity instruments issued and liabilities incurred or assumed, including fair value of assets or liabilities from contingent consideration arrangements, but excludes acquisition related costs such as advisory, legal, valuation and similar professional services. Transaction costs incurred for issuing equity instruments are deducted from equity; transaction costs incurred for issuing debt are deducted from its carrying amount and all other transaction costs associated with the acquisition are expensed.

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated; unrealised losses are also eliminated unless the cost cannot be recovered. The Company and all of its subsidiaries use uniform accounting policies consistent with the Group's policies.

Non-controlling interest is that part of the net results and of the equity of a subsidiary attributable to interests which are not owned, directly or indirectly, by the Group. Non-controlling interest forms a separate component of the Group's equity.

When the Group acquires a dormant company with no business operations holding an asset and this asset is the main reason of acquisition of the company such transaction is treated as an asset acquisition. No goodwill is recognized as a result of such acquisition.

Purchases and sales of non-controlling interests. The Group applies the economic entity model to account for transactions with owners of non-controlling interest. Any difference between the purchase consideration and the carrying amount of non-controlling interest acquired is recorded as a capital transaction directly in equity. The Group recognises the difference between sales consideration and carrying amount of non-controlling interest sold as a capital transaction in the consolidated statement of changes in equity.

3 Significant Accounting Policies (Continued)

Associates. Associates are entities over which the Group has significant influence (directly or indirectly), but not control, generally accompanying a shareholding of between 20 and 50 percent of the voting rights. Investments in associates are accounted for using the equity method of accounting, and are initially recognised at cost. The carrying amount of associates includes goodwill identified on acquisition less accumulated credit losses, if any. Dividends received from associates reduce the carrying value of the investment in associates. Other post-acquisition changes in Group's share of net assets of an associate are recognised as follows: (i) the Group's share of profits or losses of associates is recorded in the consolidated profit or loss for the year as share of result of associates, (ii) the Group's share of other comprehensive income is recognised in other comprehensive income and presented separately, (iii); all other changes in the Group's share of the carrying value of net assets of associates are recognised in profit or loss within the share of result of associates.

However, when the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Disposals of subsidiaries, associates or joint ventures. When the Group ceases to have control or significant influence, any retained interest in the entity is remeasured to its fair value, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity, are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are recycled to profit or loss.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to profit or loss, where appropriate.

Financial instruments – key measurement terms. Depending on their classification financial instruments are carried at fair value or amortised cost as described below.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The best evidence of fair value is price in an active market. An active market is one in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. Fair value of financial instruments traded in an active market is measured as the product of the quoted price for the individual asset or liability and the quantity held by the entity. This is the case even if a market's normal daily trading volume is not sufficient to absorb the quantity held and placing orders to sell the position in a single transaction might affect the quoted price.

The price within the bid-ask spread which management considers to be the most representative of fair value for quoted financial assets and liabilities is the last bid price of the business day. A portfolio of financial derivatives or other financial assets and liabilities that are not traded in an active market is measured at the fair value of a group of financial assets and financial liabilities on the basis of the price that would be received to sell a net long position (an asset) for a particular risk exposure or paid to transfer a net short position (a liability) for a particular risk exposure in an orderly transaction between market participants at the measurement date.

This is applicable for assets carried at fair value on a recurring basis if the Group: (a) manages the group of financial assets and financial liabilities on the basis of the entity's net exposure to a particular market risk (or risks) or to the credit risk of a particular counterparty in accordance with the entity's documented risk management or investment strategy; (b) it provides information on that basis about the group of assets and liabilities to the entity's key management personnel; and (c) the market risks, including duration of the entity's exposure to a particular market risk (or risks) arising from the financial assets and financial liabilities is substantially the same.

3 Significant Accounting Policies (Continued)

Valuation techniques such as discounted cash flow models or models based on recent arm's length transactions or consideration of financial data of the investees, are used to measure fair value of certain financial instruments for which external market pricing information is not available.

Fair value measurements are analysed by level in the fair value hierarchy as follows: (i) level one are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities, (ii) level two measurements are valuations techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices), and (iii) level three measurements are valuations not based on solely observable market data (that is, the measurement requires significant unobservable inputs). Transfers between levels of the fair value hierarchy are deemed to have occurred at the end of the reporting period. Refer to Note 39.

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

Amortised cost ("AC") is the amount at which the financial instrument was recognised at initial recognition less any principal repayments, plus accrued interest, and for financial assets less any allowance for expected credit losses. Accrued interest includes amortisation of transaction costs deferred at initial recognition and of any premium or discount to maturity amount using the effective interest method. Accrued interest income and accrued interest expense, including both accrued coupon and amortised discount or premium (including fees deferred at origination, if any), are not presented separately and are included in the carrying values of related items in the consolidated statement of financial position.

The effective interest method is a method of allocating interest income or interest expense over the relevant period, so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount. 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 or a shorter period, if appropriate, to the gross carrying amount of a financial asset or to the amortised cost of a financial liability.

The calculation does not consider expected credit losses and includes transaction costs, premiums or discounts and fees and points paid or secured that are integral to the effective interest rate such as origination fees.

The effective interest rate discounts cash flows of variable interest instruments to the next interest repricing date, except for the premium or discount, which reflects the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates. Such premiums or discounts are amortised over the whole expected life of the instrument. The present value calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate. For assets that are purchased or originated credit impaired ("POCI") at initial recognition, the effective interest rate is adjusted for credit risk, i.e. it is calculated based on the expected cash flows on initial recognition instead of contractual payments.

Financial instruments – initial recognition. Financial instruments at FVTPL are initially recorded at fair value. All other financial instruments are initially recorded at fair value adjusted for transaction costs that are incremental and directly attributable to the acquisition or the issue of the financial asset or financial liability such as fee and commission. Fair value at initial recognition is best evidenced by the transaction price. A gain or loss on initial recognition is only recorded if there is a difference between fair value and transaction price which can be evidenced by other observable current market transactions in the same instrument or by a valuation technique whose inputs include only data from observable markets. After the initial recognition, an ECL allowance is recognised for financial assets measured at AC and investments in debt instruments measured at FVOCI, resulting in an immediate accounting loss.

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

3 Significant Accounting Policies (Continued)

The Group uses discounted cash flow valuation techniques to determine the fair value of currency swaps, foreign exchange forwards that are not traded in an active market. Differences may arise between the fair value at initial recognition, which is considered to be the transaction price, and the amount determined at initial recognition using a valuation technique. The differences are immediately recognised in profit or loss if the valuation uses only level 1 or level 2 inputs.

Financial assets – classification and subsequent measurement – measurement categories. The Group classifies financial assets in the following measurement categories: FVTPL, FVOCI and AC. The classification and subsequent measurement of debt financial assets depends on:

- the Group's business model for managing the related assets portfolio and
- the cash flow characteristics of the asset.

Financial assets – classification and subsequent measurement – business model. The business model reflects how the Group manages the assets in order to generate cash flows – whether the Group's objective is:

- solely to collect the contractual cash flows from the assets ("hold to collect contractual cash flows"); or
- to collect both the contractual cash flows and the cash flows arising from the sale of assets ("hold to collect contractual cash flows and sell");
- if neither of i) and ii) is applicable, the financial assets are classified as part of "other" business model and measured at FVTPL.

Business model is determined for a group of assets (on a portfolio level) based on all relevant evidence about the activities that the Group undertakes to achieve the objective set out for the portfolio available at the date of the assessment. Factors considered by the Group in determining the business model include the purpose and composition of a portfolio, past experience on how the cash flows for the respective assets were collected, how risks are assessed and managed, how the assets' performance is assessed and how managers are compensated.

Based on the analysis performed the Group included the following financial instruments in the business model "hold to collect contractual cash flows" since the Group manages these financial instruments solely to collect contractual cash flows: cash and cash equivalents, mandatory cash balances with the CBRF, due from other banks, loans and advances to customers, guarantee deposits with payment systems and other financial assets. The Group included debt securities at FVOCI in the business model "hold to collect contractual cash flows and sell" since the Group manages these financial instruments to collect both the contractual cash flows and the cash flows arising from the sale of assets. The Group included debt securities measured at FVTPL and financial derivatives in the business model "other".

Financial assets – classification and subsequent measurement – cash flow characteristics. Where the business model is to hold assets to collect contractual cash flows or to hold contractual cash flows and sell, the Group assesses whether the cash flows represent solely payments of principal and interest (the SPPI test). Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are consistent with the SPPI feature.

In making this assessment, the Group considers whether the contractual cash flows are consistent with a basic lending arrangement, i.e. interest includes only consideration for credit risk, time value of money, other basic lending risks and profit margin.

Where the contractual terms introduce exposure to risk or volatility that is inconsistent with a basic lending arrangement, the financial asset is classified and measured at FVTPL. The SPPI assessment is performed on initial recognition of an asset and it is not subsequently reassessed. However, if the contractual terms of the asset are modified, the Group considers if the contractual cash flows continue to be consistent with a basic lending arrangement in assessing whether the modification is substantial. See below for "Financial assets – modification".

3 Significant Accounting Policies (Continued)

Financial assets – reclassification. Financial instruments are reclassified only when the business model for managing the portfolio as a whole changes. The reclassification has a prospective effect and takes place from the beginning of the first reporting period that follows after the change in the business model. The Group did not change its business model during the current and comparative period and did not make any reclassifications.

Financial assets – impairment – credit loss allowance for ECL. The Group assesses on a forward-looking basis the ECL for debt instruments (including loans) measured at AC and FVOCI and for the exposure arising from loan commitments and financial guarantee contracts. The Group measures ECL and recognises credit loss allowance at each reporting date.

The measurement of ECL reflects:

1) an unbiased and probability weighted amount that is determined by evaluating a range of possible outcomes;

2) the time value of money; and

3) all reasonable and supportable information that is available without undue cost and effort at the end of each reporting period about past events, current conditions and forecasts of future conditions.

Debt instruments measured at AC are presented in the consolidated statement of financial position net of the allowance for ECL.

For loan commitments (where those components can be separated from the loan) and financial guarantees, a separate provision for ECL is recognised as a financial liability in the consolidated statement of financial position. For debt instruments at FVOCI, changes in amortised cost, net of allowance for ECL, are recognised in profit or loss and other changes in carrying value are recognised in OCI as gains less losses on debt instruments at FVOCI.

The Group applies a "three stage" model for impairment in accordance with IFRS 9, based on changes in credit quality since initial recognition:

1) A financial instrument that is not credit-impaired on initial recognition is classified in Stage 1. Financial assets in Stage 1 have their ECL measured at an amount equal to the portion of lifetime ECL that results from default events possible within the next 12 months or until contractual maturity, if shorter ("12 months ECL").

2) If the Group identifies a significant increase in credit risk ("SICR") since initial recognition, the asset is transferred to Stage 2 and its ECL is measured based on ECL on a lifetime basis, that is, up until contractual maturity but considering expected prepayments, if any ("lifetime ECL"). Refer to Note 34 for a description of how the Group determines when a SICR has occurred.

3) If the Group determines that a financial asset is credit-impaired, the asset is transferred to Stage 3 and its ECL is measured as a lifetime ECL. Refer to Note 34 for a description of how the Group defines credit-impaired assets and default.

For financial assets that are purchased or originated credit-impaired ("POCI Assets"), the ECL is always measured at a lifetime ECL. Note 34 provides information about inputs, assumptions and estimation techniques used in measuring ECL, including an explanation of how the Group incorporates forward-looking information in the ECL models.

As an exception, for certain financial instruments, such as credit cards, that may include both a loan and an undrawn commitment component, the Group measures expected credit losses over the period that the Group is exposed to credit risk, that is, until the expected credit losses would be mitigated by credit risk management actions, even if that period extends beyond the maximum contractual period. This is because contractual ability to demand repayment and cancel the undrawn commitment does not limit the exposure to credit losses to such contractual notice period.

Refer to Note 4 for critical judgements applied by the Group in determining the period for measuring ECL.

3 Significant Accounting Policies (Continued)

Financial assets – write-off. Uncollectible assets are partly written-off against the related credit loss allowance usually after one year since they become overdue. The amount of uncollectible part of loan is estimated on a loan portfolio basis taking into account defaulted loans recovery statistics. Gains or losses on disposal of credit-impaired loans are recognized directly to the credit loss allowance line in the consolidated statement of profit or loss and other comprehensive income in the period when sale occurred. The Group writes-off financial assets that are mostly still subject to enforcement activity, however, there is no reasonable expectation of recovery.

Repayments of written-off loans. Recovery of amounts previously written-off as uncollectible are credited directly to the credit loss allowance line in the consolidated statement of profit or loss and other comprehensive income. Cash flows related to repayments of written-off loans are separately presented within recoveries from written-off loan in the consolidated statement of cash flows.

Financial assets – derecognition. The Group derecognises financial assets when (a) the assets are redeemed or the rights to cash flows from the assets otherwise expired or (b) the Group has transferred the rights to the cash flows from the financial assets or entered into a qualifying pass-through arrangement while (i) also transferring substantially all risks and rewards of ownership of the assets or (ii) neither transferring nor retaining substantially all risks and rewards of ownership, but not retaining control. 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 restrictions on the sale.

Financial assets – modification. The Group sometimes renegotiates or otherwise modifies the contractual terms of the financial assets. The Group assesses whether the modification of contractual cash flows is substantial considering, among other, the following factors: any new contractual terms that substantially affect the risk profile of the asset, significant change in interest rate, change in the currency denomination, new collateral or credit enhancement that significantly affects the credit risk associated with the asset, or a significant extension of a loan when the borrower is not in financial difficulties.

If the modified terms are substantially different, the rights to cash flows from the original asset expire and the Group derecognises the original financial asset and recognises a new asset at its fair value. The date of renegotiation is considered to be the date of initial recognition for subsequent impairment calculation purposes, including determining whether a SICR has occurred.

The Group also assesses whether the new loan or debt instrument meets the SPPI criterion. Any difference between the carrying amount of the original asset derecognised and fair value of the new substantially modified asset is recognised in profit or loss, unless the substance of the difference is attributed to a capital transaction with owners.

In a situation where the renegotiation was driven by financial difficulties of the counterparty and inability to make the originally agreed payments, the Group compares the original and revised expected cash flows to assets whether the risks and rewards of the asset are substantially different as a result of the contractual modification. If the risks and rewards do not change, the modified asset is not substantially different from the original asset and the modification does not result in derecognition. The Group recalculates the gross carrying amount by discounting the modified contractual cash flows by the original effective interest rate (or credit-adjusted effective interest rate for POCI financial assets), and recognises a modification gain or loss in profit or loss. Usually modifications of stage 3 loans do not result in derecognition since they do not change the expected cash flows substantially and represent the way of collection of past due balances. If the terms of the modified asset are not substantially different, the modification does not result in derecognition.

Financial liabilities – measurement categories. Financial liabilities are classified as subsequently measured at AC, except for (i) financial liabilities at FVTPL: this classification is applied to derivatives, financial liabilities held for trading (e.g. short positions in securities), contingent consideration recognised by an acquirer in a business combination and other financial liabilities designated as such at initial recognition and (ii) financial guarantee contracts and loan commitments.

Financial liabilities – derecognition. Financial liabilities are derecognised when they are extinguished (i.e. when the obligation specified in the contract is discharged, cancelled or expires).

3 Significant Accounting Policies (Continued)

An exchange between the Group and its original lenders of debt instruments with substantially different terms, as well as substantial modifications of the terms and conditions of existing financial liabilities, are accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. The terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10% different from the discounted present value of the remaining cash flows of the original financial liability.

In addition, other qualitative factors, such as the currency that the instrument is denominated in, changes in the type of interest rate, new conversion features attached to the instrument and change in loan covenants are also considered. If an exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognised as part of the gain or loss on the extinguishment. If the exchange or modification is not accounted for as an extinguishment, any costs or fees incurred adjust the carrying amount of the liability and are amortised over the remaining term of the modified liability.

Modifications of liabilities that do not result in extinguishment are accounted for as a change in estimate using a cumulative catch up method, with any gain or loss recognised in profit or loss, unless the economic substance of the difference in carrying values is attributed to a capital transaction with owners.

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 all interbank placements and reverse sale and repurchase agreements with other banks with original maturities of less than three months. Funds restricted for a period of more than three months on origination are excluded from cash and cash equivalents. Cash and cash equivalents are carried at amortised cost as: (i) they are held for collection of contractual cash flows and those cash flows represent SPPI, and (ii) they are not designated at FVTPL.

The payments or receipts presented in the consolidated statement of cash flows represent transfers of cash and cash equivalents by the Group, including amounts charged or credited to current accounts of the Group's counterparties held with the Group, such as loan interest income or principal collected by charging the customer's current account or interest payments or disbursement of loans credited to the customer's current account, which represents cash or cash equivalent from the customer's perspective.

Mandatory cash balances with the CBRF. Mandatory cash balances with the CBRF are carried at amortised cost and represent non-interest bearing mandatory reserve deposits which are not available to finance the Group's day to day operations and hence are not considered as part of cash and cash equivalents for the purposes of the consolidated statement of cash flows.

Due from other banks. Amounts due from other banks are recorded when the Group advances money to counterparty banks with no intention of trading the resulting unquoted non-derivative receivable due on fixed or determinable dates. Amounts due from other banks are carried at amortised cost as: (i) they are held for collection of contractual cash flows and those cash flows represent SPPI, and (ii) they are not designated at FVTPL.

Certain bank deposits are subject to the "bail-in" legislation that permits or requires a national resolving authority to impose losses on holders in particular circumstances. Where the bail-in clauses are included in the contractual terms of the instrument and would apply even if legislation subsequently changes, the SPPI test is not met and such instruments are mandatorily measured at FVTPL. The Group did not identify such balances due from other banks. Where such clauses in the contract merely acknowledge the existence of the legislation and do not create any additional rights or obligation for the Group, the SPPI criterion is met and the respective instruments are carried at AC.

Investments in debt securities. Based on the business model and the cash flow characteristics, the Group classifies investments in debt securities as carried at AC, FVOCI or FVTPL.

Debt securities are carried at AC if they are held for collection of contractual cash flows and where those cash flows represent SPPI, and if they are not voluntarily designated at FVTPL in order to significantly reduce an accounting mismatch.

3 Significant Accounting Policies (Continued)

Debt securities are carried at FVOCI if they are held for collection of contractual cash flows and for selling, where those cash flows represent SPPI, and if they are not designated at FVTPL. Interest income from these assets is calculated using the effective interest method and recognised in profit or loss. An impairment allowance estimated using the expected credit loss model is recognised in profit or loss for the year. All other changes in the carrying value are recognised in OCI except for foreign exchange translation gains/(losses) and interest income calculated using the effective interest rate method. When the debt security is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from OCI to profit or loss.

Investments in debt securities are carried at FVTPL if they do not meet the criteria for AC or FVOCI. The Group may also irrevocably designate investments in debt securities at FVTPL on initial recognition if applying this option significantly reduces an accounting mismatch between financial assets and liabilities being recognised or measured on different accounting bases.

Loans and advances to customers. Loans and advances to customers are recorded when the Group advances money to purchase or originate a loan due from a customer.

Based on the business model and the cash flow characteristics, the Group classifies loans and advances to customers into one of the following measurement categories:

1) AC: loans that are held for collection of contractual cash flows and those cash flows represent SPPI and loans that are not voluntarily designated at FVTPL;

2) FVTPL: loans that do not meet the criteria for AC are measured at FVTPL (mandatory FVTPL).

Impairment allowances of the loans measured at AC are determined based on the forward-looking ECL model. Note 34 provides information about inputs, assumptions and estimation techniques used in measuring ECL, including an explanation of how the Group incorporates forward-looking information in the ECL models.

Credit related commitments. The Group issues commitments to provide loans. Commitments to provide loans are initially recognised at their fair value, which is normally evidenced by the amount of fees received. Such loan commitment fees are deferred and included in the carrying value of the loan on initial recognition. At the end of each reporting period, the commitments are measured at the amount of the loss allowance determined based on the expected credit loss model. For loan commitments (where those components can be separated from the loan), a separate provision for ECL is recognised as a liability in the consolidated statement of financial position.

Sale and repurchase agreements and lending of securities. Sale and repurchase agreements ("repo agreements"), which effectively provide a lender's return to the counterparty, are treated as secured financing transactions. Securities sold under such sale and repurchase agreements are not derecognised. The securities are not reclassified in the consolidated statement of financial position unless the transferee has the right by contract or custom to sell or repledge the securities, in which case they are reclassified as repurchase receivables. The corresponding liability is presented within amounts due to other banks or other borrowed funds.

Securities purchased under agreements to resell ("reverse repo agreements"), which effectively provide a lender's return to the Group, are recorded as due from other banks or loans and advances to customers, as appropriate. The difference between the sale and repurchase price, adjusted by interest and dividend income collected by the counterparty, is treated as interest income and accrued over the life of reverse repo agreements using the effective interest method.

Securities lent to counterparties for a fixed fee are retained in the consolidated financial statements in their original category in the consolidated statement of financial position unless the counterparty has the right by contract or custom to sell or repledge the securities, in which case they are reclassified and presented separately.

Securities borrowed for a fixed fee are not recorded in the consolidated financial statements, unless these are sold to third parties, in which case the purchase and sale are recorded in profit or loss for the year within gains less losses arising from trading securities. The obligation to return the securities is recorded at fair value in other borrowed funds.

3 Significant Accounting Policies (Continued)

Based on classification of securities sold under the sale and repurchase agreements, the Group classifies repurchase receivables into one of the following measurement categories: AC, FVOCI, FVTPL.

Guarantee deposits with payment systems. Amounts of guarantee deposits with payment systems are recorded when the Group advances money to payment systems with no intention of trading the resulting unquoted non-derivative receivable. Amounts of guarantee deposits with payment systems are carried at amortised cost.

Tangible fixed assets. Tangible fixed assets are stated at cost less accumulated depreciation and provision for impairment, where required.

Costs of minor repairs and day-to-day maintenance are expensed when incurred. Costs of replacing major parts or components of premises and equipment items are capitalised, and the replaced part is retired.

At the end of each reporting period management assesses whether there is any indication of impairment of tangible fixed assets. If any such indication exists, management estimates the recoverable amount, which is determined as the higher of an asset's fair value less costs to sell and its value in use. The carrying amount is reduced to the recoverable amount and the impairment loss is recognised in profit or loss for the year. An impairment loss recognised for an asset in prior years is reversed if there has been a change in the estimates used to determine the asset's value in use or fair value less costs to sell.

Gains and losses on disposals determined by comparing proceeds with carrying amount are recognised in profit or loss for the year (within other operating income or expenses).

Depreciation. Depreciation of each item of tangible fixed assets is calculated using the straight-line method to allocate its cost to its residual value over its estimated useful life as follows:

	Useful lives in years
Building	99
Equipment	3 to 10
Vehicles	5
Leasehold improvements	Shorter of their useful economic life and the term of the underlying lease

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

Intangible assets. The Group's intangible assets other than insurance license have definite useful life and include capitalised acquired computer software and internally developed software.

Computer software licenses acquired are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. All other costs associated with computer software, e.g. its maintenance, are expensed when incurred. Capitalised computer software is amortised on a straight line basis over expected useful lives of 1 to 10 years.

At each reporting date management assesses whether there is any indication of impairment of intangible assets with an indefinite useful life. If any such indication exists, management estimates the recoverable amount, which is determined as the higher of an asset's fair value less costs to sell and its value in use.

The carrying amount is reduced to the recoverable amount and the impairment loss is recognised in profit or loss. An impairment loss recognised for an asset in prior years is reversed if there has been a change in the estimates used to determine the asset's value in use or fair value less costs to sell. Intangible assets including goodwill with indefinite useful life are tested annually for impairment.

Operating leases. Where the Group is a lessee in a lease which does not transfer substantially all the risks and rewards incidental to ownership from the lessor to the Group, the total lease payments are charged to profit or loss for the year (rental expense within administrative and other operating expenses) on a straight-line basis over the period of the lease.

3 Significant Accounting Policies (Continued)

Leases embedded in other agreements are separated if (a) fulfilment of the arrangement is dependent on the use of a specific asset or assets and (b) the arrangement conveys a right to use the asset.

When assets are leased out under an operating lease, the lease payments receivable are recognised as rental income on a straight-line basis over the lease term.

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

Customer accounts. Customer accounts are non-derivative liabilities to corporate entities and individuals and are carried at amortised cost.

Debt securities in issue. Debt securities are stated at amortised cost. If the Group purchases its own debt securities in issue, they are removed from the consolidated statement of financial position and the difference between the carrying amount of the liability and the consideration paid is included in a separate line of consolidated statement of profit or loss and other comprehensive income as gains/losses from repurchase of debt securities in issue.

Subordinated debt. Subordinated debt can only be paid in the event of a liquidation after the claims of other higher priority creditors have been met. Subordinated debt is carried at AC.

Financial derivatives. Financial derivatives represented by forwards and foreign currency swaps are carried at their fair value. Derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative. Changes in the fair value of financial derivatives are recorded within losses less gains from operations with foreign currencies. The Group does not apply hedge accounting.

Income taxes. Income taxes have been provided for in the consolidated financial statements in accordance with Russian legislation and Cyprus legislation enacted or substantively enacted by the end of the reporting period. The income tax charge comprises current tax and deferred tax and is recognised in profit or loss for the year except if it is recognised in other comprehensive income or directly in equity because it relates to transactions that are also recognised, in the same or a different period, in other comprehensive income or directly in equity.

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

Deferred income tax is provided using the balance sheet liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. In accordance with the initial recognition exemption, deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability in a transaction other than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit. Deferred tax balances are measured at tax rates enacted or substantively enacted at the end of reporting period which are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilised. Deferred tax assets and liabilities are netted only within the individual companies of the Group. Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

Deferred income tax is not recognised on post-acquisition retained earnings and other post acquisition movements in reserves of subsidiaries, where the Group controls the subsidiary’s dividend policy and it is probable that the difference will not reverse through dividends or otherwise in the foreseeable future.

Uncertain tax positions. The Group's uncertain tax positions are assessed by management at the end of each reporting period. Liabilities are recorded for income tax positions that are determined by management as more likely than not to result in additional taxes being levied if the positions were to be challenged by the tax authorities. The assessment is based on the interpretation of tax laws that have been enacted or substantively enacted at the end of reporting period and any known court or other rulings on such issues.

3 Significant Accounting Policies (Continued)

Liabilities for penalties, interest and taxes other than on income are recognised based on management's best estimate of the expenditure required to settle the obligations at the end of the reporting period.

Provisions for liabilities and charges. Provisions for liabilities and charges are non-financial liabilities of uncertain timing or amount. They are accrued when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

Levies and charges, such as taxes other than income tax or regulatory fees based on information related to a period before the obligation to pay arises, are recognised as liabilities when the obligating event that gives rise to pay a levy occurs, as identified by the legislation that triggers the obligation to pay the levy. If a levy is paid before the obligating event, it is recognised as a prepayment.

Other liabilities. Other liabilities are accrued when the counterparty has performed its obligations under the contract and are carried at amortised cost.

Share capital. Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds and debited against share premium.

Share premium. Share premium is the difference between the fair value of the consideration receivable for the issue of shares and the nominal value of the shares. The share premium account can only be resorted to for limited purposes, which do not include the distribution of dividends, and is otherwise subject to the provisions of the Cyprus Companies Law on reduction of share capital.

Treasury shares. Where the Company or its subsidiaries purchase the Company's equity instruments, the consideration paid, including any directly attributable incremental external costs, net of income taxes, is deducted from equity attributable to the owners of the Company until the equity instruments are reissued, disposed of or cancelled. Where such shares are subsequently disposed of or reissued, any consideration received is included in equity. The value of GDRs transferred out of treasury shares for the purposes of the long-term incentive programme for management of the Group are determined based on the weighted average cost.

Dividends. Dividends are recorded in equity in the period in which they are declared. Any dividends declared after the end of the reporting period and before the consolidated financial statements are authorised for issue, are disclosed in the Note "Events after the End of the Reporting Period". The accounting reports of the Group entities are the basis for profit distribution and other appropriations. The separate financial statements of the Company prepared in accordance with IFRS as adopted by the EU and in accordance with Cyprus Companies Law is the basis of available reserves for distribution. Dividend distribution to the Company's shareholders is recognised as a liability in the Company's consolidated financial statements in the year in which the dividends are appropriately authorised and are no longer at the discretion of the Company. More specifically, interim dividends are recognised as a liability in the period in which these are authorised by the Board of Directors and in the case of final dividends, these are recognised in the period in which these are approved by the Company's shareholders.

Income and expense recognition. Interest income and expense calculated using effective interest method are recorded for all debt instruments, other than those at FVTPL, on an accrual basis using the effective interest method. 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.

Fees integral to the effective interest rate include origination fees received or paid by the entity relating to the creation or acquisition of a financial asset or issuance of a financial liability. Commitment fees received by the Group to originate loans at market interest rates are integral to the effective interest rate if it is probable that the Group will enter into a specific lending arrangement and does not expect to sell the resulting loan shortly after origination. The Group does not designate loan commitments as financial liabilities at FVTPL.

For financial assets that are originated or purchased credit-impaired, the effective interest rate is the rate that discounts the expected cash flows (including the initial expected credit losses) to the fair value on initial recognition (normally represented by the purchase price). As a result, the effective interest is credit-adjusted.

3 Significant Accounting Policies (Continued)

Interest income is calculated by applying the effective interest rate to the gross carrying amount of financial assets, except for:

i) financial assets that have become credit-impaired (Stage 3), for which interest revenue is calculated by applying the effective interest rate to their AC (net of the ECL provision); and

ii) financial assets that are purchased or originated credit-impaired, for which the original credit-adjusted effective interest rate is applied to the AC.

Customer acquisition expenses are represented by the costs incurred by the Group on services related to attraction of the credit card borrowers, mailing of advertising materials, processing of responses etc. Those costs, which can be directly attributed to the acquisition of a particular client, are included in the effective interest rate of the originated financial instruments; the remaining costs are expensed on the basis of the actual services provided.

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

Commissions and fees arising from negotiating, or participating in the negotiation of a transaction for a third party, such as the acquisition of loans, shares or other securities or the purchase or sale of businesses, and which are earned on execution of the underlying transaction, are recorded on its completion.

Other similar income. Other similar income represents interest income recorded for debt instruments measured at fair value through profit or loss (“FVTPL”) and is recognised on an accrual basis using nominal interest rate.

Fee and commission income and expense. Fee and commission income is recognised over time as the services are rendered, when the customer simultaneously receives and consumes the benefits provided by the Group’s performance. Such income includes SMS fee and part of SME current accounts commission which represents fixed monthly payments. Variable fees are recognised only to the extent that management determines that it is highly probable that a significant reversal will not occur.

Other fee and commission income is recognised at a point in time when the Group satisfies its performance obligation, usually upon execution of the underlying transaction. The amount of fee or commission received or receivable represents the transaction price for the services identified as distinct performance obligations. Such income includes credit protection fee, merchant acquiring commission, part of SME current accounts commission which represents payments for each transaction, interchange fee, cash withdrawal fee, foreign currency exchange transactions fee, card to card commission, mortgage agency fee and other.

All fee and commission expenses are generally recorded on an accrual basis by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

Customer loyalty program. The group operates loyalty programs where retail clients accumulate points, which entitle them to reimbursement of purchases made with credit and debit cards. A financial liability is recognised for the amount of fair value of points expected to be redeemed until they are actually redeemed or expire with the corresponding entries to interest income calculated using the effective interest rate method or commission expenses depending on whether the points were accumulated by credit card clients or debit card clients respectively.

Insurance contracts. Insurance contracts are those contracts that transfer significant insurance risk. Insurance risk exists when the Group has uncertainty in respect of at least one of the following matters at inception of the contract: occurrence of insurance event, date of occurrence of the insurance event, and the claim value in respect of the occurred insurance event. Such contracts may also transfer financial risk.

Non-life insurance (short-term insurance). The below items from the consolidated statement of financial position of the Group are accounted within Other financial assets and Other financial liabilities lines, the below items from the consolidated statement of profit or loss and other comprehensive income of these consolidated financial statements are accounted within Income from insurance operations and Insurance claims incurred lines.

3 Significant Accounting Policies (Continued)

- ***Premiums written.*** Premiums (hereafter – “premiums” or “insurance premiums”) under insurance contracts are recorded as written upon inception of a contract and are earned on a pro-rata basis over the term of the related contract coverage. Reduction of premium written in subsequent periods (under amendments to the signed original contacts, for example) is accounted by debiting of premiums written in current period.
- ***Claims.*** Claims are charged to the consolidated statement of profit or loss and other comprehensive income as compensation is paid to policyholders (beneficiaries) or third parties.
- ***Claims handling expenses.*** Claims handling expenses are recognised in profit or loss for the period as incurred and include direct expenses related to negotiations and subsequent claims handling, as well as indirect expenses, including expenses of claims handling department and administrative expenses directly related to activities of this department.
- ***Reinsurance.*** The Group assumes and cedes reinsurance in the normal course of business. Ceded reinsurance contracts do not relieve the Group from its obligations to the policyholders under insurance contract.

Amounts due from reinsurers are measured consistently with the amounts associated with the direct insurance contracts and in accordance with the terms of each reinsurance contract. Reinsurance assets arising from outward reinsurance contracts include reinsurers share in paid claims, including claims handling expenses. Liabilities under outward reinsurance operations are obligations of the Group for payment of premiums to reinsurers. Reinsurance assets include premiums ceded to the Group under inward reinsurance contracts. The Group's liabilities under inward reinsurance contracts are obligations to compensate the Group's share in paid claims, including claims handling expenses to reinsurers.

The Group assesses its reinsurance assets for impairment on a regular basis. If there is objective evidence that the reinsurance asset is impaired, the Group reduces the carrying amount of the reinsurance asset to its recoverable amount and recognises that impairment loss in the consolidated statement of profit or loss and other comprehensive income. The Group gathers the evidence that a reinsurance asset is impaired using the same process adopted for financial assets carried at amortised cost. The impairment loss is also calculated following the same method used for the financial assets carried at amortised cost.

- ***Subrogation income.*** The Group has a right to pursue third parties responsible for loss for payment of some or all costs related to the claims settlement process of the Group (subrogation). Reimbursements are recognised as income only if the Group is confident in receipt of these amounts from these third parties. Under inward reinsurance contracts, amounts of reimbursement due to the Group as a result of settlement of reinsurer's subrogation claims are treated as the Group's income as at the date of acceptance of the invoice received from the reinsurer and including calculation of the Group's share in the subrogation claim.
- ***Deferred acquisition costs.*** Deferred acquisition costs (“DAC”) are calculated (for non-life insurance contracts) separately for each insurance product. Acquisition costs include remuneration to agents for concluding agreements with corporate clients and individuals and brokerage fees for underwriting of assumed reinsurance agreements. They vary with and fully depend on the premium earned under acquired or renewed insurance policies. These acquisition costs are deferred and amortised over the period in which the related written premiums are earned. They are reviewed by line of business at the time of the policy issue and at the end of each accounting period to ensure they are recoverable based on future estimates.

For the insurance contracts with duration of less than one month and with automatic prolongation condition amortisation of one-off acquisition costs occurs over the period determined based on statistical assessment of duration of the insurance contract taking into account all of the expected future prolongations.

- ***Insurance agency fee.*** In cases when the Group acts as an agent and attracts clients for the third-party insurance companies, the Bank receives commission income, which is recognised within Fee and commission income in the consolidated statement of profit or loss and other comprehensive income in full amount.

3 Significant Accounting Policies (Continued)

Insurance provisions

- ***Provision for unearned premiums.*** Provision for unearned premiums (UEPR) represents the proportion of premiums written that relate to the unexpired term of policies in force as at the reporting date, calculated on a time apportionment basis. UEPR is recognised within liabilities on a gross basis.
- ***Loss provisions*.** Loss provisions represent the accumulation of estimates for ultimate losses and include outstanding claims provision (“OCP”) and provision for losses incurred but not yet reported (“IBNR”). Loss provisions are recognised within liabilities on a gross basis. Estimates of claims handling expenses are included in both OCP and IBNR. OCP is provided in respect of claims reported, but not settled as at the reporting date.

The estimation is made on the basis of information received by the Group during settlement of the insured event, including information received after the reporting date. IBNR is determined by the Group by line of business using actuarial methods, and includes assumptions based on prior years’ claims and claims handling experience. IBNR is calculated for each occurrence period as the difference between the projected maximum amount of future payments resulting from the events that occurred during the period and the amount of future payments resulting from the event already reported but not settled at the reporting date within the same period.

The methods of determining such estimates and establishing the resulting provisions are continually reviewed and updated. Resulting adjustments are reflected in the consolidated statement of profit or loss and other comprehensive income as they arise.

Loss provisions are estimated on an undiscounted basis due to relatively quick pattern of claims notification and payment.

- ***Unexpired risk provision.*** Unexpired risk provision (“URP”) is recorded when unearned premiums are insufficient to meet claims and expenses, which may be incurred after the end of the financial year. To estimate the unexpired risk provision the Group uses historical experience and forward looking assumptions of ultimate loss ratios (including claims handling expenses) and the level of in-force portfolio maintenance expenses. The expected claims are calculated having regard to events that have occurred prior to the reporting date. For the purposes of final presentation of consolidated financial statements unexpired risk provision is written off against deferred acquisition costs.
- ***Liability adequacy testing.*** As at each reporting date the adequacy of the insurance reserves is tested. Testing of insurance reserves for non-life insurance is performed to ensure adequacy of contract liabilities. In performing these tests, current estimates of future contractual cash flows, claims handling and administration expenses are used. As a result of liability adequacy testing for non-life insurance, the Group sets up its URP.

Foreign currency translation. The functional currency of the Company and each of the Group’s consolidated entities is the Russian Rouble (“RR”), which is the currency of the primary economic environment in which each entity operates.

Monetary assets and liabilities are translated into each entity’s functional currency at the official exchange rate of the CBRF at the end of the respective reporting period.

Foreign exchange gains and losses resulting from the settlement of transactions and from the translation of monetary assets and liabilities into each entity’s functional currency at year-end official exchange rates of the CBRF are recognised in profit or loss for the year (as foreign exchange translation gains less losses, except for clients’ foreign currency exchange transactions fee, which is recognised in profit or loss as fee and commission income).

Translation at year-end rates does not apply to non-monetary items that are measured at historical cost.

At 31 December 2018 the rate of exchange used for translating foreign currency balances was USD 1 = RR 69.4706 (31 December 2017: USD 1 = RR 57.6002), and the average rate of exchange was USD 1 = RR 62.7078 (2017: USD 1 = RR 58.3529).

3 Significant Accounting Policies (Continued)

Offsetting. Financial assets and liabilities are offset and the net amount reported in the consolidated statement of financial position only when there is a legally enforceable right to offset the recognised amounts, and there is an intention to either settle on a net basis, or to realise the asset and settle the liability simultaneously. Such a right of set off (a) must not be contingent on a future event and (b) must be legally enforceable in all of the following circumstances: (i) in the normal course of business, (ii) the event of default and (iii) the event of insolvency or bankruptcy.

Earnings per share. Earnings per share are determined by dividing the profit or loss attributable to owners of the Company by the weighted average number of participating shares outstanding during the reporting year, excluding treasury shares. For the purpose of diluted earnings per share calculation the Group considers dilutive effects of shares granted under employee share option plans.

Staff costs and related contributions. 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 Group. The Group has no legal or constructive obligation to make pension or similar benefit payments beyond the payments to the statutory defined contribution scheme.

***Segment reporting*.** Segments are reported in a manner consistent with the internal reporting provided to the Group's chief operating decision maker. Segments whose revenue, result or assets are ten percent or more of all the segments are reported separately.

Equity-settled share-based payment. The expense is recognized over the vesting period and is measured at the fair value of the award determined at the grant date, which is amortized over the service (vesting) period. The fair value of the equity award is estimated only once at the grant date and is trued up to the estimated number of instruments that are expected to vest. Dividends declared during the vesting period accrue and are paid to the employee together with the sale proceeds of the vested shares upon a liquidity event. Expected dividends (including those expected during the vesting period) are therefore included in the determination of fair value of the share-based payment.

Amendments of the consolidated financial statements after issue. The Board of Directors of the Company has the power to amend the consolidated financial statements after issue.

Changes in presentation. Starting from 1 January 2018 the Group changed presentation of interest income and expense following the application of IFRS 9 and the consequential amendment of IAS 1. In these consolidated financial statements the Group changed presentation of the consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2017. These changes were implemented to increase comparability of the financial information for 2017 with the respective information for 2018.

The effect of changes on the consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2017 is as follows:

In millions of RR	**As originally presented**	**Reclassification**	**As reclassified**
Interest income	59,541	(59,541)	-
Interest expense	(12,824)	12,824	-
Interest income calculated using the effective interest rate method	-	59,317	59,317
Other similar income	-	224	224
Interest expense calculated using the effective interest rate method	-	(12,824)	(12,824)

3 Significant Accounting Policies (Continued)

The effect of changes on the consolidated statement of cash flows for the year ended 31 December 2017 is as follows:

In millions of RR	**As originally presented**	**Reclassification**	**As reclassified**
Interest received	60,636	(60,636)	-
Interest paid	(12,159)	12,159	-
Interest income calculated using the effective interest rate method received	-	60,422	60,422
Other similar income received	-	214	214
Interest expense calculated using the effective interest rate method paid	-	(12,159)	(12,159)

From 1 January 2018 the management of the Group refined the approach to the presentation of cash flows related to the salaries and other contributions paid to employees of the Group in the consolidated statement of cash flows. The management concluded it was appropriate to reclassify these cash flows from Net increase in customer accounts to Administrative and other operating expenses paid and Customers acquisition expenses paid in the consolidated statement of cash flows. The effect of reclassifications was as follows on amounts in the consolidated statement of cash flows for the year ended 31 December 2017:

In millions of RR	**As originally presented**	**Reclassification**	**As reclassified**
Administrative and other operating expenses paid	(6,230)	(3,756)	(9,986)
Customer acquisition expense paid	(5,860)	(2,302)	(8,162)
Net increase in customer accounts	44,249	6,058	50,307

From 1 January 2018 the management of the Group refined the approach to the presentation of cash flows related to the recovery of amounts of loans previously written-off as uncollectible in the consolidated statement of cash flows. The management concluded it was appropriate to reclassify these cash flows from Interest income calculated using the effective interest rate method received to the separate line Recoveries from written-off loans in the consolidated statement of cash flows.

The effect of reclassifications was as follows on amounts in the consolidated statement of cash flows for the year ended 31 December 2017:

In millions of RR	**As originally presented**	**Reclassification**	**As reclassified**
Interest income calculated using the effective interest rate method received	60,422	(1,991)	58,431
Recoveries from written-off loans	-	1,991	1,991

4 Critical Accounting Estimates and Judgements in Applying Accounting Policies

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

4 Critical Accounting Estimates and Judgements in Applying Accounting Policies (Continued)

ECL measurement. Calculation and measurement of ECLs is an area of significant judgement and involves methodology, models and data inputs. The following components of ECL calculation have a major impact on credit loss allowance: probability of default ("PD") (impacted by definition of default, SICR) and loss given default ("LGD"). Refer to Note 34 for explanation of terms. The Group regularly reviews and validates models and inputs to the models to reduce any differences between expected credit loss estimates and actual credit loss experience. Refer to Note 34 for further information on ECL measurement.

An increase or decrease in PDs by 1% compared to PDs used in the ECL estimates calculated at 31 December 2018 would result in an increase or decrease in credit loss allowances of RR 1,598 million.

An increase or decrease in LGDs by 1% compared to LGDs used in the ECL estimates calculated at 31 December 2018 would result in an increase or decrease in credit loss allowances of RR 372 million.

Credit exposure on revolving credit facilities. For credit card loans, the Group's exposure to credit losses extends beyond the maximum contractual period of the facility. For such facilities the Group measures ECLs over the period that the Group is exposed to credit risk and ECLs are not mitigated by credit risk management actions. Application of this approach requires judgement: determining a period for measuring ECLs – the Group considers historical information and experience about: (a) the length of time for related defaults to occur on similar financial instruments following a SICR and (b) the credit risk management actions that the Group expects to take once the credit risk has increased (e.g. the reduction or removal of undrawn limits).

For details of the period over which the Group is exposed to credit risk on revolving facilities and which is used as an approximation of lifetime period for ECL calculation for stage 2 and stage 3 loans and advances to customers, refer to Note 34.

Perpetual subordinated bonds. A perpetual subordinated bond issue in June 2017 was initially recognised in the amount of USD 295.8 million (RR 16.9 billion) represented by the funds received from investors less issuance costs. Subsequent measurement of this instrument is consistent with the accounting policy for debt securities in issue. Interest expense on the instrument is calculated using the effective interest rate method and recognised in profit or loss for the year.

In the event the accrued interest is paid, the payment decreases the balance of the liability. A cancellation of accrued interest for a given period results in its conversion, at the Group's option, into equity and therefore the respective amount of the liability is reclassifed to equity. Foreign exchange translation gains and losses on the bond are recognised in profit or loss for the period. The Group has taken into consideration that there are genuine contingent settlement provisions that could arise and as such has classified the perpetual subordinated bond instrument in its entirety as a liability, rather than equity, on the basis of terms of issue which stipulate the possible redemption of the instrument in several cases other than liquidation of the issuer. If the Group had recognized this instrument as equity, then interest expense would only have been recognized when it was paid and treated as a distribution from equity rather than an expense in profit or loss.

The Group has also invested in perpetual subordinated bonds issued by third parties. The Group has taken into consideration that there are genuine contingent settlement provisions that could arise and as such has classified the investments in perpetual subordinated bonds as investments in debt securities on the basis of terms of issue which stipulate the possible redemption of the instrument in several cases other than liquidation of the issuer.

The investments in these instruments are classified as debt investment securities measured at FVTPL since the analysis of the contractual cash flow characteristics resulted in acquired perpetual bonds not passing SPPI test. If the Group had recognized this instrument as equity instrument, then it could have been measured at FVTPL or FVOCI as the Group does not hold it for trading purposes.

***Interest income recognition*.** The effective interest method incorporates significant assumptions around expected loan lives as well as judgements of type of fees and costs that are included in interest income. Refer to Note 3.

Tax legislation. Russian and Cypriot tax, currency and customs legislation are subject to varying interpretations. Refer to Note 36.

5 Adoption of New or Revised Standards and Interpretations

Adoption of IFRS 9 – Financial Instruments (IFRS 9) (issued on 24 July 2014 and effective for annual periods beginning on or after 1 January 2018). The Group has adopted IFRS 9 with a date of transition of 1 January 2018, which resulted in changes in accounting policies for recognition, classification and measurement of financial assets and liabilities and impairment of financial assets.

The Group elected not to restate comparative figures and recognised any adjustments to the carrying amounts of financial assets and liabilities at the date of initial application in the opening retained earnings and other reserves of the current period. The comparative period disclosures repeat those disclosures made in the prior period. Consequently, for notes disclosures, the consequential amendments to IFRS 7 – Financial Instruments: Disclosures (IFRS 7) disclosures have also only been applied to the current period.

Details of the specific IFRS 9 accounting policies applied in the current period are described in Note 3. Accounting policies applied prior to 1 January 2018 and applicable to the comparative information are disclosed in Note 43. The impact of the IFRS 9 adoption on the Group is disclosed below.

The following table reconciles the carrying amounts of financial assets, from their previous measurement categories in accordance with IAS 39 into their new measurement categories upon transition to IFRS 9 on 1 January 2018:

	Measurement category		**Carrying value per IAS 39 (closing balance at 31 December 2017)**	**Effect**				**Carrying value per IFRS 9 (opening balance at 1 January 2018)**
				Remeasurement		**Reclassification**		
In millions of RR	**IAS 39**	**IFRS 9**		**ECL**	**Other**	**Manda-tory**	**Voluntary**	
Cash and cash equivalents	L&R (loans and receivables)	AC	23,850	-	-	-	-	23,850
Mandatory cash balances with the Central Bank of Russian Federation	L&R	AC	1,675	-	-	-	-	1,675
Due from other banks	L&R	AC	777	-	-	-	-	777
Loans and advances to customers	L&R	AC	140,245	(10,546)	-	-	-	129,699
Financial derivatives	FVTPL	FVTPL	2,424	-	-	-	-	2,424
Investments in debt securities	AFS (available for sale)	FVOCI	66,606	(292)	292	-	166	66,772
Investments in debt securities	AFS	FVTPL (manda-tory)	5,070	-	-	-	-	5,070
Total Investment in debt securities			**71,676**	**(292)**	**292**	**-**	**166**	**71,842**
Repurchase receivables	AFS	FVTPL (manda-tory)	798	-	-	-	-	798
Guarantee deposits with payment systems	L&R	AC	3,660	-	-	-	-	3,660
Other Financial Assets	L&R, FVTPL	AC	10,969	-	-	-	(166)	10,803

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

All classes of cash and cash equivalents disclosed in Note 7 were reclassified from L&R measurement category under IAS 39 to AC measurement category under IFRS 9 at adoption of the standard. The ECL for cash and cash equivalents balances was immaterial.

Due from other banks and mandatory reserves with the Central Bank were reclassified from L&R measurement category under IAS 39 to AC measurement category under IFRS 9 at adoption of the standard. The ECL for due from other banks balances was immaterial.

At 31 December 2017, all of the Group's financial liabilities except for derivatives were carried at AC. The derivatives belonged to the FVTPL measurement category under IAS 39. Starting from 1 January 2018 the Group's financial liabilities except for derivatives continued to be classified at AC. The derivatives were reclassified from FVTPL measurement category under IAS 39 to FVTPL (mandatory) measurement category under IFRS 9.

The below disclosure provides reconciliation of the carrying amounts of financial instruments by classes from their previous measurement category in accordance with IAS 39 to their new measurement categories upon transition to IFRS 9 on 1 January 2018 as well as describes the reasons for such reclassifications for loans and advances to customers and other assets:

a. Loans and advances to customers

New classification requirements of IFRS 9 led to changes in classification of loans and advances to customers as follows:

	Measurement category		**Carrying value per IAS 39 (closing balance at 31 December 2017)**	**Effect**				**Carrying value per IFRS 9 (opening balance at 1 January 2018)**
				Remeasurement		**Reclassification**		
In millions of RR	**IAS 39**	**IFRS 9**		**ECL**	**Other**	**Manda-tory**	**Voluntary**	
Credit card loans	L&R	AC	125,818	(8,638)	-	-	1,568	118,748
Instalments	L&R	-	3,235	(1,667)	-	-	(1,568)	-
Cash loans	L&R	AC	6,663	(161)	-	-	-	6,502
POS loans	L&R	AC	4,529	(80)	-	-	-	4,449
Total Loans and advances to customers			**140,245**	**(10,546)**	**-**	**-**	**-**	**129,699**

The main reason for reclassification of instalments to credit card loans is that such reclassification results in more relevant presentation of classes of loans and advances to customers as instalments represent restructured, stage 3, credit cards loans to delinquent borrowers.

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

The effect of reclassification was as follows in the analysis of loans by credit quality:

	31 December 2017 (as originally presented)				31 December 2017 (as reclassified)		
In millions of RR	Credit card loans	Instalment loans	Cash loans	POS loans	Credit card loans	Cash loans	POS loans
Neither past due nor impaired:							
- new	3,824	-	1,595	1,234	3,824	1,595	1,234
Loans collectively assessed for impairment (gross):							
- non-overdue	118,193	4,016	5,051	3,304	122,209	5,051	3,304
- less than 30 days overdue	3,097	360	73	37	3,457	73	37
- 30 to 90 days overdue	2,682	302	70	25	2,984	70	25
- 90 to 180 days overdue	2,340	239	66	24	2,579	66	24
- 180 to 360 days overdue	941	543	64	42	1,484	64	42
- over 360 days overdue	1,189	447	81	18	1,636	81	18
- loans in courts	7,924	-	-	-	7,924	-	-
Less: Provision for loan impairment	(14,372)	(2,672)	(337)	(155)	(17,044)	(337)	(155)
Total loans	**125,818**	**3,235**	**6,663**	**4,529**	**129,053**	**6,663**	**4,529**

b. Investments in debt securities

New classification requirements of IFRS 9 led to changes in classification of investments in debt securities as follows:

	Measurement category		Carrying value per IAS 39 (closing balance at 31 December 2017)	Effect				Carrying value per IFRS 9 (opening balance at 1 January 2018)
				Remeasurement		Reclassification		
In millions of RR	IAS 39	IFRS 9		ECL	Other	Manda-tory	Voluntary	
Corporate bonds	AFS	FVOCI	48,328	(233)	233	-	166	48,494
Russian government bonds	AFS	FVOCI	13,904	(36)	36	-	-	13,904
Municipal bonds	AFS	FVOCI	4,374	(23)	23	-	-	4,374
Perpetual corporate bonds	AFS	FVTPL	5,070	-	-	-	-	5,070
Total Investments in debt securities			**71,676**	**(292)**	**292**	**-**	**166**	**71,842**

Since the Investments in debt securities are measured at fair value under IFRS 9 and were measured at fair value under IAS 39, the effect of remeasurement and ECL does not impact the carrying value of Investments in debt securities. The effect of ECL impacts the revaluation gains/losses of debt securities measured at FVOCI (the ECL amount was reclassified from the revaluation gains/losses to retained earnings).

Having performed the business model assessment, the Group classified some of the other financial assets previously measured at FVTPL to FVOCI measurement category, business model “hold to collect and sell”.

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

c. Repurchase receivables

In millions of RR	Measurement category IAS 39	Measurement category IFRS 9	Carrying value per IAS 39 (closing balance at 31 December 2017)	Effect: Remeasurement ECL	Effect: Remeasurement Other	Effect: Reclassification Manda-tory	Effect: Reclassification Voluntary	Carrying value per IFRS 9 (opening balance at 1 January 2018)
Perpetual corporate bonds	AFS	FVTPL	798	-	-	-	-	798
Total Repurchase receivables			**798**	**-**	**-**	**-**	**-**	**798**

The main reasons for reclassifications of investments in debt securities and repurchase receivables were as follows:

- *Perpetual corporate bonds with interest payments that are not mandatory.* The Group has invested in perpetual corporate bonds where the interest payments can be cancelled at the option of the issuer. Interest payments are not cumulative. The Group has concluded that its contractual cash flows are not consistent with the basic lending arrangement. Hence the investments in perpetual debt securities are measured at FVTPL. Refer to Note 4.
- *Reclassification from retired categories with no change in measurement.* In addition to the above, the debt instruments previously classified as AFS have been reclassified as measured at FVOCI under IFRS 9, as their previous category under IAS 39 was 'retired', with no changes to their measurement basis (except for perpetual corporate bonds as described above). The business model for these debt financial instruments (except for perpetual corporate bonds) was determined to be hold to collect contractual cash flows and sell since the Group holds these assets to collect both the contractual cash flows and the cash flows arising from the sale of assets.

d. Other financial assets

In millions of RR	Measurement category IAS 39	Measurement category IFRS 9	Carrying value per IAS 39 (opening balance at 31 December 2017)	Effect: Remeasurement ECL	Effect: Remeasurement Other	Effect: Reclassification Manda-tory	Effect: Reclassification Voluntary	Carrying value per IFRS 9 (closing balance at 1 January 2018)
Other financial assets at AC	***L&R***	***AC***						
- Settlement of operations with plastic cards			10,280	-	-	-	-	10,280
- Other receivables			523	-	-	-	-	523
Other financial assets at FVTPL	***FVTPL***	***-***	166	-	-	-	(166)	-

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

e. Reconciliation of provision for impairment at 31 December 2017 and credit loss allowance at 1 January 2018

The following table reconciles the prior period's closing provision for impairment measured in accordance with incurred loss model under IAS 39 to the new credit loss allowance measured in accordance with expected loss model under IFRS 9 at 1 January 2018:

In millions of RR	Measurement category IAS 39	Measurement category IFRS 9	Provision for impairment under IAS 39 or IAS 37 at 31 December 2017	Effect: Remeasurement	Effect: Reclassification	Effect: Gross up of ECL and gross carrying amount	Credit loss allowance under IFRS 9 at 1 January 2018
Loans and advances to customers							
- Credit card loans	L&R	AC	14,372	8,638	4,339	8,723	36,072
- Instalments	L&R	-	2,672	1,667	(4,339)	-	-
- Cash loans	L&R	AC	337	161	-	77	575
- POS loans	L&R	AC	155	80	-	69	304
Credit related commitments:							
- Unused limits on credit card loans			-	1,723	-	-	1,723
Total			**17,536**	**12,269**	**-**	**8,869**	**38,674**
Investments in debt securities							
- Corporate bonds	AFS	FVOCI	-	-	233	-	233
- Russian government bonds	AFS	FVOCI	-	-	36	-	36
- Municipal bonds	AFS	FVOCI	-	-	23	-	23
Total			**-**	**-**	**292**	**-**	**292**

Adoption of IFRS 9 resulted in an increase of gross carrying amounts of the financial assets as of 1 January 2018 because the gross carrying amounts according to the standard are calculated by discounting the contractual cash flows in relation to principal and all contractually due interest at the effective interest rate while previously under IAS 39 the gross carrying amounts were calculated by discounting the contractual cash flows in relation to principal and expected cash flows in relation to interest at the effective interest rate.

Further information on the measurement of the credit loss allowance under IFRS 9 is disclosed in respective notes.

Adoption of IFRS 15 (issued on 28 May 2014 and effective for the periods beginning on or after 1 January 2018). The Group has adopted IFRS 15, Revenue from Contracts with Customers, with the date of initial application of 1 January 2018, which resulted in recognition of fee and commission income related to the loans and advances to customers but which does not form a part of effective interest rate, on an accrual basis (not taking into account expected credit losses) over the period in which the services are rendered as the customer simultaneously receives and consumes the benefits provided by the Group's performance, usually on a straight- line basis or at a point in time when the Group satisfies its performance obligation. In prior periods some commission income was only recognised at its recoverable amount. The new standard was applied using the modified retrospective method, with cumulative effect recognised in retained earnings on 1 January 2018. The standard did not have a material impact on the Group.

The following amended standards became effective for the Group from 1 January 2018, but did not have a material impact on the Group:

- Amendments to IFRS 2, Share-based Payment (issued on 20 June 2016 and effective for annual periods beginning on or after 1 January 2018).

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

- Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts – Amendments to IFRS 4 (issued on 12 September 2016 and effective, depending on the approach, for annual periods beginning on or after 1 January 2018 for entities that choose to apply temporary exemption option, or when the entity first applies IFRS 9 for entities that choose to apply the overlay approach).
- Annual Improvements to IFRSs 2014-2016 cycle – Amendments to IFRS 1 and IAS 28 (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018).
- IFRIC 22 – Foreign Currency Transactions and Advance Consideration (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018).
- Transfers of Investment Property – Amendments to IAS 40 (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018).
- Amendments to IFRS 15, Revenue from Contracts with Customers (issued on 12 April 2016 and effective for annual periods beginning on or after 1 January 2018).

6 New Accounting Pronouncements

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2019 or later, and which the Group has not early adopted.

IFRS 16, Leases (issued on 13 January 2016 and 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 leases result in the lessee obtaining the right to use an asset at the start of the lease and, if lease payments are made over time, also obtaining financing. Accordingly, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. 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 lease assets separately from interest on lease liabilities in the income statement. 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. The Group decided that it will apply the standard using the modified retrospective method, without restatement of comparatives. The Group recognised a right of use asset of RR 1,684 million against a corresponding lease liability on 1 January 2019. A reconciliation of the operating lease commitments disclosed in Note 36 to this liability is as follows:

In millions of RR	**1 January 2019**
Total future minimum lease payments for non-cancellable operating leases (Note 36)	829
- Future lease payments that are due in periods after the end of non-cancellable operating lease period	1,072
- Effect of discounting to present value	(217)
Total lease liabilities	**1,684**

6 New Accounting Pronouncements (Continued)

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, examinations 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.

The Group is currently assessing the impact of the interpretation on its consolidated financial statements.

IFRS 17 "Insurance Contracts" (issued on 18 May 2017 and effective for annual periods beginning on or after 1 January 2021)*. IFRS 17 replaces IFRS 4, which has given companies dispensation to carry on accounting for insurance contracts using existing practices. As a consequence, it was difficult for investors to compare and contrast the financial performance of otherwise similar insurance companies. IFRS 17 is a single principle-based standard to account for all types of insurance contracts, including reinsurance contracts that an insurer holds. The standard requires recognition and measurement of groups of insurance contracts at: (i) a risk-adjusted present value of the future cash flows (the fulfilment cash flows) that incorporates all of the available information about the fulfilment cash flows in a way that is consistent with observable market information; plus (if this value is a liability) or minus (if this value is an asset) (ii) an amount representing the unearned profit in the group of contracts (the contractual service margin). Insurers will be recognising the profit from a group of insurance contracts over the period they provide insurance coverage, and as they are released from risk. If a group of contracts is or becomes loss-making, an entity will recognise the loss immediately.

The Group is currently assessing the impact of the above standards on its consolidated financial statements.

The following other new pronouncements are not expected to have any material impact on the Group when adopted:

(a) Long-term Interests in Associates and Joint Ventures – Amendments to IAS 28 (issued on 12 October 2017 and effective for annual periods beginning on or after 1 January 2019)*.

(b) 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)*.

(c) Plan Amendment, Curtailment or Settlement – Amendments to IAS 19 (issued on 7 February 2018 and effective for annual periods beginning on or after 1 January 2019)*.

(d) Prepayment Features with Negative Compensation – Amendments to IFRS 9 (issued on 12 October 2017 and effective for annual periods beginning on or after 1 January 2019).

(e) Amendments to References to the Conceptual Framework in IFRS Standards (issued on 29 March 2018 and effective for annual periods beginning on or after 1 January 2020)*.

(f) Amendments to IAS 1 and IAS 8: Definition of Material (issued on 31 October 2018 and effective for annual periods beginning on or after 1 January 2020)*.

6 New Accounting Pronouncements (Continued)

(g) Amendment to IFRS 3 Business Combinations (issued on 22 October 2018 and effective for annual periods beginning on or after 1 January 2020)*.

* Denotes standards, interpretations and amendments which have not yet been endorsed by the European Union.

7 Cash and Cash Equivalents

In millions of RR	31 December 2018	31 December 2017
Cash on hand	5,839	2,941
Cash balances with the CBRF (other than mandatory reserve deposits)	11,158	11,201
Placements with other banks with original maturities of less than three months:		
- AA- to AA+ rated	1,130	856
- A- to A+ rated	761	377
- BBB- to BBB+ rated	13,454	7,051
- BB- to BB+ rated	360	867
- B- to B+ rated	114	351
Non-bank credit organizations	986	206
Total Cash and Cash Equivalents	**33,802**	**23,850**

Cash on hand includes cash balances in ATMs and cash balances in transit. Placements with other banks with original maturities of less than three months include placements under reverse sale and repurchase agreements in the amount of RR 11,147 million as at 31 December 2018 (31 December 2017: RR 6,607 million). The Group has a right to sell or repledge securities received under reverse sale and repurchase agreements.

The table below discloses the credit quality of cash and cash equivalents balances based on credit risk grades at 31 December 2018. Refer to Note 34 for the description of the Group's credit risk grading system. The carrying amount of cash and cash equivalents at 31 December 2018 below also represents the Group's maximum exposure to credit risk on these assets:

In millions of RR	Cash balances with the CBRF	Placements with other banks and non-bank credit organizations	Total
Current	11,158	16,664	27,822
Monitor	-	34	34
Sub-standard	-	107	107
Total cash and cash equivalents, excluding cash on hand	**11,158**	**16,805**	**27,963**

For the purpose of ECL measurement cash and cash equivalents balances are included in Stage 1. The ECL for these balances represents an immaterial amount, therefore the Group did not recognise any credit loss allowance for cash and cash equivalents. Except for reverse sale and repurchase agreements, amounts of cash and cash equivalents are not collateralised. As at 31 December 2018 the fair value of collateral under reverse sale and repurchase agreements was RR 12,389 (31 December 2017: RR 7,304). There is no material impact of collateral on credit loss allowance for cash and cash equivalents. Refer to Note 34 for the ECL measurement approach.

Cash and cash equivalents are neither impaired nor past due as at 31 December 2017. Refer to Note 39 for the disclosure of the fair value of cash and cash equivalents. Interest rate, maturity and geographical risk concentration analysis of cash and cash equivalents are disclosed in Note 34.

8 Due from Banks

In millions of RR	31 December 2018	31 December 2017
Placements with other banks with original maturities of more than three months:		
- BBB- rated	210	255
- BB- to BB+ rated	128	121
- B- to B+ rated	438	401
Total due from other banks	**776**	**777**

The table below discloses the credit quality of due from banks balances based on credit risk grades at 31 December 2018. Refer to Note 34 for the description of credit risk grading system used by the Group. The carrying amount of due from banks at 31 December 2018 below also represents the Group's maximum exposure to credit risk on these assets:

In millions of RR	31 December 2018
Current	338
Monitor	438
Total due from other banks	**776**

For the purpose of ECL measurement due from banks balances are included in Stage 1. The ECL for these balances represents an immaterial amount, therefore the Group did not create any credit loss allowance for due from banks. Refer to Note 34 for the ECL measurement approach.

Due from banks are neither impaired nor past due as at 31 December 2017. Refer to Note 39 for the disclosure of the fair value of due from banks. Interest rate, maturity and geographical risk concentration analysis are disclosed in Note 34.

9 Loans and Advances to Customers

	31 December 2018			31 December 2017		
In millions of RR	Gross carrying amount	Credit loss allowance	Carrying amount	Gross carrying amount	Provision for loan impairment	Carrying amount
Credit card loans	178,396	(33,296)	145,100	146,097	(17,044)	129,053
Cash loans	35,194	(2,331)	32,863	7,000	(337)	6,663
POS loans	15,275	(460)	14,815	4,684	(155)	4,529
Car loans	2,838	(85)	2,753	-	-	-
Secured loans	2,644	(16)	2,628	-	-	-
Loans to SME	363	(33)	330	-	-	-
Total loans and advances to customers at AC	**234,710**	**(36,221)**	**198,489**	**157,781**	**(17,536)**	**140,245**

Credit cards are issued to customers for cash withdrawals or payment for goods or services, within the range of limits established by the Bank. These limits may be increased or decreased from time-to-time based on management decision. Credit card loans are not collateralized.

9 Loans and Advances to Customers (Continued)

Cash loans represent a product for the borrowers who have a positive credit history and who do not have overdue loans in other banks. Cash loans are loans provided to customers via the Bank's debit cards. These loans are available for withdrawal without commission.

POS ("Point of sale") loans represent POS lending through the Bank's programme "POS loans" (KupiVKredit). This programme funds online and offline purchases through internet and offline shops for individual borrowers.

Car loans represent loans for the purchase of a vehicle which is used as collateral under the loan.

Secured loans represent loans secured with a car or real estate.

Loans to SME represent loans provided by Bank to individual entrepreneurs and small and medium businesses for the purpose of working capital management.

The credit loss allowance for loans and advances to customers recognised in the period is impacted by a variety of factors, details of ECL measurement are provided in Note 34. The main movements in the tables presented below are described as follows:

- new originated or purchased category represents the gross carrying amounts of purchased loans and loans to new borrowers (for this particular product) before their first repayment became due. The related ECL represents the day one ECL on the purchase or origination of these loans;
- transfers between Stage 1, 2 and 3 due to balances experiencing significant increases (or decreases) of credit risk or becoming credit-impaired in the period, and the consequent "step up" (or "step down") between 12-month and Lifetime ECL. Transfers present the amount of credit loss allowance charged or recovered at the moment of transfer of a loan among the respective stages;
- movements other than transfers and new originated or purchased loans category represents all other movements of ECL in particular related to changes in gross carrying amounts (including drawdowns, repayments, and accrued interest), as well as changes in ECL model assumptions including those arising from update of inputs to ECL model in the period;
- write-offs of allowances are related to assets that were written-off during the period;
- unwinding of discount (for Stage 3) category represents adjustment to credit loss allowance and gross carrying amount for Stage 3 loans to increase it to discounted amount of the expected cash shortfalls to the reporting date using the effective interest rate.

9 Loans and Advances to Customers (Continued)

The following tables disclose the changes in the credit loss allowance and gross carrying amount for loans and advances to customers for the year ended 31 December 2018:

In millions of RR	Credit loss allowance Stage 1 (12-months ECL)	Credit loss allowance Stage 2 (lifetime ECL for SICR)	Credit loss allowance Stage 3 (lifetime ECL for credit impaired)	Credit loss allowance Total	Gross carrying amount Stage 1 (12-months ECL)	Gross carrying amount Stage 2 (lifetime ECL for SICR)	Gross carrying amount Stage 3 (lifetime ECL for credit impaired)	Gross carrying amount Total
Credit card loans								
At 1 January 2018	**9,064**	**5,319**	**21,689**	**36,072**	**121,988**	**6,958**	**25,874**	**154,820**
Movements with impact on credit loss allowance charge for the year								
New originated or purchased	2,884	-	-	2,884	34,791	-	-	34,791
Transfers:								
- to lifetime (from Stage 1 to Stage 2)	(1,647)	4,319	-	2,672	(6,465)	6,465	-	-
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	(3,063)	(4,636)	16,804	9,105	(13,933)	(5,569)	19,502	-
- recovered (from Stage 3 to Stage 2 and from Stage 2 to Stage 1)	295	(930)	(29)	(664)	1,216	(1,184)	(32)	-
Movements other than transfers and new originated or purchased loans	1,733	636	(3,502)	(1,133)	8,135	(16)	(3,665)	4,454
Total movements with impact on credit loss allowance charge for the year	**202**	**(611)**	**13,273**	**12,864**	**23,744**	**(304)**	**15,805**	**39,245**
Movements without impact on credit loss allowance charge for the year								
Unwinding of discount (for Stage 3)	-	-	3,098	3,098	-	-	3,098	3,098
Write-offs	-	-	(16,899)	(16,899)	-	-	(16,899)	(16,899)
Sales	-	-	(395)	(395)	-	-	(424)	(424)
Modification of original cash flows without derecognition	-	-	(1,444)	(1,444)	-	-	(1,444)	(1,444)
At 31 December 2018	**9,266**	**4,708**	**19,322**	**33,296**	**145,732**	**6,654**	**26,010**	**178,396**

9 Loans and Advances to Customers (Continued)

In millions of RR	Credit loss allowance				Gross carrying amount			
	Stage 1 (12-months ECL)	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit im-paired)**	**Total**	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit im-paired)**	**Total**
Cash loans								
At 1 January 2018	**268**	**151**	**156**	**575**	**6,478**	**438**	**161**	**7,077**
Movements with impact on credit loss allowance charge for the year								
New originated or purchased loans	1,255	-	-	1,255	32,010	-	-	32,010
Transfers:								
- to lifetime (from Stage 1 to Stage 2)	(162)	968	-	806	(1,953)	1,953	-	-
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	(147)	(129)	673	397	(549)	(156)	705	-
- recovered (from Stage 3 to Stage 2 and from Stage 2 to Stage 1)	4	(23)	-	(19)	96	(96)	-	-
Movements other than transfers and new originated or purchased loans	(102)	(422)	154	(370)	(3,431)	(363)	214	(3,580)
Total movements with impact on credit loss allowance charge for the year	**848**	**394**	**827**	**2,069**	**26,173**	**1,338**	**919**	**28,430**
Movements without impact on credit loss allowance charge for the year								
Unwinding of discount (for Stage 3)	-	-	43	43	-	-	43	43
Write-offs	-	-	(256)	(256)	-	-	(256)	(256)
Sales	-	-	(19)	(19)	-	-	(19)	(19)
Modification of original cash flows without derecognition	-	-	(81)	(81)	-	-	(81)	(81)
At 31 December 2018	**1,116**	**545**	**670**	**2,331**	**32,651**	**1,776**	**767**	**35,194**

9 Loans and Advances to Customers (Continued)

In millions of RR	Credit loss allowance				Gross carrying amount			
	Stage 1 (12-months ECL)	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit im-paired)**	**Total**	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit im-paired)**	**Total**
POS loans								
At 1 January 2018	**133**	**46**	**125**	**304**	**4,462**	**162**	**129**	**4,753**
Movements with impact on credit loss allowance charge for the year								
New originated or purchased	217	-	-	217	14,620	-	-	14,620
Transfers:								
- to lifetime (from Stage 1 to Stage 2)	(30)	236	-	206	(710)	710	-	-
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	(31)	(41)	196	124	(151)	(56)	207	-
- recovered (from Stage 3 to Stage 2 and from Stage 2 to Stage 1)	1	(4)	-	(3)	28	(28)	-	-
Movements other than transfers and new originated or purchased loans	(100)	(156)	17	(239)	(3,689)	(283)	23	(3,949)
Total movements with impact on credit loss allowance charge for the year	**57**	**35**	**213**	**305**	**10,098**	**343**	**230**	**10,671**
Movements without impact on credit loss allowance charge for the year								
Unwinding of discount (for Stage 3)	-	-	21	21	-	-	21	21
Write-offs	-	-	(151)	(151)	-	-	(151)	(151)
Sales	-	-	(11)	(11)	-	-	(11)	(11)
Modification of original cash flows without derecognition	-	-	(8)	(8)	-	-	(8)	(8)
At 31 December 2018	**190**	**81**	**189**	**460**	**14,560**	**505**	**210**	**15,275**

9 Loans and Advances to Customers (Continued)

In millions of RR	Credit loss allowance Stage 1 (12-months ECL)	Credit loss allowance Stage 2 (lifetime ECL for SICR)	Credit loss allowance Stage 3 (lifetime ECL for credit im-paired)	Credit loss allowance Total	Gross carrying amount Stage 1 (12-months ECL)	Gross carrying amount Stage 2 (lifetime ECL for SICR)	Gross carrying amount Stage 3 (lifetime ECL for credit im-paired)	Gross carrying amount Total
Car loans								
At 1 January 2018	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Movements with impact on credit loss allowance charge for the year								
New originated or purchased	64	-	-	64	2,839	-	-	2,839
Transfers:								
- to lifetime (from Stage 1 to Stage 2)	(7)	31	-	24	(80)	80	-	-
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	(1)	-	4	3	(6)	-	6	-
Movements other than transfers and new originated or purchased loans	-	(6)	-	(6)	1	(2)	-	(1)
Total movements with impact on credit loss allowance charge for the year	**56**	**25**	**4**	**85**	**2,754**	**78**	**6**	**2,838**
At 31 December 2018	**56**	**25**	**4**	**85**	**2,754**	**78**	**6**	**2,838**
Secured loans								
At 1 January 2018	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Movements with impact on credit loss allowance charge for the year								
New originated or purchased	15	-	-	15	2,644	-	-	2,644
Transfers:								
- to lifetime (from Stage 1 to Stage 2)	-	1	-	1	(3)	3	-	-
Total movements with impact on credit loss allowance charge for the year	**15**	**1**	**-**	**16**	**2,641**	**3**	**-**	**2,644**
At 31 December 2018	**15**	**1**	**-**	**16**	**2,641**	**3**	**-**	**2,644**

9 Loans and Advances to Customers (Continued)

In millions of RR	Credit loss allowance Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit im-paired)	Total	Gross carrying amount Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit im-paired)	Total
Loans to SME								
At 1 January 2018	-	-	-	-	-	-	-	-
Movements with impact on credit loss allowance charge for the year								
New originated or purchased	8	-	-	8	155	-	-	155
Transfers:								
- to lifetime (from Stage 1 to Stage 2)	(3)	11	-	8	(25)	25	-	-
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	-	-	10	10	(10)	-	10	-
Movements other than transfers and new originated or purchased loans	8	(1)	-	7	212	(4)	-	208
Total movements with impact on credit loss allowance charge for the year	**13**	**10**	**10**	**33**	**332**	**21**	**10**	**363**
At 31 December 2018	**13**	**10**	**10**	**33**	**332**	**21**	**10**	**363**

The credit loss allowance charge during the year ended 31 December 2018 presented in the tables above differs from the amount presented in the consolidated statement of profit or loss and other comprehensive income for the year due to RR 4,083 million recovery of amounts previously written-off as uncollectible, and due to RR 318 million charge of ECL for credit related commitments.

The amount of the recovery received during the year was credited directly to the credit loss allowance line in the consolidated statement of profit or loss and other comprehensive income.

The amount of the ECL for credit related commitments is accounted separately from ECL for credit cards loans and is included in other financial liabilities in the consolidated statement of financial position.

Movements in the provision for loan impairment for the year ended 31 December 2017 are as follows:

In millions of RR	As at 31 December 2016	Sales of impaired loans	Amounts written-off during the year	Provision for impairment during the year	As at 31 December 2017
Loans to individuals:					
Credit card loans	16,976	(431)	(8,966)	9,465	17,044
Cash loans	429	(7)	(108)	23	337
POS loans	118	(25)	(55)	117	155
Total provision for loan impairment	**17,523**	**(463)**	**(9,129)**	**9,605**	**17,536**

9 Loans and Advances to Customers (Continued)

The provision for impairment during the year ended 31 December 2017 presented in the tables above differs from the amount presented in the consolidated statement of profit or loss and other comprehensive income for the year due to RR 1,991 million, recovery of amounts previously written-off as uncollectible. The amount of the recovery received during the year was credited directly to the provisions line in the consolidated statement of profit or loss and other comprehensive income.

During the year ended 31 December 2018 the Group sold credit-impaired loans to third parties (external debt collection agencies) with a gross amount of RR 454 million (2017: RR 500 million) and credit loss allowance of RR 425 million (2017: provision for impairment RR 463 million). The difference between the carrying amount of these loans and the consideration received was recognised as losses in the amount of RR 7 million within credit loss allowance for loans and advances to customers for the year ended 31 December 2018 (2017: as a gain in the amount of RR 26 million).

Presented below is an analysis of issued, activated and utilised cards based on their credit card limits as at the end of the year:

In units	**31 December 2018**	**31 December 2017**
Credit card limits		
Up to 20 RR thousand	651,290	631,207
20-40 RR thousand	443,659	458,058
40-60 RR thousand	423,030	394,543
60-80 RR thousand	427,986	361,117
80-100 RR thousand	361,803	293,372
100-120 RR thousand	285,574	252,135
120-140 RR thousand	341,017	377,207
140-200 RR thousand	402,002	155,902
More than 200 RR thousand	109,482	61,761
Total cards	**3,445,843**	**2,985,302**

Table above only includes credit cards less than 180 days overdue.

Description of collateral held for loans to individuals carried at amortised cost is as follows at 31 December 2018:

In millions of RR	**Secured loans**	**Car loans**	**Total**
Loans collateralised by:			
- residential real estate	2,449	-	2,449
- cars	189	2,095	2,284
Total	**2,638**	**2,095**	**4,733**
Unsecured exposures	6	743	749
Total gross carrying amount (representing exposure to credit risk for each class of loans at AC)	**2,644**	**2,838**	**5,482**

The disclosure above represents the lower of the carrying value of the loan or collateral taken; the remaining part is disclosed within the unsecured exposures which arise mainly due to application of a discount in determining the carrying value of collateral. The carrying value of loans was allocated based on liquidity of the assets taken as collateral.

9 Loans and Advances to Customers (Continued)

The extent to which collateral and other credit enhancements mitigate credit risk for financial assets carried at amortised cost that are credit impaired, is presented by disclosing collateral values separately for (i) those assets where collateral and other credit enhancements are equal to or exceed carrying value of the asset ("over-collateralised assets") and (ii) those assets where collateral and other credit enhancements are less than the carrying value of the asset ("under-collateralised assets"). The effect of collateral on credit impaired assets at 31 December 2018 is as follows.

	Over-collateralised assets		Under-collateralised assets	
In millions of RR	**Carrying value of the assets**	**Value of collateral**	**Carrying value of the assets**	**Value of collateral**
Credit impaired assets:				
Secured loans	-	-	-	-
Car loans	-	-	6	4

The values of collateral considered in this disclosure are after a valuation haircut of 20% for residential real estate and 30% for cars applied to consider liquidity and quality of the pledged assets.

The following table contains an analysis of the credit risk exposure of loans and advances to customers measured at AC and for which an ECL allowance is recognised. The carrying amount of loans and advances to customers below also represents the Group's maximum exposure to credit risk on these loans.

Loans to individuals at 31 December 2018 are disclosed as follows:

In millions of RR	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit im-paired)**	**Total**
Credit card loans				
- Current	138,466	974	-	139,440
- Monitor	7,266	2,212	-	9,478
- Sub-standard	-	3,468	4,774	8,242
- NPL	-	-	21,236	21,236
Gross carrying amount	**145,732**	**6,654**	**26,010**	**178,396**
Credit loss allowance	(9,266)	(4,708)	(19,322)	(33,296)
Carrying amount	**136,466**	**1,946**	**6,688**	**145,100**
Cash loans				
- Current	32,504	1,274	-	33,778
- Monitor	147	207	-	354
- Sub-standard	-	295	72	367
- NPL	-	-	695	695
Gross carrying amount	**32,651**	**1,776**	**767**	**35,194**
Credit loss allowance	(1,116)	(545)	(670)	(2,331)
Carrying amount	**31,535**	**1,231**	**97**	**32,863**

9 Loans and Advances to Customers (Continued)

In millions of RR	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit im-paired)	Total
POS loans				
- Current	14,499	385	-	14,884
- Monitor	61	60	-	121
- Sub-standard	-	60	6	66
- NPL	-	-	204	204
Gross carrying amount	**14,560**	**505**	**210**	**15,275**
Credit loss allowance	(190)	(81)	(189)	(460)
Carrying amount	**14,370**	**424**	**21**	**14,815**
Car loans				
- Current	2,742	42	-	2,784
- Monitor	12	16	-	28
- Sub-standard	-	20	-	20
- NPL	-	-	6	6
Gross carrying amount	**2,754**	**78**	**6**	**2,838**
Credit loss allowance	(56)	(25)	(4)	(85)
Carrying amount	**2,698**	**53**	**2**	**2,753**
Secured loans				
- Current	2,638	1	-	2,639
- Monitor	3	2	-	5
Gross carrying amount	**2,641**	**3**	**-**	**2,644**
Credit loss allowance	(15)	(1)	-	(16)
Carrying amount	**2,626**	**2**	**-**	**2,628**
Loans to SME				
- Current	327	6	-	333
- Monitor	5	9	-	14
- Sub-standard	-	6	-	6
- NPL	-	-	10	10
Gross carrying amount	**332**	**21**	**10**	**363**
Credit loss allowance	(13)	(10)	(10)	(33)
Carrying amount	**319**	**11**	**-**	**330**

Stage 3 includes restructured loans that are less than 90 days overdue which are not considered as NPL according to the Group's credit risk grading master scale. Refer to Note 34 for the description of credit risk grading system used by the Group.

9 Loans and Advances to Customers (Continued)

Analysis of loans by credit quality at 31 December 2017 is disclosed as follows (refer to Note 5):

In millions of RR	31 December 2017 Credit card loans	 Cash loans	 POS loans
Neither past due nor impaired:			
- new	3,824	1,595	1,234
Loans collectively assessed for impairment (gross):			
- non-overdue	122,209	5,051	3,304
- less than 30 days overdue	3,457	73	37
- 30 to 90 days overdue	2,984	70	25
- 90 to 180 days overdue	2,579	66	24
- 180 to 360 days overdue	1,484	64	42
- over 360 days overdue	1,636	81	18
- loans in courts	7,924	-	-
Less: Provision for loan impairment	(17,044)	(337)	(155)
Total loans	**129,053**	**6,663**	**4,529**

Loans in category "new" represent loans provided to borrowers for which the date of the first payment did not occur before the reporting date and thus no impairment provision is considered necessary.

Loans in courts are loans to delinquent borrowers, against which the Group has filed claims to courts in order to recover outstanding balances. As at 31 December 2018 the gross carrying amount of the loans in courts was RR 15,390 million (1 January 2018 in accordance with IFRS 9: RR 14,059 million).

Information about modifications of loans that have not resulted in derecognition is as follows:

In millions of RR	Loans and advances to customers
Year ended 31 December 2018	
Amortised cost of loans with lifetime ECL immediately before contractual modification that was not a derecognition event	2,607
Gains less losses recognised in profit or loss on modifications of loans with lifetime ECL that did not lead to derecognition	665

Refer to Note 39 for the disclosure of the fair value of loans and advances to customers. Interest rate, maturity and geographical risk concentration analysis are disclosed in Note 34. Information on related party balances is disclosed in Note 41.

10 Investments in Debt Securities

The table below discloses investments in debt securities at 31 December 2018 by measurement categories and classes:

In millions of RR	Debt securities at FVOCI	Debt securities measured at FVTPL	Total
Corporate bonds	65,140	-	65,140
Russian government bonds	23,560	-	23,560
Municipal bonds	5,774	-	5,774
Perpetual corporate bonds	-	5,666	5,666
Total investments in debt securities at 31 December 2018 (fair value/carrying value)	**94,474**	**5,666**	**100,140**
Including Credit loss allowance	481	-	481

1) Investments in debt securities at FVTPL

Debt securities mandatorily classified as at FVTPL by the Group represent perpetual corporate bonds. Debt securities at FVTPL are carried at fair value, which also reflects any credit risk related write-downs and best represents Group’s maximum exposure to credit risk. The debt securities at FVTPL are not collateralised.

The table below contains an analysis of the credit risk grades of debt securities measured at FVTPL at 31 December 2018 estimated by external international rating agencies:

In millions of RR	Corporate bonds
- Current	4,169
- Sub-standard	1,497
Carrying value (fair value)	**5,666**

2) Investments in debt securities at FVOCI

The table below contains an analysis of the credit risk exposure of debt securities measured at FVOCI at 31 December 2018, for which an ECL allowance is recognised, based on credit risk grades. Refer to Note 34 for the description of credit risk grading system used by the Group and the approach to ECL measurement, including the definition of default and SICR as applicable to debt securities at FVOCI:

10 Investments in Debt Securities (Continued)

In millions of RR	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit impaired)**	**Total**
Corporate bonds				
- Current	54,560	-	-	54,560
- Monitor	10,304	1,413	-	11,717
- Sub-standard	14	-	-	14
- Doubtful	-	194	-	194
Total AC gross carrying amount	64,878	1,607	-	66,485
Less credit loss allowance	(255)	(128)	-	(383)
Less fair value adjustment from AC to FV	(511)	(451)	-	(962)
Carrying value (fair value)	**64,112**	**1,028**	**-**	**65,140**
Russian government bonds				
- Current	24,021	-	-	24,021
Total AC gross carrying amount	24,021	-	-	24,021
Less credit loss allowance	(63)	-	-	(63)
Less fair value adjustment from AC to FV	(398)	-	-	(398)
Carrying value (fair value)	**23,560**	**-**	**-**	**23,560**
Municipal bonds				
- Current	4,325	-	-	4,325
- Monitor	1,508	-	-	1,508
Total AC gross carrying amount	5,833	-	-	5,833
Less credit loss allowance	(35)	-	-	(35)
Less fair value adjustment from AC to FV	(24)	-	-	(24)
Carrying value (fair value)	**5,774**	**-**	**-**	**5,774**

The debt securities at FVOCI are not collateralised.

10 Investments in Debt Securities (Continued)

The following table explains the changes in the credit loss allowance and gross carrying amount for debt securities at FVOCI for the year ended 31 December 2018:

	Credit loss allowance				Gross carrying amount			
In millions of RR	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit impaired)**	**Total**	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit impaired)**	**Total**
Corporate bonds								
At 1 January 2018	**216**	**17**	**-**	**233**	**46,663**	**270**	**-**	**46,933**
Movements with impact on credit loss allowance charge:								
New originated or purchased	184	(10)	-	174	27,174	-	-	27,174
Transfers:								
- to lifetime (from Stage 1 to Stage 2)	(71)	71	-	-	(1,082)	1,082	-	-
Foreign exchange gains	12	17	-	29	3,027	228	-	3,255
Redemption during the year	(6)	-	-	(6)	(1,040)	-	-	(1,040)
Disposal during the year	(41)	-	-	(41)	(9,856)	-	-	(9,856)
Interest income accrued	15	9	-	24	3,890	80	-	3,970
Interest received	(16)	(7)	-	(23)	(3,898)	(53)	-	(3,951)
Other movements	(38)	31	-	(7)	-	-	-	-
Total movements with impact on credit loss allowance charge	**39**	**111**	**-**	**150**	**18,215**	**1,337**	**-**	**19,552**
At 31 December 2018	**255**	**128**	**-**	**383**	**64,878**	**1,607**	**-**	**66,485**
Russian government bonds								
At 1 January 2018	**36**	**-**	**-**	**36**	**13,686**	**-**	**-**	**13,686**
Movements with impact on credit loss allowance charge:								
New originated or purchased	186	-	-	186	72,235	-	-	72,235
Foreign exchange gains	3	-	-	3	918	-	-	918
Redemption during the year	(128)	-	-	(128)	(49,829)	-	-	(49,829)
Disposal during the year	(33)	-	-	(33)	(12,649)	-	-	(12,649)
Interest income accrued	4	-	-	4	1,352	-	-	1,352
Interest received	(5)	-	-	(5)	(1,692)	-	-	(1,692)
Total movements with impact on credit loss allowance charge	**27**	**-**	**-**	**27**	**10,335**	**-**	**-**	**10,335**
At 31 December 2018	**63**	**-**	**-**	**63**	**24,021**	**-**	**-**	**24,021**

10 Investments in Debt Securities (Continued)

In millions of RR	Credit loss allowance Stage 1 (12-months ECL)	Credit loss allowance Stage 2 (lifetime ECL for SICR)	Credit loss allowance Stage 3 (lifetime ECL for credit impaired)	Credit loss allowance Total	Gross carrying amount Stage 1 (12-months ECL)	Gross carrying amount Stage 2 (lifetime ECL for SICR)	Gross carrying amount Stage 3 (lifetime ECL for credit impaired)	Gross carrying amount Total
Municipal bonds								
At 1 January 2018	**23**	**-**	**-**	**23**	**4,308**	**-**	**-**	**4,308**
Movements with impact on credit loss allowance charge:								
New originated or purchased	16	-	-	16	1,752	-	-	1,752
Disposal during the year	(1)	-	-	(1)	(240)	-	-	(240)
Interest income accrued	2	-	-	2	382	-	-	382
Interest received	(2)	-	-	(2)	(369)	-	-	(369)
Other movements	(3)	-	-	(3)	-	-	-	-
Total movements with impact on credit loss allowance charge	**12**	**-**	**-**	**12**	**1,525**	**-**	**-**	**1,525**
At 31 December 2018	**35**	**-**	**-**	**35**	**5,833**	**-**	**-**	**5,833**

Interest rate, maturity and geographical risk concentration analysis of investment in debt securities are disclosed in Note 34.

11 Investment Securities Available for Sale

In millions of RR	31 December 2017
Corporate bonds	48,328
Russian government bonds	13,904
Perpetual corporate bonds	5,070
Municipal bonds	4,374
Total investment securities available for sale	**71,676**

Analysis by credit quality of debt securities outstanding at 31 December 2017 is as follows:

In millions of RR	Corporate bonds	Russian government bonds	Perpetual corporate bonds	Municipal bonds	Total
Neither past due nor impaired					
BBB- to BBB+ rated	22,158	13,904	-	1,862	37,924
BB- to BB+ rated	25,955	-	3,959	2,512	32,426
B- to B+ rated	215	-	1,111	-	1,326
Total neither past due nor impaired investment securities available for sale	**48,328**	**13,904**	**5,070**	**4,374**	**71,676**

11 Investment Securities Available for Sale (Continued)

The movements in investment securities available for sale for the year ended 31 December 2017 are as follows:

In millions of RR	**2017**
Carrying amount at 1 January	33,286
Purchases	67,814
Redemption of investment securities available for sale	(12,882)
Disposal of investment securities available for sale	(16,728)
Interest income accrued on investment securities available for sale (Note 23)	3,491
Interest received	(3,434)
Reclassification from investment securities available for sale to Repurchase receivables	(798)
Foreign exchange loss on investment securities available for sale in foreign currency	(399)
Revaluation through other comprehensive income	1,326
Carrying amount at 31 December	**71,676**

Interest rate, maturity and geographical risk concentration analysis of investment securities available for sale are disclosed in Note 34.

12 Repurchase Receivables

Repurchase receivables represent securities sold under sale and repurchase agreements which the counterparty has the right, by contract or custom, to sell or repledge. As at 31 December 2018 the sale and repurchase agreements are short-term and mature in January 2019 (2017: January 2018) .

In millions of RR	**31 December 2018**	**31 December 2017**
Securities at FVOCI sold under sale and repurchase agreements	1,182	-
AFS securities sold under sale and repurchase agreements	-	798
Total repurchase receivables	**1,182**	**798**

Securities sold under sale and repurchase agreements at 31 December 2018:

In millions of RR	**Securities at FVOCI sold under sale and repurchase agreements**
Corporate bonds	72
Russian government bonds	1,110
Total debt securities (fair value/carrying value)	**1,182**
Including Credit loss allowance	3

Securities sold under sale and repurchase agreements at 31 December 2017:

In millions of RR	**Investment securities available for sale**
Perpetual corporate bonds	798
Total securities classified as repurchase receivables	**798**

12 Repurchase Receivables (Continued)

The following table contains an analysis of debt securities measured at FVOCI classified as repurchase receivables, for which an ECL allowance is recognised, by the credit quality at 31 December 2018 based on credit risk grades and discloses balances by three stages for the purpose of ECL measurement.

Refer to Note 34 for the description of credit risk grading system used by the Group and the approach to ECL measurement, including the definition of default and SICR as applicable to the debt securities:

In millions of RR	**Stage 1 (12-months ECL)**
Corporate bonds	
- Current	73
Total AC gross carrying amount	73
Less credit loss allowance	-
Less fair value adjustment from AC to FV	(1)
Carrying value (fair value)	**72**
Russian government bonds	
- Current	1,169
Total AC gross carrying amount	1,169
Less credit loss allowance	(3)
Less fair value adjustment from AC to FV	(56)
Carrying value (fair value)	**1,110**

The credit quality of repurchase receivables balances at 31 December 2017 is as follows:

In millions of RR	**Perpetual corporate bonds**
Neither past due nor impaired	
B- rated	798
Total neither past due nor impaired debt securities classified as repurchase receivables	**798**

12 Repurchase Receivables (Continued)

The following table explains the changes in the credit loss allowance and gross carrying amount for securities at FVOCI classified as repurchase receivables for the year ended 31 December 2018:

	Credit loss allowance				Gross carrying amount			
In millions of RR	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit impair-red)**	**Total**	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit impair-red)**	**Total**
At 1 January 2018	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Movements with impact on credit loss allowance charge:								
New originated or purchased	3	-	-	3	1,043	-	-	1,043
Foreign exchange gains	-	-	-	-	202	-	-	202
Interest income accrued	-	-	-	-	49	-	-	49
Interest received	-	-	-	-	(52)	-	-	(52)
Total movements with impact on credit loss allowance charge	**3**	**-**	**-**	**3**	**1,242**	**-**	**-**	**1,242**
At 31 December 2018	**3**	**-**	**-**	**3**	**1,242**	**-**	**-**	**1,242**

Refer to Note 16 for the related liabilities. Interest rate, maturity and geographical risk concentration analysis of repurchase receivables is disclosed in Note 34.

Refer to Note 39 for the disclosure of the fair value of each class of repurchase receivables. Securities at FVTPL and securities at FVOCI reclassified to repurchase receivables continue to be carried at fair value in accordance with accounting policies for these categories of assets.

13 Guarantee Deposits with Payment Systems

Guarantee deposits with payment systems represent funds put aside by the Group. As at 31 December 2018 and 2017 a guarantee deposit in favour of MasterCard was placed with Barclays Bank Plc London (A rated) and in favour of Visa was placed with United Overseas Bank Ltd. Singapore (AA - rated). As at 31 December 2018 the carrying value of guarantee deposits with payment systems was RR 4,603 million (2017: RR 3,660 million).

For the purpose of credit risk measurement guarantee deposits with payment systems balances are included in current based on credit risk grades as at 31 December 2018. Refer to Note 34 for the description of the Group's credit risk grading system.

For the purpose of ECL measurement guarantee deposits with payment systems balances are included in Stage 1. Guarantee deposits with payment systems are unsecured financial assets. The ECL for these balances represents an immaterial amount, therefore the Group did not create any credit loss allowance for guarantee deposits with payment systems. Refer to Note 34 for the ECL measurement approach. Interest rate, maturity and geographical risk concentration analysis are disclosed in Note 34.

14 Tangible Fixed and Intangible Assets

In millions of RR	Building	Equipment	Leasehold improve-ments	Vehicles	Total tangible fixed assets	Intangible assets, including goodwill
Cost						
At 31 December 2016	**4,016**	**1,285**	**458**	**39**	**5,798**	**2,848**
Additions	473	1,151	289	2	1,915	1,720
Disposals	(5)	(16)	-	-	(21)	(9)
At 31 December 2017	**4,484**	**2,420**	**747**	**41**	**7,692**	**4,559**
Additions	131	2,131	789	1	3,052	2,066
Disposals	-	(210)	-	-	(210)	-
At 31 December 2018	**4,615**	**4,341**	**1,536**	**42**	**10,534**	**6,625**
Depreciation and amortisation						
At 31 December 2016	**(10)**	**(741)**	**(368)**	**(23)**	**(1,142)**	**(1,028)**
Charge for the year (Note 28)	(38)	(311)	(66)	(5)	(420)	(476)
Disposals	-	10	-	-	10	1
At 31 December 2017	**(48)**	**(1,042)**	**(434)**	**(28)**	**(1,552)**	**(1,503)**
Charge for the year (Note 28)	(42)	(695)	(81)	(5)	(823)	(899)
Disposals	-	210	-	-	210	-
At 31 December 2018	**(90)**	**(1,527)**	**(515)**	**(33)**	**(2,165)**	**(2,402)**
Net book value						
At 31 December 2017	**4,436**	**1,378**	**313**	**13**	**6,140**	**3,056**
At 31 December 2018	**4,525**	**2,814**	**1,021**	**9**	**8,369**	**4,223**

Intangible assets in the amount of RR 774 million related to the software developments made by Tinkoff Software DC during the year ended 31 December 2018 (2017: RR 333 million).

Other intangible assets acquired during the year ended 31 December 2018 and 2017 mainly represent accounting software, retail banking software, insurance software, licenses and development of software including the license for insurance operations.

During 2018 the Group acquired more office building space for its own use for RR 131 million (2017: RR 473 million), VAT included.

15 Other Financial and Non-financial Assets

In millions of RR	31 December 2018	31 December 2017
Other Financial Assets		
Settlement of operations with plastic cards	12,694	10,280
Other receivables	2,948	689
Total Other Financial Assets	**15,642**	**10,969**
Other Non-Financial Assets		
Prepaid expenses	2,360	3,089
Other	664	168
Total Other Non-Financial Assets	**3,024**	**3,257**

Settlement of operations with plastic cards represents balances due from payment agents in respect of payments made by borrowers to reimburse credit card loans and to be settled within 3 days, therefore the Group did not recognise any credit loss allowance for settlement of operations with plastic cards. This amount includes prepayment to the payment systems for operations during Holiday period. Settlement of operations with plastic cards balances and other receivables are included in current risk grade as at 31 December 2018. Refer to Note 34 for the description of the Group's credit risk grading system.

For the purpose of ECL measurement settlement of operations with plastic cards balances and other receivables are included in Stage 1. The ECL for these balances represents an immaterial amount, therefore the Group did not recognise any credit loss allowance. Refer to Note 34 for the ECL measurement approach.

As at 31 December 2018 prepaid expenses consist of prepayments for marketing, IT support, security, TV advertising and ATM-service (2017: TV advertising, IT support, office rent). Other financial assets are not impaired and not past due as at 31 December 2017. Refer to Note 39 for the disclosure of the fair value of other financial assets. The maturity and geographical risk concentration analysis of amounts of other financial assets is disclosed in Note 34.

16 Due to Banks

In millions of RR	Note	31 December 2018	31 December 2017
Correspondent accounts and overnight placements of other banks		1,597	4
Sale and repurchase agreements with other banks	12	1,111	591
Total due to banks		**2,708**	**595**

Refer to Note 39 for the disclosure of the fair value of amounts due to banks. Interest rate, maturity and geographical risk concentration analysis of due to banks is disclosed in Note 34.

17 Customer Accounts

In millions of RR	Note	31 December 2018	31 December 2017
Individuals			
- Current/demand accounts		137,637	76,318
- Term deposits		100,227	77,377
SME			
- Current/demand accounts	33	41,702	23,705
Other legal entities			
- Current/demand accounts		552	533
- Term deposits		798	1,112
Total Customer Accounts		**280,916**	**179,045**

Refer to Note 39 for the disclosure of the fair value of customer accounts. Interest rate, maturity and geographical risk concentration analysis of customer accounts amounts is disclosed in Note 34. Information on related party balances is disclosed in Note 41.

18 Debt Securities in Issue

In millions of RR	Date of maturity	31 December 2018	31 December 2017
RR denominated bonds issued in April 2017	22 April 2022	5,067	5,061
EUR denominated ECP issued in December 2018	19 December 2019	2,392	-
USD denominated ECP issued in December 2018	19 December 2019	1,266	-
RR denominated bonds issued in June 2016	24 June 2021	784	2,989
RR denominated ECP issued in December 2018	19 December 2019	96	-
USD denominated ECP issued in December 2017	19 December 2018	-	2,769
Total Debt Securities in Issue		**9,605**	**10,819**

On 20 December 2018 the Group issued three tranches of Euro-Commercial Paper (ECP) denominated in USD, EUR and RR maturing on 19 December 2019. USD denominated ECP has a nominal value of USD 19 million at 4.25% coupon rate. EUR denominated ECP has a nominal value of USD 30.5 million at 1.25% coupon rate. RR denominated ECP has a nominal value of RR 105 million at 9.5% coupon rate.

On 20 December 2017 the Group issued USD denominated ECP with a nominal value of USD 50 million with a discount of 4% maturing on 19 December 2018. The Group redeemed all outstanding ECP of this issue at maturity.

On 28 April 2017 the Bank issued RR denominated bonds with a nominal value of RR 5,000 million at 9.65% coupon rate maturing on 22 April 2022.

On 30 June 2016 the Group issued RR denominated bonds with a nominal value of RR 3,000 million at 11.7% coupon rate maturing on 24 June 2021.

In January and December 2018 the Bank repurchased RR 2,214 million of outstanding RR denominated bonds issued in June 2016 at nominal value as part of the buy-back offers.

All RR denominated bonds issued by the Bank are traded on OJSC Moscow Exchange. Refer to Note 39 for the disclosure of the fair value of debt securities in issue. Interest rate, maturity and geographical risk concentration analysis of debt securities in issue are disclosed in Note 34.

19 Subordinated Debt

As at 31 December 2018 the carrying value of the subordinated debt was RR 20,644 million (31 December 2017: RR 22,001 million).

On 15 June 2017 the Group issued perpetual subordinated loan participation notes with a nominal value of USD 300 million with zero premium. The notes have no stated maturity. The Group has a right to repay the notes at its discretion starting from 15 September 2022 and they are repayable in case of certain events other than liquidation. The notes bear a fixed interest rate of 9.25% p.a. payable quarterly starting from 15 September 2017. Interest payments may be cancelled by the Group at any time.

On 6 December 2012 and 18 February 2013 the Group issued USD denominated subordinated bonds with a nominal value of USD 125 million with zero premium and USD 75 million at a premium of 7.0% respectively, at 14.0% coupon rate (applicable to both tranches) maturing on 6 June 2018. The Group redeemed all outstanding bonds of these issues at maturity.

During the year ended 31 December 2018 and before the maturity date the Bank repurchased USD 1.3 million outstanding principal amount at an average purchase price 101.63% of the bonds nominal value.

During the year ended 31 December 2017 the Bank repurchased USD 105 million outstanding principal amount at an average purchase price 110.32% of the bonds nominal value. As at 31 December 2017 USD 84 million outstanding principal amount remains in issue.

The net gains from repurchase of subordinated bonds for the year ended 31 December 2018 in the amount of RR 1 million are recognised in the consolidated statement of profit or loss and other comprehensive income (2017: losses in the amount of RR 619 million).

The claims of lenders against the Group in respect of the principal and interest on these bonds are subordinated to the claims of other creditors in accordance with the legislation of the Russian Federation.

The perpetual subordinated loan participation notes and subordinated bonds are traded on the Global Exchange Market. Interest rate, maturity and geographical risk concentration analysis of subordinated debt is disclosed in Note 34. Refer to Note 39 for the disclosure of the fair value of financial instruments.

20 Insurance Provisions

In millions of RR	**31 December 2018**	**31 December 2017**
Insurance Provisions		
Provision for unearned premiums	1,760	1,117
Loss provisions	1,099	723
Total Insurance Provisions	**2,859**	**1,840**

20 Insurance Provisions (Continued)

Movements in provision for unearned premiums for the year ended 31 December 2018 and 2017 are as follows:

	2018			2017		
In millions of RR	Gross provision	Reinsurer's share of provision	Provision net of reinsurance	Gross provision	Reinsurer's share of provision	Provision net of reinsurance
Provision for unearned premiums as at 1 January	**1,117**	**(1)**	**1,116**	**300**	**-**	**300**
Change in provision, gross	643	-	643	817	-	817
Change in reinsurers' share of provision	-	(2)	(2)	-	(1)	(1)
Provision for unearned premiums as at 31 December	**1,760**	**(3)**	**1,757**	**1,117**	**(1)**	**1,116**

Movements in loss provisions for the year ended 31 December 2018 and 2017 are as follows:

In millions of RR	OCP and IBNR	URP	Provision for claims handling expenses	Total loss provisions
Loss provisions as at 1 January 2017	**368**	**40**	**59**	**467**
Change in provision	150	115	63	328
Netting with deferred acquisition costs	-	(72)	-	(72)
Loss provisions as at 31 December 2017	**518**	**83**	**122**	**723**
Change in provision	447	(65)	3	385
Netting with deferred acquisition costs	-	(9)	-	(9)
Loss provisions as at 31 December 2018	**965**	**9**	**125**	**1,099**

21 Other Financial and Non-financial Liabilities

In millions of RR	31 December 2018	31 December 2017
Other Financial Liabilities		
Settlement of operations with plastic cards	4,904	5,271
Trade payables	3,189	2,538
Credit related commitments	2,041	-
Other	1,067	234
Total Other Financial Liabilities	**11,201**	**8,043**
Other Non-financial Liabilities		
Accrued administrative expenses	1,438	1,283
Taxes payable other than income tax	1,212	1,008
Other	791	505
Total Other Non-financial Liabilities	**3,441**	**2,796**

21 Other Financial and Non-financial Liabilities (Continued)

Settlements of operations with plastic cards include funds that were spent by customers of the Bank by usage of plastic cards but have not yet been compensated to payment systems by the Bank. Accrued administrative expenses are mainly represented by accrued staff costs.

Movements in the credit loss allowance for credit related commitments were as follows:

In millions of RR	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit im-paired)**	**Total**
At 1 January 2018	**1,701**	**22**	**-**	**1,723**
Movements with impact on credit loss allowance for credit related commitments charge for the year:				
New originated or purchased	893	-	-	893
Transfers:				
- to lifetime (from Stage 1 to Stage 2)	(23)	18	-	(5)
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	(53)	(7)	-	(60)
- recovered (from Stage 3 to Stage 2 and from Stage 2 to Stage 1)	5	(16)	-	(11)
Movements other than transfers and new originated or purchased loans	(499)	-	-	(499)
Total movements with impact on credit loss allowance for credit related commitments charge for the year	**323**	**(5)**	**-**	**318**
At 31 December 2018	**2,024**	**17**	**-**	**2,041**

The main movements in the table presented above are described as follows:

- new originated or purchased category represents the day one ECL for the undrawn part of the purchased loans and loans to new borrowers (for this particular product) before the first payment became due;
- transfers between Stage 1, 2 and 3 due to undrawn limits experiencing significant increases (or decreases) of credit risk or becoming credit-impaired in the period, and the consequent “step up” (or “step down”) between 12-month and Lifetime ECL. Transfers present the amount of credit loss allowance for loan commitments charged or recovered at the moment of transfer of a loan commitment among the respective stages;
- movements other than transfers and new originated or purchased loans category represents all other movements of ECL for loan commitments in particular related to changes in gross carrying amounts of associated loans, ECL model assumptions and other.

Interest rate, maturity and geographical risk concentration analysis of other financial liabilities is disclosed in Note 34. Refer to Note 39 for disclosure of fair value of other financial liabilities. Refer to Note 36 for analysis of loan commitments by credit risk grades.

22 Share Capital

In millions of RR except for the number of shares	Number of authorised shares	Number of outstanding shares	Ordinary shares	Share premium	Treasury shares	Total
At 1 January 2017	**190,479,500**	**182,638,825**	**188**	**8,623**	**(1,473)**	**7,338**
GDRs buy-back	-	-	-	-	(397)	(397)
GDRs and shares transferred under MLTIP	-	-	-	-	283	283
At 31 December 2017	**190,479,500**	**182,638,825**	**188**	**8,623**	**(1,587)**	**7,224**
Increase of number of authorised shares	1,291,266					
GDRs buy-back	-	-	-	-	(2,455)	(2,455)
GDRs and shares transferred under MLTIP	-	-	-	-	372	372
At 31 December 2018	**191,770,766**	**182,638,825**	**188**	**8,623**	**(3,670)**	**5,141**

In May 2018 the Company's shareholders approved a resolution to increase authorised share capital to USD 7,670,830.64 by the creation of 1,291,266 new undesignated ordinary shares of nominal value USD 0.04 each. As at 31 December 2018 the total number of authorised shares is 191,770,766 shares (31 December 2017: 190,479,500 shares) with a par value of USD 0.04 per share (31 December 2017: USD 0.04 per share).

As at 31 December 2018 and 2017 treasury shares represent GDRs of the Group repurchased from the market for the purposes permitted by Cyprus law including contribution to MLTIP.

During the year ended 31 December 2018 the Group purchased 2,094,126 GDRs at market price for RR 2,455 million (2017: 602,148 GDRs at market price for RR 397 million). Refer to Note 41.

Basic earnings per share are calculated by dividing the profit or loss attributable to owners of the Company by the weighted average number of ordinary shares in issue during the year, excluding treasury shares. For the purpose of calculating diluted earnings per share the Group considered the dilutive effect of share options granted under MLTIP. Refer to Note 41.

Earnings per share are calculated as follows:

In millions of RR	2018	2017
Profit for the year attributable to ordinary shareholders of the Company	27,088	19,019
Weighted average number of ordinary shares in issue used for basic earnings per ordinary share calculation (thousands)	176,425	176,303
Weighted average number of ordinary shares in issue used for diluted earnings per ordinary share calculation (thousands)	181,631	182,140
Basic earnings per ordinary share (expressed in RR per share)	**153.54**	**107.88**
Diluted earnings per ordinary share (expressed in RR per share)	**149.14**	**104.42**

Information on dividends is disclosed in Note 31.

23 Net margin

In millions of RR	Note	2018	2017
Interest income calculated using the effective interest rate method			
Loans and advances to customers, including:			
Credit card loans		63,218	53,596
Cash loans		4,029	1,083
POS loans		1,454	793
Loans to SME		68	-
Secured loans		41	-
Car loans		38	-
Debt securities and repurchase receivables at FVOCI	10, 12	5,753	-
Placements with other banks and non-bank credit organizations with original maturities of less than three months		440	510
Other interest income		-	68
Investment securities available for sale and repurchase receivables		-	3,267
Total Interest income calculated using the effective interest rate method		**75,041**	**59,317**
Other similar income			
Debt securities and repurchase receivables at FVTPL		456	224
Total Interest Income		**75,497**	**59,541**
Interest expense calculated using the effective interest rate method			
Customer accounts, including:			
Individuals			
- Current/demand accounts		5,922	4,165
- Term deposits		5,283	5,453
SME	33	800	421
Other legal entities		90	65
Subordinated debt		2,089	2,022
RR denominated bonds		706	682
Euro-Commercial Papers		124	3
Due to banks		92	13
Total Interest expense calculated using the effective interest rate method		**15,106**	**12,824**
Expenses on deposit insurance		1,174	641
Net margin		**59,217**	**46,076**

24 Fee and Commission Income and Expense

In millions of RR	2018	2017
Fee and commission income		
SME current accounts commission	6,943	3,003
Credit protection fee	5,601	4,211
Merchant acquiring commission	4,162	2,416
Interchange fee	3,046	1,683
SMS fee	2,256	1,341
Foreign currency exchange transactions fee	1,785	992
Card to card commission	1,279	555
Cash withdrawal fee	885	606
Mortgage agency fee	419	100
Brokerage operations	210	87
Income from MVNO services	186	-
Placement fee	167	167
Marketing services fee	108	-
Other fees receivable	376	370
Total fee and commission income	**27,423**	**15,531**

SME current accounts commission represents commission for services to individual entrepreneurs and small to medium businesses. Credit protection fee income represents agency fee for providing voluntary credit insurance to borrowers of the Group. Merchant acquiring commission represents commission for processing card payments from online and offline points of sale.

In millions of RR	2018	2017
Fee and commission expense		
Payment systems	8,430	4,766
Service fees	1,429	726
Banking and other fees	456	126
Costs of MVNO services	246	-
Partnership fees	190	-
Total fee and commission expense	**10,751**	**5,618**

Payment systems fees represent fees for MasterCard and Visa services. Service fees represent fees for statement printing, mailing services and sms services.

Costs of MVNO services represent expenses for the traffic, telecommunications service and roaming.

Refer to Note 3 that describes the types of revenues recognized on a point in time basis and on the over time basis.

25 Customer Acquisition Expense

In millions of RR	2018	2017
Marketing and advertising	6,685	5,096
Staff costs	5,509	3,968
Credit bureaux	535	358
Telecommunication expenses	285	244
Other acquisition	86	53
Total customer acquisition expenses	**13,100**	**9,719**

25 Customer Acquisition Expense (Continued)

Customer acquisition expenses represent expenses paid by the Group on services related to origination of customers which are not directly attributable to the recognised assets and are not incremental. The Group uses a variety of different channels for the acquisition of new customers.

Staff costs represent salary expenses and related costs of employees directly involved in customer acquisition. Included in staff costs are statutory social contributions to the state non-budgetary funds and statutory pension contributions in the amount of RR 1,341 million for the year ended 31 December 2018 (2017: RR 949 million).

26 Net Gains from Operations with Foreign Currencies

In millions of RR	**2018**	**2017**
Net gains/(losses) from derivative revaluation	1,784	(652)
Foreign exchange translation (losses)/gains	(2,155)	501
Net gains/(losses) from trading in foreign currencies	381	(105)
Net gains/(losses) from operations with foreign currencies	**10**	**(256)**

27 Insurance Claims Incurred

In millions of RR	**2018**	**2017**
Claims paid	1,409	516
Change in loss provision	416	256
Claims handling expenses	143	43
Total insurance claims incurred	**1,968**	**815**

Staff and administrative expenses for insurance operations are included in Note 28.

28 Administrative and Other Operating Expenses

In millions of RR	**Note**	**2018**	**2017**
Staff costs		15,602	11,430
Taxes other than income tax and levies		2,514	1,779
Amortization of intangible assets	14	899	476
Depreciation of fixed assets	14	823	420
Operating lease expense for premises and equipment		651	441
Information services		570	441
Communication services		402	324
Professional services		333	212
Stationery		263	187
Security expenses		171	134
Collection expenses		168	63
Other provisions		158	-
Other administrative expenses		469	299
Total administrative and other operating expenses		**23,023**	**16,206**

28 Administrative and Other Operating Expenses (Continued)

The total fees charged by the Company's statutory auditor for the statutory audit of the annual consolidated and separate financial statements of the Company for the year ended 31 December 2018 amounted to RR 2.7 million (2017: RR 2.1 mln). The total fees charged by the Company's statutory auditor for the year ended 31 December 2018 for other assurance services amounted to RR 4.7 million (2017: RR 3.8 million), for tax advisory services amounted to RR 5.7 million (2017: RR 1.1 million) and for other non-assurance services amounted to nil (2017: RR 1.7 million).

Included in staff costs are statutory social contributions to the non-budget funds and statutory pension contributions and share-based remuneration:

In millions of RR	**2018**	**2017**
Statutory social contribution to the non-budget funds and statutory pension contributions	2,582	1,721
Share-based remuneration	630	1,037

The average number of employees employed by the Group during the reporting year, including those who are working under civil contracts, was 21,577 (2017: 15,391).

29 Other Operating Income

In millions of RR	**2018**	**2017**
Income from marketing services	2,060	956
Subrogation fee	122	41
Other	788	223
Total other operating income	**2,970**	**1,220**

30 Income Taxes

Income tax expense comprises the following:

In millions of RR	**2018**	**2017**
Current tax	4,639	5,479
Deferred tax	3,463	483
Total income tax expense	**8,102**	**5,962**

The income tax rate applicable to the majority of the Group’s income is 20% (2017: 20%). The operations of the Group are subject to multiple tax jurisdictions. The income tax rate applicable to the Russian subsidiaries of the Company is 20%. The income tax rate applicable to the Company registered in Cyprus is 12.5% (2017: 12.5%).

30 Income Taxes (Continued)

A reconciliation between the expected and the actual taxation charge is provided below.

In millions of RR	2018	2017
Profit before tax	**35,224**	**24,985**
Theoretical tax expense at statutory rate of 20% (2017: 20%)	7,045	4,997
Tax effect of items, which are not deductible or assessable for taxation purposes:		
- Non-deductible expenses	311	370
- Other including dividend tax	740	549
Unrecognised tax losses	177	-
Effects of different tax rates:		
- Income on government securities taxed at different rates	(165)	-
- Results of companies of the Group taxed at different statutory rates	(6)	46
Income tax expenses for the year	**8,102**	**5,962**

Differences between IFRS and taxation regulations in Russia and other countries give rise to temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and their tax bases. As all of the Group's temporary differences arise in Russia, the tax effect of the movements in these temporary differences is detailed below and is recorded at the rate of 20% (2017: 20%).

In the context of the Group's current structure and Russian tax legislation, tax losses and current tax assets of different group companies may not be offset against current tax liabilities and taxable profits of other group companies and, accordingly.

Therefore, deferred tax assets and liabilities are offset only when they relate to the same taxable entity and the same taxation authority.

In millions of RR	**31 December 2017**	**(Charged)/ credited to profit or loss**	**Credited directly to equity**	**Credited to OCI**	**31 December 2018**
Tax effect of deductible and taxable temporary differences					
Loans and advances to customers	223	(1,636)	2,109	-	696
Tangible fixed assets	(344)	(257)	-	-	(601)
Intangible assets	(312)	27	-	-	(285)
Revaluation of debt investment at FVOCI	(327)	(827)	-	667	(487)
Revaluation of debt investment at FVTPL	-	1	-	-	1
Accrued expenses and other temporary differences	(199)	(919)	345	-	(773)
Customer accounts	(30)	9	-	-	(21)
Debt securities in issue	(55)	15	-	-	(40)
Financial derivatives	(435)	111	-	-	(324)
Insurance provisions	-	13	-	-	13
Net deferred tax liabilities	**(1,479)**	**(3,463)**	**2,454**	**667**	**(1,821)**

30 Income Taxes (Continued)

In millions of RR	31 December 2016	(Charged)/credited to profit or loss	Charged to OCI	31 December 2017
Tax effect of deductible and taxable temporary differences				
Loans and advances to customers	318	(95)	-	223
Tangible fixed assets	(246)	(98)	-	(344)
Intangible assets	(353)	41	-	(312)
Revaluation of investment securities available for sale and repurchase receivables	(140)	24	(211)	(327)
Securities at fair value through profit or loss	(1)	1	-	-
Accrued expenses and other temporary differences	226	(425)	-	(199)
Customer accounts	(39)	9	-	(30)
Debt securities in issue	(11)	(44)	-	(55)
Financial derivatives	(544)	109	-	(435)
Insurance provisions	5	(5)	-	-
Net deferred tax liabilities	**(785)**	**(483)**	**(211)**	**(1,479)**

31 Dividends

The movements in dividends during the year are as follows:

In millions of RR	2018	2017
Dividends payable at 1 January	**377**	**167**
Dividends declared during the year	12,265	8,279
Dividends paid during the year	(11,946)	(7,970)
Dividends paid under MLTIP after vesting date	(144)	(29)
Foreign exchange loss on dividends payable	208	(70)
Dividends payable at 31 December	**760**	**377**
Dividends per share declared during the year (in USD)	**1.07**	**0.77**
Dividends per share paid during the year (in USD)	**1.07**	**0.77**

Dividends declared during the year for the year ended 31 December 2018 in the table above represent dividends declared by the Board of Directors during the year ended 31 December 2018 decreased by RR 11 million of dividends on GDRs acquired by the Company from the market not for the purposes of existing MLTIP.

On 25 November 2018 the Board of Directors declared an interim dividend of RR 18.39 (USD 0.28) per share/per GDR amounting to RR 3,358 million (USD 51.1 million). Declared dividends were paid in USD in December 2018.

On 27 August 2018 the Board of Directors declared an interim dividend of RR 16.27 (USD 0.24) per share/per GDR amounting to RR 2,972 million (USD 43.9 million). Declared dividends were paid in USD in September 2018.

On 29 May 2018 the Board of Directors declared an interim dividend of RR 14.95 (USD 0.24) per share/per GDR amounting to RR 2,730 million (USD 43.8 million). Declared dividends were paid in USD in June 2018.

On 9 March 2018 the Board of Directors declared an interim dividend of RR 17.61 (USD 0.31) per share/per GDR amounting to RR 3,216 million (USD 56.6 million). Declared dividends were paid in USD in April 2018.

31 Dividends (Continued)

On 19 November 2017 the Board of Directors of the Group declared an interim dividend of RR 13.12 (USD 0.22) per share/per GDR amounting to RR 2,396 million (USD 40.2 million). At the same date a special interim dividend of RR 10.73 (USD 0.18) per share/per GDR amounting to RR 1,960 million (USD 32.9) million was declared. Declared dividends were paid in USD in December 2017.

On 28 August 2017 the Board of Directors of the Group declared an interim dividend of RR 11.83 (USD 0.20) per share/per GDR amounting to RR 2,161 million (USD 36.5 million). Declared dividends were paid in USD in September 2017.

On 29 May 2017 the Board of Directors of the Group declared a dividend of RR 9.65 (USD 0.17) per share/per GDR amounting to RR 1,762 million (USD 31.05 million). Declared dividends were paid in USD in June 2017.

Dividends were declared and paid in USD throughout the years ended 31 December 2018 and 2017.

Dividends payable at 31 December 2018 related to treasury shares acquired under MLTIP amounting to RR 760 million are included in other non-financial liabilities (2017: RR 377 million).

32 Reconciliation of liabilities arising from financing activities

The table below sets out an analysis of the Group's debt and the movements in the Group's debt for each of the periods presented. The debt items are those that are reported as financing in the consolidated statement of cash flows.

	Liabilities from financing activities			
In millions of RR	**Debt securities in issue**	**Perpetual subordinated bonds**	**Other subordinated debt**	**Total**
Net debt at 1 January 2017	**2,986**	**-**	**11,514**	**14,500**
Cash flows	7,819	17,109	(6,623)	18,305
Issue costs	-	(256)	-	(256)
Foreign exchange adjustments	-	262	(106)	156
Other non-cash movements	14	-	101	115
Net debt at 31 December 2017	**10,819**	**17,115**	**4,886**	**32,820**
Cash flows	(1,803)	(49)	(5,209)	(7,061)
Foreign exchange adjustments	580	3,553	382	4,515
Other non-cash movements	9	25	(59)	(25)
Net debt at 31 December 2018	**9,605**	**20,644**	**-**	**30,249**

33 Segment Analysis

Operating segments are components that engage in business activities that may earn revenues or incur expenses, whose operating results are regularly reviewed by the chief operating decision maker (CODM) and for which discrete financial information is available. The CODM is the person or group of persons who allocates resources and assesses the performance for the Group. The functions of CODM are performed by the Management of the Bank and the Management of the Insurance Company.

33 Segment Analysis (Continued)

Description of products and services from which each reportable segment derives its revenue

The Group is organised on the basis of 4 main business segments:

- Retail banking – representing customer current accounts, savings, deposits, investment savings products, custody, credit and debit cards, consumer loans and brokerage services to individuals.
- SME accounts services – representing customer current accounts, savings, deposits services to individual entrepreneurs and small to medium businesses.
- Insurance operations – representing insurance services provided to individuals.
- MVNO services - providing mobile services for both current Group's customers and others.

Factors that management used to identify the reportable segments

The Group's segments are strategic business units that focus on different services to the customers of the Group. They are managed separately because each business unit requires different marketing strategies and represents different types of businesses.

Measurement of operating segment profit or loss, assets and liabilities

The CODM reviews financial information prepared based on International financial reporting standards adjusted to meet the requirements of internal reporting. The CODM evaluates performance of each segment based on profit before tax.

Information about reportable segment profit or loss, assets and liabilities

Segment reporting of the Group's assets and liabilities as at 31 December 2018 is set out below:

In millions of RR	Retail banking	SME accounts services	Insurance operations	MVNO services	Elimina-tions	Total
Cash and cash equivalents	19,621	13,110	3,537	15	(2,481)	33,802
Mandatory cash balances with the CBRF	2,435	-	-	-	-	2,435
Due from other banks	-	-	776	-	-	776
Loans and advances to customers	199,513	330	386	-	(1,740)	198,489
Financial derivatives	1,710	-	-	-	-	1,710
Investments in debt securities	68,375	30,394	1,371	-	-	100,140
Repurchase receivables	1,182	-	-	-	-	1,182
Guarantee deposits with payment systems	4,603	-	-	-	-	4,603
Current income tax assets	1,104	-	-	-	-	1,104
Tangible fixed assets	8,280	-	-	89	-	8,369
Intangible assets	3,214	547	264	198	-	4,223
Other financial assets	15,316	173	542	46	(435)	15,642
Other non-financial assets	2,344	-	618	150	(88)	3,024
Total reportable segment assets	**327,697**	**44,554**	**7,494**	**498**	**(4,744)**	**375,499**
Due to banks	2,708	-	-	-	-	2,708
Customer accounts	242,092	41,702	-	1,344	(4,222)	280,916
Debt securities in issue	9,605	-	-	-	-	9,605
Financial derivatives	3	-	-	-	-	3
Current income tax liabilities	51	-	-	-	-	51
Deferred income tax liabilities	1,821	-	-	-	-	1,821
Subordinated debt	20,644	-	-	-	-	20,644
Insurance provisions	-	-	2,859	-	-	2,859
Other financial liabilities	9,746	-	1,711	213	(469)	11,201
Other non-financial liabilities	3,367	-	63	64	(53)	3,441
Total reportable segment liabilities	**290,037**	**41,702**	**4,633**	**1,621**	**(4,744)**	**333,249**

33 Segment Analysis (Continued)

Segment reporting of the Group's income and expenses for the year ended 31 December 2018 is set out below:

In millions of RR	Retail banking	SME accounts services	Insurance operations	MVNO services	Elimina-tions	Total
Revenues						
Interest income calculated using the effective interest rate method	73,105	1,807	250	-	(121)	75,041
Other similar income	456	-	-	-	-	456
Fee and commission income:						
- *SME current accounts commission*	-	6,943	-	-	-	6,943
- *Credit protection fee*	5,601	-	-	-	-	5,601
- *Merchant acquiring commission*	4,202	-	-	-	(40)	4,162
- *Interchange fee*	2,595	451	-	-	-	3,046
- *SMS fee*	2,256	-	-	-	-	2,256
- *Foreign currency exchange transactions fee*	1,576	209	-	-	-	1,785
- *Card to card commission*	1,279	-	-	-	-	1,279
- *Cash withdrawal fee*	885	-	-	-	-	885
- *Mortgage agency fee*	419	-	-	-	-	419
- *Brokerage operations*	210	-	-	-	-	210
- *Income from MVNO services*	-	-	-	239	(53)	186
- *Placement fee*	167	-	-	-	-	167
- *Marketing services fee*	108	-	-	-	-	108
- *Other fees receivable*	393	-	-	-	(17)	376
Timing of fee and commission income recognition:						
- At point in time	17,435	7,385	-	239	(110)	24,949
- Over time	2,256	218	-	-	-	2,474
Total fee and commission income	19,691	7,603	-	239	(110)	27,423
Net gains/(losses) from operations with foreign currencies	(6)	-	18	(2)	-	10
Net gains from disposals of debt securities at FVOCI	457	-	-	-	(79)	378
Insurance premiums earned	320	-	6,665	-	(311)	6,674
Net gain from repurchase of subordinated debt	1	-	-	-	-	1
Other operating income	2,784	39	202	4	(59)	2,970
Total revenues	**96,808**	**9,449**	**7,135**	**241**	**(680)**	**112,953**
Interest expense calculated using the effective interest rate method	(14,377)	(800)	-	(50)	121	(15,106)
Expenses on deposit insurance	(1,090)	(84)	-	-	-	(1,174)
Credit loss allowance for loans and advances to customers	(11,574)	(33)	-	-	-	(11,607)
Credit loss allowance for debt securities at FVOCI	(192)	-	-	-	-	(192)
Fee and commission expense	(9,434)	(1,125)	-	(246)	54	(10,751)
Customer acquisition expense	(10,012)	(2,429)	(772)	(254)	367	(13,100)
Net losses from debt instruments at FVTPL	(808)	-	-	-	-	(808)
Insurance claims incurred	-	-	(1,968)	-	-	(1,968)
Administrative and other operating expenses	(18,896)	(2,370)	(1,002)	(814)	59	(23,023)
Segment result	**30,425**	**2,608**	**3,393**	**(1,123)**	**(79)**	**35,224**

33 Segment Analysis (Continued)

Segment reporting of the Group's assets and liabilities as at 31 December 2017 is set out below:

In millions of RR	Retail banking	SME accounts services	Insurance operations	Elimina-tions	Total
Cash and cash equivalents	16,741	6,067	1,850	(808)	23,850
Mandatory cash balances with the CBRF	1,675	-	-	-	1,675
Due from other banks	256	-	521	-	777
Loans and advances to customers	140,245	-	-	-	140,245
Financial derivatives	2,424	-	-	-	2,424
Investment securities available for sale	53,974	17,500	202	-	71,676
Repurchase receivables	798	-	-	-	798
Current income tax assets	301	-	-	-	301
Guarantee deposits with payment systems	3,660	-	-	-	3,660
Tangible fixed assets	6,138	-	2	-	6,140
Intangible assets	2,391	370	295	-	3,056
Other financial assets	10,514	13	604	(162)	10,969
Other non-financial assets	3,084	-	208	(35)	3,257
Total reportable segment assets	**242,201**	**23,950**	**3,682**	**(1,005)**	**268,828**
Due to banks	595	-	-	-	595
Customer accounts	156,148	23,705	-	(808)	179,045
Debt securities in issue	10,819	-	-	-	10,819
Financial derivatives	240	-	-	-	240
Current income tax liabilities	25	-	-	-	25
Deferred income tax liabilities	1,429	-	50	-	1,479
Subordinated debt	22,001	-	-	-	22,001
Insurance provisions	-	-	1,840	-	1,840
Other financial liabilities	8,103	-	102	(162)	8,043
Other non-financial liabilities	2,808	-	23	(35)	2,796
Total reportable segment liabilities	**202,168**	**23,705**	**2,015**	**(1,005)**	**226,883**

Segment reporting of the Group's income and expenses for the year ended 31 December 2017 is set out below:

In millions of RR	Retail banking	SME accounts services	Insurance operations	Elimina-tions	Total
Revenues					
Interest income calculated using the effective interest rate method	58,294	945	116	(38)	59,317
Other similar income	224	-	-	-	224
Fee and commission income:					
- SME current accounts commission	-	3,003	-	-	3,003
- Credit protection fee	4,211	-	-	-	4,211
- Merchant acquiring commission	2,686	-	-	(270)	2,416
- Interchange fee	1,540	143	-	-	1,683
- SMS fee	1,341	-	-	-	1,341
- Foreign currency exchange transactions fee	911	81	-	-	992
- Card to card commission	555	-	-	-	555
- Cash withdrawal fee	606	-	-	-	606
- Mortgage agency fee	100	-	-	-	100
- Brokerage operations	87	-	-	-	87
- Placement fee	167	-	-	-	167
- Other fees receivable	397	-	-	(27)	370

33 Segment Analysis (Continued)

In millions of RR	Retail banking	SME accounts services	Insurance operations	Elimina-tions	Total
Timing of fee and commission income recognition:					
- At point in time	11,260	3,166	-	(297)	14,129
- Over time	1,341	61	-	-	1,402
Total fee and commission income	12,601	3,227	-	(297)	15,531
Net gains from investment securities available for sale	270	-	-	-	270
Insurance premiums earned	-	-	2,742	(7)	2,735
Other operating income	1,140	9	75	(4)	1,220
Total revenues	**72,529**	**4,181**	**2,933**	**(346)**	**79,297**
Interest expense calculated using the effective interest rate method	(12,441)	(421)	-	38	(12,824)
Expenses on deposit insurance	(612)	(29)	-	-	(641)
Provision for loan impairment	(7,614)	-	-	-	(7,614)
Fee and commission expense	(5,192)	(426)	-	-	(5,618)
Customer acquisition expense	(7,770)	(1,588)	(665)	304	(9,719)
Net losses from operations with foreign currencies	(251)	-	(5)	-	(256)
Net losses from repurchase of subordinated loan	(619)	-	-	-	(619)
Insurance claims incurred	-	-	(815)	-	(815)
Administrative and other operating expenses	(14,718)	(879)	(613)	4	(16,206)
Segment result	**23,312**	**838**	**835**	**-**	**24,985**

Depreciation charges for the year ended 2018 included in administrative and other operating expenses in the amount of RR 801 million and RR 1 million (2017: RR 415 million and RR 2 million) relate to the Bank and to the Insurance Company, correspondingly. Amortisation for 2018 included in the administrative and other operating expenses in the amount of RR 761 million and RR 64 million (2017: RR 403 million and RR 62 million) relate to the Bank and to the Insurance Company, correspondingly.

Reconciliation of reportable segment revenues, profit or loss, assets and liabilities

In millions of RR	2018	2017
Total revenues for reportable segments	113,633	79,643
Intercompany transactions	(680)	(346)
Total consolidated revenues	**112,953**	**79,297**

Total consolidated revenues comprise interest income calculated using the effective interest rate method, other similar income, fee and commission income, net gains from operations with foreign currencies, net gains from disposals of debt securities at FVOCI, insurance premiums earned and other operating income.

In millions of RR	2018	2017
Total reportable segment result	35,224	24,985
Profit before tax	**35,224**	**24,985**

33 Segment Analysis (Continued)

In millions of RR	31 December 2018	31 December 2017
Total reportable segment assets	380,243	269,833
Intercompany balances	(4,744)	(1,005)
Total consolidated assets	**375,499**	**268,828**

In millions of RR	31 December 2018	31 December 2017
Total reportable segment liabilities	337,993	227,888
Intercompany balances	(4,744)	(1,005)
Total consolidated liabilities	**333,249**	**226,883**

34 Financial Risk Management

The risk management function within the Group is carried out with respect to financial risks, operational risks and legal risks by the management of the Bank and Insurance Company. Financial risk comprises market risk (including currency risk, interest rate risk and other price risk), credit risk and liquidity risk. The primary function of financial risk management is to establish risk limits and to ensure that any exposure to risk stays within these limits. The operational and legal risk management functions are intended to ensure the proper functioning of internal policies and procedures in order to minimize operational and legal risks.

Credit risk. The Group exposes itself to credit risk, which is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to meet an obligation. Exposure to credit risk arises as a result of the Group's lending and other transactions with counterparties giving rise to financial assets. The Group grants retail loans and SME to customers across all regions of Russia, therefore its credit risk is broadly diversified. The management of the Group takes special measures to mitigate growing credit risk such as decreasing of credit limits for unreliable clients, diversifying of modes of work with overdue borrowers, toughening of scoring for the new borrowers etc., giving rise to financial assets and off-balance sheet credit-related commitments. The Group grants retail loans to customers across all regions of Russia, therefore its credit risk is broadly diversified. The management of the Group takes special measures to mitigate growing credit risk such as decreasing of credit limits for unreliable clients, diversifying of modes of work with overdue borrowers, toughening of scoring for the new borrowers etc.

The Group's maximum exposure to credit risk is reflected in the carrying amounts of financial assets in the consolidated statement of financial position. For financial guarantees issued, commitments to extend credit, undrawn credit lines, the maximum exposure to credit risk is the amount of the commitment (Note 36).

The Bank created a credit committee, which establishes general principles for lending to individual borrowers. According to these principles, the minimum requirements for potential customers are listed below:

- Citizenship of the Russian Federation;
- Age from 18 to 70, but not older than 70 y.o. at the time of loan repayment;
- Availability of a cell-phone;
- Permanent employment;
- Permanent income.

34 Financial Risk Management (Continued)

For cash loans, minimum requirements are listed below:

- The requested loan term is from 3 to 36 months;
- Cash loan volumes range between RR 50 thousand and RR 2,000 thousand.

For POS loans minimum requirements are listed below:

- The requested loan amount should exceed RR 3 thousand;
- The requested loan term is from 3 to 36 months;
- The amount of one POS loan does not exceed RR 100 thousand.

For secured loans minimum requirements are listed below:

- The requested loan secured with a car amount should be between RR 100 thousand and RR 3,000 thousand, loan term is from 3 months to 5 years. The requirement for the car is in good condition of driving with an age not more than 15 years;
- The requested loan secured with a real estate amount should be between RR 200 thousand and RR 15,000 thousand, loan term is from 3 months to 15 years. The requirement for the real estate is an apartment in the apartment building within the Russian Federation, and is free from any encumbrances.

For car loans minimum requirements are listed below:

- The requested loan term is from 1 to 5 years;
- Car loan volumes range between RR 100 thousand and RR 1,000 thousand;
- The requirement for the car is with an age not more than 18 years.

For loans to SME minimum requirements are listed below:

- The requested loan term is from 6 to 36 months;
- Car loan volumes range between RR 50 thousand and RR 2,000 thousand;

A credit decision process includes:

- Validation of the application data. The system checks the validity of the data provided (addresses, telephone numbers, age, if the applicant already uses any other products of the Bank);
- Phone verification of the application information about the potential customer, his/her employment, social and property status, etc. This step may be omitted for POS loans;
- Requesting of the previous credit history of the applicant from the three largest credit bureau in Russia – Equifax, UCB (United Credit Bureau) and NBCH (National Bureau of Credit Histories).
- Based on all available information, the credit score of the applicant is calculated and a final decision is made about the approval of the credit product;
- The approved loan amount, loan term and tariff plan are calculated depending on the score and declared income.

Management of the Group manages the credit risk on unused limits on credit cards in the following way:

a) if the credit card loan is overdue for more than 7 days, its account will be blocked till repayment;

b) if the borrower had lost his/her source of income, then borrower account might be blocked till verification of his/her new employment;

c) if borrower's loan debt burden in other banks is substantially bigger than at the time of loan origination or the credit quality of the borrower decreases significantly then the borrower's limit for credit might be reduced accordingly.

34 Financial Risk Management (Continued)

When a customer experiences serious difficulties with his/her current debt servicing, he/she may be offered loan restructuring. In this case the Bank stops accrual of interest, commissions and fines and the debt amount is restructured according to a fixed instalment payment plan with not more than 36 equal monthly payments. Another way of working with overdue loans is initiation of the state court process. This collection option statistically gives greater recovery than the sale of credit-impaired loans. Defaulted clients that could be subject to the court process are chosen by the Bank's Collection Department considering the following criteria:

a) the client's account balance was fixed, accrual of interest stopped;

b) information about the client is considered to be up to date;

c) the client denied restructuring program;

d) term of limitation of court actions has not expired;

e) court process is economically justified.

When loans become unrecoverable or not economically viable to pursue further collection efforts, the Collection Department may decide to sell these loans to a debt collection agency. The Collection Department considers the following criteria for credit-impaired loans qualifying for sale to external debt collection agencies:

a) loans remain unpaid after all collection procedures were performed (no payment during last 4-6 months);

b) the debtor cannot be either reached or found for the previous 4 months;

c) the debtor has no assets and there is no expectation he/she will have any in the future;

d) the debtor has died and there is no known estate or guarantor;

e) it is determined that it is not cost effective to continue collection efforts.

Credit risk grading system. For measuring credit risk and grading financial instruments except for loans and advances to customers by the level of credit risk, the Group applies risk grades estimated by external international rating agencies in case these financial instruments have risk grades estimated by external international rating agencies (using Fitch ratings and in case of their absence - Moody's or Standard & Poor's ratings adjusting them to Fitch's categories using a reconciliation table):

Master scale credit risk grade	Corresponding ratings of external international rating agency (Fitch)
Current	AAA to BB+
Monitor	BB to B+
Sub-standard	B, B-
Doubtful	CCC+ to CC-
Default	C, D-I, D-II

Each master scale credit risk grade is assigned a specific degree of creditworthiness:

- *Current* – strong credit quality with low expected credit risk;
- *Monitor* – adequate credit quality with a moderate credit risk;
- *Sub-standard* – moderate credit quality with a satisfactory credit risk;
- *Doubtful* – facilities that require closer monitoring and remedial management; and
- *Default* – facilities in which a default has occurred.

34 Financial Risk Management (Continued)

For measuring credit risk and grading loans and advances to customers, credit related commitments and those financial instruments which do not have risk grades estimated by external international rating agencies, the Group applies risk grades and the corresponding range of probabilities of default (PD):

Master scale credit risk grade	Corresponding interval
Current	Non-overdue
Monitor	1-30 days overdue for all types of loans or without first due date for credit card loans
Sub-standard	31-90 days overdue or restructured loans 0-90 days overdue
NPL	90+ days overdue

Each master scale credit risk grade is assigned a specific degree of creditworthiness:

- *Current* – strong credit quality with low expected credit risk;
- *Monitor* – adequate credit quality with a moderate credit risk and credit cards loans before the first due date;
- *Sub-standard* – low credit quality with a substantial credit risk, includes restructured loans that are less than 90 days overdue;
- *NPL* – non-performing loans, credit-impaired loans more than 90 days overdue.

The rating models are regularly reviewed by the Credit Risk Department, backtested on actual default data and updated if necessary. Despite the method used, the Group regularly validates the accuracy of ratings estimates and appraises the predictive power of the models.

Expected credit loss (ECL) measurement – definitions and description of estimation techniques. *ECL* is a probability-weighted estimate of the present value of future cash shortfalls (i.e., the weighted average of credit losses, with the respective risks of default occurring in a given time period used as weights). ECL measurement is based on the following components used by the Group:

Default occurs when a financial asset is 90 days past due or less than 90 days overdue but with the final statement issued, i.e. the limit is closed, the balance is fixed, interest and commissions are no longer accrued.

Probability of Default (PD) – an estimate of the likelihood of default to occur over a given time period.

Exposure at Default (EAD) – an estimate of exposure at a future default date, taking into account expected changes in exposure after the reporting date, including repayments of principal and interest, and expected drawdowns on committed facilities.

Loss Given Default (LGD) – an estimate of the loss arising on default as a percentage of the EAD. It is based on the difference between the contractual cash flows due and those that the Group would expect to receive.

Discount Rate – a rate to discount an expected loss to its present value at the reporting date. The discount rate represents the effective interest rate (EIR) for the financial instrument or an approximation thereof.

Lifetime period – the maximum period over which ECL should be measured. For loans with fixed maturity, the lifetime period is equal to 20 months. For revolving facilities it is based on statistics of the average period between the moment of the loan falling into the Stage 2 until the write-off or attrition. Currently the Group estimates that this period equals to 4 years, though it is subject to periodical reassessment.

Lifetime ECL – losses that result from all possible default events over the remaining lifetime period of the financial instrument.

12-month ECL – the portion of lifetime ECLs that represent the ECLs resulting from default events on a financial instrument that are possible within 12 months after the reporting date that are limited by the remaining contractual life of the financial instrument.

34 Financial Risk Management (Continued)

Forward looking information – the information that includes the key macroeconomic variables impacting credit risk and expected credit losses for each portfolio segment. A pervasive concept in measuring ECL in accordance with IFRS 9 is that it should consider forward-looking information.

Credit Conversion Factor (CCF) – a coefficient that shows that the probability of conversion of an off-balance sheet amount to exposure on the consolidated statement of financial position within a defined period. It can be calculated for a 12-month or lifetime period. Based on the analysis performed, the Group considers that 12-month and lifetime CCFs are the same.

Purchased or originated credit-impaired (POCI) financial assets - financial assets that are credit-impaired upon initial recognition.

Default and credit-impaired assets – assets for which a default event has occurred.

The default definition stated above should be applied to all types of financial assets of the Group.

An instrument is considered to no longer be in default (i.e. to have “cured”) when it no longer meets any of the default criteria.

Significant increase in credit risk (SICR) - the SICR assessment is performed on an individual basis for all financial assets by monitoring the triggers stated below. The criteria used to identify SICR are monitored and reviewed periodically for appropriateness by the Group’s Risk Management Department.

The Group considers a financial instrument to have experienced a SICR when one or more of the following quantitative, qualitative or backstop criteria have been met.

For interbank operations, bonds issued by banks and bonds issued by corporates and sovereigns:

- 30 days past due;
- award of risk grade “Doubtful”;
- decrease of assigned external rating by 2 notches, which corresponds to an approximate increase of PD by 2.5 times.

For credit card loans:

- 30 days past due; or
- threshold defined on an individual basis using existing scoring models: increase of the 12-month PD compared to 12-month PD estimated 18 months ago or as of the date of initial recognition (if it occurred less than 18 months ago) by 3 times or PD reaching 50% and above.

For all other loans:

- 30 days past due; or
- if the loans were past due for more than 30 days during the last 6 months or if the loans fell past due during the last 4 months more than once.

If the SICR criteria are no longer met, the instrument will be transferred back to Stage 1.

General principle of techniques applied

For non-POCI financial assets, ECLs are generally measured based on the risk of default over one of two different time periods, depending on whether or not the credit risk of the borrower has increased significantly since initial recognition.

This approach can be summarised in a three-stage model for ECL measurement:

- Stage 1 – a financial instrument that is not credit-impaired on initial recognition and its credit risk has not increased significantly since initial recognition, the loss allowance is based on 12-month ECLs;

34 Financial Risk Management (Continued)

- Stage 2 – if since the date, which was assumed to be the date of initial recognition is identified a SICR, the financial instrument is moved to Stage 2 but is not yet deemed to be credit-impaired, the loss allowance is based on lifetime ECLs;
- Stage 3 – if the financial instrument is credit-impaired or restructured, the financial instrument is then moved to Stage 3 and the loss allowance is based on lifetime ECLs.

ECL for POCI financial assets is always measured on a lifetime basis (Stage 3), so at the reporting date, the Group only recognises the cumulative changes in lifetime expected credit losses.

The Group carries out two separate approaches for ECL measurement:

- for loans and advances to customers: assessment on a portfolio basis: internal ratings are estimated on an individual basis but the same credit risk parameters (e.g. PD, LGD) are applied during the process of ECL calculations for the same credit risk ratings and homogeneous segments of the loan portfolio;
- for all other financial assets except FVTPL: assessment based on external ratings.

The Group performs an assessment on a portfolio basis for the retail loans. This approach incorporates aggregating the portfolio into homogeneous segments based on borrower-specific information, such as delinquency, the historical data on losses and other.

Principles of assessment on portfolio basis – to assess the staging of exposure and to measure a loss allowance on a collective basis, the Group combines its exposures into segments on the basis of shared credit risk characteristics, such as that exposures to risk within a group are homogeneous.

Examples of shared characteristics include: type of customer, product type, credit risk rating, date of initial recognition, overdue level and repayment statistics.

The different segments reflect differences in PD. The appropriateness of groupings is monitored and reviewed on a periodic basis by the Risk Management Department.

In general, ECL is the multiplication of the following credit risk parameters: EAD, PD and LGD (definitions of the parameters are provided above). The general approach used for ECL calculation is stated below.

$$ECL = PD_{t_i} \cdot EAD_{t_i} \sum_{i=0}^{N-1} \frac{LGD_{t_i}}{(1+EIR)^{t_i}})$$

where:

PD_{t_i} – probability of default in moment t_i (can't be higher than 100%);

EAD_{t_i}- exposure at default in moment t_i;

LGD_{t_i}- loss given default in moment t_i;

t_i – number of months in the loan's lifetime;

EIR – effective interest rate;

N – remaining amount of payments.

The ECL is determined by predicting credit risk parameters (EAD, PD and LGD) for each future month during the lifetime period for each exposure or segment. These three components are multiplied together. This effectively calculates an ECL for each future month, which is then discounted back to the reporting date and summed up. The discount rate used in the ECL calculation is the effective interest rate or an approximation thereof.

34 Financial Risk Management (Continued)

The EADs are determined based on the expected payment profile, on an individual basis. For revolving products, the EAD is predicted by taking the current withdrawn balance and adding a "credit conversion factor" that accounts for the expected drawdown of the remaining limit of utilised loans by the time of default. These assumptions vary by product type, current limit utilisation and other borrower-specific behavioral characteristics. For other products EAD is equal to current exposure as there is no credit limit to utilize.

Two types of PDs are used for calculating ECLs: 12-month and lifetime PD:

- 12-month PDs – the estimated probability of a default occurring within the next 12 months. This parameter is used to calculate 12-month ECLs. An assessment of a 12-month PD is based on the latest available historic default data using borrower-specific behavioural characteristics and adjusted for forward-looking information when appropriate. Based on borrower-specific PDs the exposures are allocated to segments to which average PD for the segment is applied.
- Lifetime PDs – the estimated probability of a default occurring over the remaining life of the financial instrument. This parameter is used to calculate lifetime ECLs for Stage 2 and Stage 3 exposures. An assessment of a lifetime PD is based on the latest available historic default data using product specific lifetime periods defined above. To calculate Lifetime PD, the Group developed lifetime PD curves based on the 12-month PD data.

LGD represents the Group's expectation of the extent of loss on a defaulted exposure. For credit card loans, cash loans and POS loans LGDs are calculated on portfolio basis based on recovery statistics of defaulted loans over the period of 24 or 36 months. For secured loans, car loans and loans to SME LGDs are calculated using current market data in relation to the expected recoveries.

ECL measurement for loan commitments. The ECL measurement for these instruments includes the same steps as described above for on-balance sheet exposures and differs with respect to EAD calculation. The EAD is a product of credit conversion factor ("CCF") and amount of the commitment. CCF for undrawn credit limits of credit cards and overdrafts is defined based on statistical analysis of exposures at default.

Principles of assessment based on external ratings – the principles of ECL calculations based on external ratings are the same as for their assessment on a portfolio basis. Credit risk parameters (PD and LGD) are taken from the default and recovery statistics published by international rating agencies (Fitch and in case of their absence - Moody's or Standard & Poor's).

Forward-looking information incorporated in the ECL models. The calculation of ECLs incorporates forward-looking information. The Group has performed historical analysis and identified the key economic variables impacting credit risk and ECLs for each portfolio. The list of variables:

- Russian stock market index MOEX;
- Debt load of Russian population based on statistics from bureaus of credit history.

The impact of these economic variables on the ECL has been determined by performing statistical regression analysis in order to understand the way how changes in these variables historically impacted default rates. Three different scenarios are used: base, optimistic and pessimistic. The scenarios are weighted accordingly with base scenario having the highest weight and with optimistic and pessimistic scenarios having approximately equal weights. If a 100% weight is applied to any of the scenarios the effect on the ECL shall not be material.

Backtesting – the Group regularly reviews its methodology and assumptions to reduce any difference between the estimates and the actual loss of credit. Such backtesting is performed on a quarterly basis.

The results of backtesting the ECL measurement methodology are communicated to Group Management and further steps for refining models and assumptions are defined after discussions between authorised persons.

Market risk. The Group takes on exposure to market risks. Market risks of the Group arise from open positions in (a) currency and (b) interest rate, both of which are exposed to general and specific market movements. Management sets limits on the value of risk that may be accepted, which is monitored on a daily basis. However, the use of this approach does not prevent losses outside of these limits in the event of more significant market movements.

34 Financial Risk Management (Continued)

Currency risk. In respect of currency risk, the management sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily.

The table below summarizes the Group's exposure to foreign currency exchange rate risk at the end of the year:

	At 31 December 2018				At 31 December 2017			
In millions of RR	Non-derivative monetary financial assets	Non-derivative monetary financial liabilities	Derivatives	Net position	Non-derivative monetary financial assets	Non-derivative monetary financial liabilities	Derivatives	Net position
RR	307,617	(264,073)	(5,283)	38,261	220,246	(174,842)	(10,200)	35,204
USD	37,550	(47,539)	7,245	(2,744)	26,082	(40,046)	13,565	(399)
Euro	11,318	(13,773)	(233)	(2,688)	6,837	(5,851)	(1,186)	(200)
GBP	571	(586)	(22)	(37)	485	(487)	5	3
Others	13	(202)	-	(189)	-	-	-	-
Total	**357,069**	**(326,173)**	**1,707**	**32,603**	**253,650**	**(221,226)**	**2,184**	**34,608**

Derivatives presented above are monetary financial assets or monetary financial liabilities, but are presented separately in order to show the Group's gross exposure. Amounts disclosed in respect of derivatives represent the fair value, at the end of the reporting period, of the respective currency that the Group agreed to buy (positive amount) or sell (negative amount) before netting of positions and payments with the counterparty. The amounts by currency are presented gross as stated in Note 38. The net total represents the fair value of the currency derivatives. The above analysis includes only monetary assets and liabilities.

The following table presents sensitivities of profit or loss and equity to reasonably possible changes in exchange rates applied at the end of the reporting period, with all other variables held constant:

	At 31 December 2018		At 31 December 2017	
In millions of RR	Impact on profit or loss	Impact on equity (pre-tax)	Impact on profit or loss	Impact on equity (pre-tax)
USD strengthening by 20% (2017: by 20%)	(549)	(549)	(80)	(80)
USD weakening by 20% (2017: by 20%)	549	549	80	80
Euro strengthening by 20% (2017: by 20%)	(538)	(538)	(40)	(40)
Euro weakening by 20% (2017: by 20%)	538	538	40	40
GBP strengthening by 20% (2017: by 20%)	(7)	(7)	1	1
GBP weakening by 20% (2017: by 20%)	7	7	(1)	(1)

The exposure was calculated only for monetary balances denominated in currencies other than the functional currency of the respective entity of the Group.

Interest rate risk. The Group 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. Management monitors on a daily basis and sets limits on the level of mismatch of interest rate repricing that may be undertaken.

34 Financial Risk Management (Continued)

The table below summarizes the Group's exposure to interest rate risks. The table presents the aggregated amounts of the Group's financial assets and liabilities at carrying amounts, categorized by the earlier of contractual interest repricing or maturity dates:

In millions of RR	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	From 1 to 3 years	More than 3 years	Total
31 December 2018						
Total financial assets	103,449	124,541	35,930	31,883	62,976	358,779
Total financial liabilities	(200,101)	(56,301)	(40,080)	(3,743)	(25,951)	(326,176)
Net interest sensitivity gap at 31 December 2018	**(96,652)**	**68,240**	**(4,150)**	**28,140**	**37,025**	**32,603**
31 December 2017						
Total financial assets	72,944	89,477	24,809	20,370	48,474	256,074
Total financial liabilities	(115,982)	(44,828)	(28,355)	(7,040)	(25,261)	(221,466)
Net interest sensitivity gap at 31 December 2017	**(43,038)**	**44,649**	**(3,546)**	**13,330**	**23,213**	**34,608**

The Group has no significant risk associated with variable interest rates on loans and advances provided to customers or loans received.

At 31 December 2018, if interest rates at that date had been 200 basis points lower/higher (2017: 200 points lower), with all other variables held constant, profit for the year would have been RR 652 million (2017: RR 692 million) lower/higher, equity would have been RR 652 million (2017: RR 692 million) lower/higher.

The Group monitors interest rates for its financial instruments. The table below summarizes interest rates for the years 2018 and 2017 based on reports reviewed by key management personnel. For securities, the interest rates represent yields to maturity based on market quotations at the reporting date:

	2018				2017			
In % p.a.	RR	USD	EURO	GPB	RR	USD	EURO	GPB
Assets								
Cash and cash equivalents	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Loans and advances to customers	42.7	-	-	-	45.5	-	-	-
Due from banks	5.9	-	-	-	6.1	1.3	-	-
Investment in debt securities	8.5	4.5	3.2	-	-	-	-	-
Investment Securities available for sale	-	-	-	-	8.3	4.7	3.4	-
Repurchase receivables	7.4	4.3	-	-	-	10.9	-	-
Liabilities								
Due to banks	7.0	2.4	-	-	0.0	2.5	-	-
Customer accounts	5.2	0.9	0.4	0.3	6.6	1.8	1.8	4.5
Debt securities in issue	9.9	4.4	1.4	-	10.8	4.2	-	-
Subordinated debt	-	10.0	-	-	-	11.1	-	-

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

34 Financial Risk Management (Continued)

Other price risk. The Group is exposed to prepayment risk through providing fixed rate loans, which give the borrower the right to repay the loans early. The Group's current year profit and equity at the end of the current reporting period would not have been significantly impacted by changes in prepayment rates because such loans are carried at amortised cost and the prepayment right is at or close to the amortised cost of the loans and advances to customers (2017: no material impact).

Geographical risk concentrations. The geographical concentration of the Group's financial assets and liabilities at 31 December 2018 is set out below:

In millions of RR	**Russia**	**OECD**	**Other Non-OECD**	**Listed**	**Total**
Financial assets					
Cash and cash equivalents	31,911	1,891	-	-	33,802
Mandatory cash balances with the CBRF	2,435	-	-	-	2,435
Due from other banks	776	-	-	-	776
Loans and advances to customers	198,489	-	-	-	198,489
Financial derivatives	1,710	-	-	-	1,710
Investment in debt securities	100,126	-	14	-	100,140
Repurchase receivables	1,182	-	-	-	1,182
Guarantee deposits with payment systems	168	4,435	-	-	4,603
Other financial assets	8,212	7,430	-	-	15,642
Total financial assets	**345,009**	**13,756**	**14**	**-**	**358,779**
Financial liabilities					
Due to banks	2,708	-	-	-	2,708
Customer accounts	280,118	-	798	-	280,916
Debt securities in issue	3,754	-	-	5,851	9,605
Financial derivatives	3	-	-	-	3
Subordinated debt	-	-	-	20,644	20,644
Insurance provisions	1,099	-	-	-	1,099
Other financial liabilities	11,018	183	-	-	11,201
Total financial liabilities	**298,700**	**183**	**798**	**26,495**	**326,176**
Unused limits on credit card loans (Note 36)	**110,478**	**-**	**-**	**-**	**110,478**

34 Financial Risk Management (Continued)

The geographical concentration of the Group's financial assets and liabilities at 31 December 2017 is set out below:

In millions of RR	Russia	OECD	Other Non-OECD	Listed	Total
Financial assets					
Cash and cash equivalents	22,617	1,233	-	-	23,850
Mandatory cash balances with the CBRF	1,675	-	-	-	1,675
Due from other banks	777	-	-	-	777
Loans and advances to customers	140,245	-	-	-	140,245
Financial derivatives	1,207	1,217	-	-	2,424
Investment securities available for sale	71,664	-	12	-	71,676
Repurchase receivables	-	-	798	-	798
Guarantee deposits with payment systems	37	3,623	-	-	3,660
Other financial assets	5,695	5,274	-	-	10,969
Total financial assets	**243,917**	**11,347**	**810**	**-**	**256,074**
Financial liabilities					
Due to banks	4	-	591	-	595
Customer accounts	177,933	-	1,112	-	179,045
Debt securities in issue	2,769	-	-	8,050	10,819
Financial derivatives	240	-	-	-	240
Subordinated debt	-	-	-	22,001	22,001
Insurance provisions	723	-	-	-	723
Other financial liabilities	7,827	216	-	-	8,043
Total financial liabilities	**189,496**	**216**	**1,703**	**30,051**	**221,466**
Unused limits on credit card loans (Note 36)	**78,602**	**-**	**-**	**-**	**78,602**

Assets, liabilities and credit related commitments have been based on the country in which the counterparty is located. Cash on hand has been allocated based on the country in which they are physically held. Balances with Russian counterparties actually outstanding to/from offshore companies of these Russian counterparties, are allocated to the caption "Russia".

Other risk concentrations. Management monitors and discloses concentrations of credit risk by obtaining reports listing exposures to borrowers with aggregated loan balances in excess of 10% of net assets. The Group did not have any such significant risk concentrations at 31 December 2018 and 2017.

Liquidity risk. Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The Group is exposed to daily calls on its available cash resources from unused limits on issued credit cards, retail deposits from customers, current accounts and due to banks. The Group does not maintain cash resources to meet all of these needs as experience shows that only a certain level of calls will take place and it can be predicted with a high level of certainty. Liquidity risk is managed by the Financial Committee of the Bank. The Group seeks to maintain a stable funding base primarily consisting of amounts due to institutional investors, corporate and retail customer deposits and debt securities. The Group keeps all available cash in diversified portfolios of liquid instruments such as a correspondent account with CBRF and overnight placements in high-rated commercial banks, in order to be able to respond quickly and smoothly to unforeseen liquidity requirements. The available cash at all times exceeds all accrued financing costs falling due within half a year plus two months of regular operating costs.

The liquidity management of the Group requires consideration of the level of liquid assets necessary to settle obligations as they fall due; maintaining access to a range of funding sources; maintaining funding contingency plans; and monitoring balance sheet liquidity ratios against regulatory requirements.

34 Financial Risk Management (Continued)

The liquidity analysis takes into account the covenant requirements and ability of the Group to waive any potential breaches within the grace period. The Bank calculates liquidity ratios on a daily basis in accordance with the requirements of the CBRF. The Bank has complied with these ratios throughout 2018 and 2017. The CFO receives information about the liquidity profile of the financial assets and liabilities. This includes daily, weekly, monthly and quarterly updates on the level of credit card transactions and repayments, statistics on credit card issuance and credit card limit utilisation, inflow and outflow of retail deposits, changes in the investment securities portfolio, level of expected outflows such as operating costs and financing activities. The CFO then ensures the availability of an adequate portfolio of short-term liquid assets, made up of an amount on the correspondent account with the CBRF and overnight deposits with banks, to ensure that sufficient liquidity is maintained within the Group as a whole. Regular liquidity stress testing under a variety of scenarios covering both normal and more severe market conditions and credit card portfolio behavior is reviewed by the CFO.

The table below shows liabilities at 31 December 2018 by their remaining contractual maturity. The amounts of liabilities disclosed in the maturity table are the contractual undiscounted cash flows and gross loan commitments. Such undiscounted cash flows differ from the amount included in the consolidated statement of financial position because the consolidated statement of financial position amount is based on discounted cash flows. When the amount payable is not fixed, the amount disclosed is determined by reference to the conditions existing at the reporting date. Foreign currency payments are translated using the spot exchange rate at the end of the reporting period.

In millions of RR	**Demand and less than 1 month**	**From 1 to 3 months**	**From 3 to 6 months**	**From 6 to 12 months**	**More than 1 year**	**Total**
Liabilities						
Due to banks	2,708	-	-	-	-	2,708
Customer accounts	191,308	24,257	32,600	34,571	1,719	284,455
Debt securities in issue	55	106	162	4,175	5,906	10,404
Subordinated debt	167	320	493	998	20,865	22,843
Insurance provisions	213	422	217	156	91	1,099
Other financial liabilities	11,201	-	-	-	-	11,201
Financial derivatives	-	92	92	185	9,706	10,075
Unused limits on credit card loans (Note 36)	110,478	-	-	-	-	110,478
Total potential future payments for financial obligations	**316,130**	**25,197**	**33,564**	**40,085**	**38,287**	**453,263**

The maturity analysis of financial liabilities at 31 December 2017 is as follows:

In millions of RR	**Demand and less than 1 month**	**From 1 to 3 months**	**From 3 to 6 months**	**From 6 to 12 months**	**More than 1 year**	**Total**
Liabilities						
Due to banks	595	-	-	-	-	595
Customer accounts	110,655	19,400	21,635	27,445	3,250	182,385
Debt securities in issue	72	139	214	3,211	8,060	11,696
Subordinated debt	197	377	5,594	827	17,156	24,151
Insurance provisions	63	124	197	228	111	723
Other financial liabilities	8,043	-	-	-	-	8,043
Financial derivatives	19	104	3,433	185	10,075	13,816
Unused limits on credit card loans (Note 36)	78,602	-	-	-	-	78,602
Total potential future payments for financial obligations	**198,246**	**20,144**	**31,073**	**31,896**	**38,652**	**320,011**

34 Financial Risk Management (Continued)

Financial derivatives receivable and payable are disclosed in the Note 38. The tables above present only the gross payables.

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

The Group takes on exposure to liquidity risk, which is the risk of cash surplus in case of assets-liabilities cash-flow profile mismatch. Exposure to liquidity risk arises as a result of the Group's borrowing and operational activities that assume cash payment obligations. The Group uses daily, short-term and long-term reporting, stress-testing and forecasting practices to monitor and prevent potential liquidity problems. The Group is actively increasing the number of counterparties for interbank lending, looks for new wholesale markets, improves and creates additional debit and credit products to have more instruments over cash-flow management. The recent economic situation has resulted in increased liquidity risk. In response the management of the Group preserves cash safety cushions for possible cash outflows and has planned Group's liquidity position for the next year to ensure it can cover all upcoming payment obligations.

The expected maturity analysis of financial instruments at carrying amounts as monitored by management at 31 December 2018 is presented in the table below.

In millions of RR	**Demand and less than 1 month**	**From 1 to 3 months**	**From 3 to 6 months**	**From 6 to 12 months**	**From 1 to 5 years**	**Total**
Assets						
Cash and cash equivalents	33,802	-	-	-	-	33,802
Mandatory cash balances with the CBRF	1,602	66	106	298	363	2,435
Due from other banks	13	206	-	431	126	776
Loans and advances to customers	46,765	63,071	49,057	31,697	7,899	198,489
Financial derivatives	-	-	-	-	1,710	1,710
Investment in debt securities	100,140	-	-	-	-	100,140
Repurchase receivables	1,182	-	-	-	-	1,182
Guarantee deposits with payment systems	1,084	1,463	1,138	735	183	4,603
Other financial assets	15,542	63	21	11	5	15,642
Total financial assets	**200,130**	**64,869**	**50,322**	**33,172**	**10,286**	**358,779**
Liabilities						
Due to banks	2,708	-	-	-	-	2,708
Customer accounts	184,795	7,659	12,245	34,392	41,825	280,916
Debt securities in issue	-	-	274	4,027	5,304	9,605
Financial derivatives	-	-	-	-	3	3
Subordinated debt	-	114	-	-	20,530	20,644
Insurance provisions	213	422	217	156	91	1,099
Other financial liabilities	11,201	-	-	-	-	11,201
Total financial liabilities	**198,917**	**8,195**	**12,736**	**38,575**	**67,753**	**326,176**
Net liquidity gap at 31 December 2018	**1,213**	**56,674**	**37,586**	**(5,403)**	**(57,467)**	**32,603**
Cumulative liquidity gap at 31 December 2018	**1,213**	**57,887**	**95,473**	**90,070**	**32,603**	**-**

Provision for unearned premiums in the amount of RR 1,760 million is not included in the insurance provisions stated above. Refer to Note 20.

34 Financial Risk Management (Continued)

The expected maturity analysis of financial instruments at carrying amounts as monitored by management based on the revised approach at 31 December 2017 is as follows:

In millions of RR	Demand and less than 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	From 1 to 5 years	Total
Assets						
Cash and cash equivalents	23,041	809	-	-	-	23,850
Mandatory cash balances with the CBRF	978	63	80	204	350	1,675
Due from other banks	-	-	-	401	376	777
Loans and advances to customers	33,420	44,846	34,588	22,041	5,350	140,245
Financial derivatives	-	-	2,424	-	-	2,424
Investment securities available for sale	71,676	-	-	-	-	71,676
Repurchase receivables	798	-	-	-	-	798
Guarantee deposits with payment systems	872	1,170	903	575	140	3,660
Other financial assets	10,938	5	9	12	5	10,969
Total financial assets	**141,723**	**46,893**	**38,004**	**23,233**	**6,221**	**256,074**
Liabilities						
Due to banks	595	-	-	-	-	595
Customer accounts	104,562	6,705	8,597	21,780	37,401	179,045
Debt securities in issue	-	-	88	2,769	7,962	10,819
Financial derivatives	-	-	-	-	240	240
Subordinated debt	-	-	4,942	-	17,059	22,001
Insurance provisions	63	124	197	228	111	723
Other financial liabilities	8,043	-	-	-	-	8,043
Total financial liabilities	**113,263**	**6,829**	**13,824**	**24,777**	**62,773**	**221,466**
Net liquidity gap at 31 December 2017	**28,460**	**40,064**	**24,180**	**(1,544)**	**(56,552)**	**34,608**
Cumulative liquidity gap at 31 December 2017	**28,460**	**68,524**	**92,704**	**91,160**	**34,608**	**-**

Provision for unearned premiums in the amount of RR 1,117 million is not included in the insurance provisions stated above. Refer to Note 20.

As at the 31 December 2018 all the investment in debt securities (2017: investment securities available for sale) are classified within demand and less than one month as they are easy repoable in CBR or on the open market securities and can provide immediate liquidity to the Group. All current accounts of individuals are classified within demand and less than one month (2017: the same).

The allocation of deposits of individuals considers the statistics of autoprolongations and top-ups of longer deposits with the funds from shorter deposits after their expiration in case when the customers have more than one active deposit. The matching and/or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the Group. 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 Group and its exposure to changes in interest and exchange rates.

Management believes that in spite of a substantial portion of customer accounts being on demand, diversification of these deposits by number and type of depositors, and the past experience of the Group would indicate that these customer accounts provide a long-term and stable source of funding for the Group.

35 Management of Capital

The Group's objectives when managing capital are (i) for the Bank to comply with the capital requirements set by the Central Bank of Russian Federation (CBRF), (ii) for the Insurance Company to comply with the capital requirements set by the legislation of the Russian Federation, (iii) for the Group to comply with the financial covenants set by the terms of securities issued; (iv) to safeguard the Group's ability to continue as a going concern.

The Group considers total capital under management to be equity attributable to shareholders of the Company as shown in the consolidated statement of financial position. The amount of capital that the Group managed as of 31 December 2018 was RR 42,014 million (2017: RR 41,743 million).

Compliance with capital adequacy ratios set by the CBRF is monitored daily and submitted to the CBRF monthly with reports outlining their calculation reviewed and signed by the Bank's Chief Executive Officer and Chief Accountant. Other objectives of capital management are evaluated annually. The amount of regulatory capital of Tinkoff Bank calculated in accordance with the methodology set by CBRF as at 31 December 2018 was RR 74,375 million, and the equity capital adequacy ratio (N1.0) was 13.92% (31 December 2017: RR 59,640 million and 16.27%). Minimum required statutory equity capital adequacy ratio (N1.0) was 8% as at 31 December 2018 (2017: 8%).

The Group also monitors capital requirements including capital adequacy ratio under the Basel III methodology of the Basel Committee on Banking Supervision: global regulatory framework for more resilient banks and banking systems (hereinafter "Basel III"). The amounts of total capital and Tier 1 capital calculated in accordance with the methodology set by Basel Committee with capital adjustments as set out in Basel III as at 31 December 2018 were RR 58,435 million (2017: RR 56,046 million and RR 55,802 million respectively). Total capital adequacy ratio and Tier 1 capital adequacy ratio were 14.86% (2017: 21.10% and 21.00% respectively). The Group and the Bank have complied with all externally imposed capital requirements throughout the year ended 31 December 2018 and 2017.

The Insurance Company has complied with all capital requirements set by the Central Bank of Russian Federation throughout the year ended 31 December 2018 and 2017.

36 Contingencies and Commitments

***Legal proceedings*.** From time to time and in the normal course of business, claims against the Group may be received. On the basis of its own estimates and internal professional advice, management is of the opinion that no material unprovided losses will be incurred in respect of claims.

Tax contingencies. Russian tax legislation which was enacted or substantively enacted at the end of the reporting period, is subject to varying interpretations when being applied to the transactions and activities of the Group. Consequently, tax positions taken by management and the formal documentation supporting the tax positions may be challenged tax authorities. Russian tax administration is gradually strengthening, including the fact that there is a higher risk of review of tax transactions without a clear business purpose or with tax incompliant counterparties. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year when decision about review was made. Under certain circumstances reviews may cover longer periods. The Russian transfer pricing legislation is generally aligned with the international transfer pricing principles developed by the Organisation for Economic Cooperation and Development (OECD), although it has specific features. This legislation provides for the possibility of additional tax assessment for controlled transactions (transactions between related parties and certain transactions between unrelated parties), if such transactions are not on an arm's length.

Tax liabilities arising from controlled transactions are determined based on their actual transaction prices. It is possible, with the evolution of the interpretation of transfer pricing rules, that such transfer prices could be challenged. The impact of any such challenge cannot be reliably estimated; however, it may be significant to the financial position and/or the overall operations of the Group.

36 Contingencies and Commitments (Continued)

The Group includes companies incorporated outside of Russia. The tax liabilities of the Group are determined on the assumption that these companies are not subject to Russian profits tax, because they do not have a permanent establishment in Russia. The Company is a tax resident of Cyprus only and full beneficial owner of the Bank and Insurance Company. This interpretation of relevant legislation may be challenged but the impact of any such challenge cannot be reliably estimated currently; however, it may be significant to the financial position and/or the overall operations of the Group. The Controlled Foreign Company (CFC) legislation introduced Russian taxation of profits of foreign companies and non-corporate structures (including trusts) controlled by Russian tax residents (controlling parties). The CFC income is subject to a 20% tax rate if the CFC is controlled by a legal entity and a rate of 13% if it is controlled by an individual. As a result, management reassessed the Group's tax positions and recognised current tax expense as well as deferred taxes that arose from the expected taxable manner of recovery of the relevant Group's operations to which the CFC legislation applies to and to the extent that the Group (rather than its owners) is obliged to settle such taxes.

As Russian tax legislation does not provide definitive guidance in certain areas, the Group adopts, from time to time, interpretations of such uncertain areas that reduce the overall tax rate of the Group. While management currently estimates that the tax positions and interpretations that it has taken can probably be sustained, there is a possible risk that outflow of resources will be required should such tax positions and interpretations be challenged by the tax authorities. The impact of any such challenge cannot be reliably estimated; however, it may be significant to the financial position and/or the overall operations of the Group. As at 31 December 2018 and 2017 no material tax risks were identified.

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

In millions of RR	31 December 2018	31 December 2017
Not later than 1 year	829	305
Total operating lease commitments	**829**	**305**

Compliance with covenants. The Group is subject to certain covenants related primarily to its subordinated debt. Non-compliance with such covenants may result in negative consequences for the Group. Management believes that the Group was in compliance with all such covenants as at 31 December 2018 and 2017.

Credit related commitments. The primary purpose of these instruments is to ensure that funds are available to a customer as required. Commitments to extend credit represent unused portions of authorizations to extend credit in the form of credit card loans. With respect to credit risk on commitments to extend credit, the Group is potentially exposed to loss in an amount equal to the total unused commitments, if the unused amounts were to be drawn down. Most commitments to extend credit are contingent upon customers maintaining specific credit standards.

The Group monitors the term to maturity of credit related commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

Outstanding credit limits and related commitments are as follows:

In millions of RR	31 December 2018	31 December 2017
Unused limits on credit card loans	110,478	78,602
Credit loss allowance	(2,041)	-
Total credit related commitments, net of credit loss allowance	**108,437**	**78,602**

36 Contingencies and Commitments (Continued)

The total outstanding contractual amount of unused limits on contingencies and commitments liability does not necessarily represent future cash requirements, as these financial instruments may expire or terminate without being funded. In accordance with credit card service conditions the Group has a right to refuse the issuance, activation, reissuing or unblocking of a credit card, and is providing a credit card limit at its own discretion and without explaining its reasons.

The following table contains an analysis of credit related commitments by credit quality at 31 December 2018 based on credit risk grades. Refer to Note 21 for the movements in the credit loss allowance for credit related commitments. Refer to Note 34 for the description of credit risk grading system used by the Group and the approach to ECL measurement, including the definition of default and SICR as applicable to credit related commitments.

In millions of RR	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit impair-red)**	**Total**
Credit related commitments				
- Current	101,418	71	-	101,489
- Monitor	8,827	162	-	8,989
Unrecognised gross amount	**110,245**	**233**	**-**	**110,478**
Credit loss allowance	(2,024)	(17)	-	(2,041)
Unrecognised net amount	**108,221**	**216**	**-**	**108,437**

Also the Group may decide to increase or decrease a credit card limit using a scoring model, which is based on the client's behavior model. Credit related commitments are denominated in RR. Therefore, the fair value of the contractual amount of revocable unused limits on contingencies and commitments is close to zero.

Mandatory cash balances with the CBRF of RR 2,435 million (31 December 2017: RR 1,675 million) represent mandatory reserve deposits which are not available to finance the Bank's day to day operations.

37 Transfers of Financial Assets

Transfers that did not qualify for derecognition of the financial asset in its entirety.

The Group transferred financial assets in transactions that did not qualify for derecognition in the current periods.

Sale and repurchase transactions. At 31 December 2018, the Group has investments in debt securities represented by debt securities at FVOCI of RR 1,182 million (2017: RR 798 million) that are subject to obligation to repurchase the securities for a fixed pre-determined price. Refer to Note 12 for the carrying value of obligations from these sale and repurchase transactions.

37 Transfers of Financial Assets (Continued)

The following schedule summarises transfers where the entity continues to recognise all of the transferred financial assets. The analysis is provided by class of financial assets.

		31 December 2018		31 December 2017	
In millions of RR	**Notes**	**Carrying amount of the assets**	**Carrying amount of the associated liabilities**	**Carrying amount of the assets**	**Carrying amount of the associated liabilities**
Repurchase receivables	12, 16	1,182	1,111	798	591
Total		**1,182**	**1,111**	**798**	**591**

38 Financial Derivatives

The table below sets out fair values, at the end of the reporting period, of currencies receivable or payable under foreign exchange forwards and swap contracts entered into by the Group. The table reflects gross positions before the netting of any counterparty positions (and payments) and covers the contracts with settlement dates after the end of the respective reporting period.

	31 December 2018		31 December 2017	
In millions of RR	**Contracts with positive fair value**	**Contracts with negative fair value**	**Contracts with positive fair value**	**Contracts with negative fair value**
Foreign exchange forwards and swaps: fair values, at the end of the reporting period, of				
- USD receivable on settlement (+)	9,373	-	5,871	7,720
- USD payable on settlement (-)	(1,146)	(982)	(25)	(1)
- RR payable on settlement (-)	(7,666)	(596)	(3,285)	(7,979)
- RR receivable on settlement (+)	1,619	1,360	1,063	1
- EUR receivable on settlement (+)	-	596	3	14
- EUR payable on settlement (-)	(459)	(370)	(1,203)	-
- GBP receivable on settlement (+)	-	-	-	5
- GBP payable on settlement (-)	(11)	(11)	-	-
Net fair value of foreign exchange forwards and swaps	**1,710**	**(3)**	**2,424**	**(240)**

Included in financial derivatives held by the Group as at 31 December 2018 are three outstanding swap contracts with total positive fair value of RR 1,706 million which include reference to the default of the Bank (2017: one outstanding swap contract with positive fair value RR 1,207 million and two outstanding swaps contracts with total negative fair value of RR 240 million). Where there is a reference in the swap contract to default of the entity or the country the swap contract would be cancelled and all of the rights and obligations are terminated in the event of an actual default of this entity or the country.

39 Fair Value of Financial Instruments

Fair value measurements are analysed by level in the fair value hierarchy as follows: (i) level one are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities, (ii) level two measurements are valuation techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices), and (iii) level three measurements are valuations not based on observable market data (that is, unobservable inputs).

39 Fair Value of Financial Instruments (Continued)

(a) Recurring fair value measurements

Recurring fair value measurements are those that the accounting standards require or permit in the consolidated statement of financial position at the end of each reporting period. The levels in the fair value hierarchy into which the recurring fair value measurements are categorised are as follows:

	31 December 2018				31 December 2017			
In millions of RR	**Level 1**	**Level 2**	**Level 3**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets AT FAIR VALUE								
Financial derivatives	-	1,710	-	1,710	-	2,424	-	2,424
Investments in debt securities	100,140	-	-	100,140	-	-	-	-
Investment securities available for sale	-	-	-	-	71,676	-	-	71,676
Repurchase receivables	1,182	-	-	1,182	798	-	-	798
Total assets recurring fair value measurements	**101,322**	**1,710**	**-**	**103,032**	**72,474**	**2,424**	**-**	**74,898**
Liabilitles AT FAIR VALUE								
Financial derivatives	-	3	-	3	-	240	-	240
Total liabilities recurring fair value measurements	**-**	**3**	**-**	**3**	**-**	**240**	**-**	**240**

The description of valuation techniques and the description of the inputs used in the fair value measurement for level 2 measurements at 31 December 2018 are as follows:

In millions of RR	**Fair value**	**Valuation technique**	**Inputs used**
Assets AT FAIR VALUE			
Foreign exchange swaps and forwards	1,710	Discounted cash flows adjusted for counterparty credit risk	Russian rouble curve. USD Dollar Swaps Curve. CDS quotes assessment of counterparty credit risk or reference entities.
Total recurring fair value measurements at level 2	**1,710**		
Liabilities AT FAIR VALUE			
Foreign exchange swaps and forwards	3	Discounted cash flows adjusted for counterparty credit risk	Russian rouble curve. USD Dollar Swaps Curve. CDS quotes assessment of counterparty credit risk or reference entities.
Total recurring fair value measurements at level 2	**3**		

39 Fair Value of Financial Instruments (Continued)

The description of valuation techniques and the description of the inputs used in the fair value measurement for level 2 measurements at 31 December 2017 are as follows:

In millions of RR	Fair value	Valuation technique	Inputs used
Assets AT FAIR VALUE			
Foreign exchange swaps and forwards	2,424	Discounted cash flows adjusted for counterparty credit risk	Russian rouble curve. USD Dollar Swaps Curve. CDS quotes assessment of counterparty credit risk or reference entities.
Total recurring fair value measurements at level 2	**2,424**		
Liabilities AT FAIR VALUE			
Foreign exchange swaps and forwards	240	Discounted cash flows adjusted for counterparty credit risk	Russian rouble curve. USD Dollar Swaps Curve. CDS quotes assessment of counterparty credit risk or reference entities.
Total recurring fair value measurements at level 2	**240**		

There were no changes in the valuation techniques for level 2 recurring fair value measurements during the years ended 31 December 2018 and 2017. Level 2 derivatives comprise foreign exchange forwards and swaps.

The foreign exchange forwards have been fair valued using forward exchange rates that are quoted in an active market. Foreign exchange swaps are fair valued using forward interest rates extracted from observable yield curves. The effects of discounting are generally immaterial for level 2 derivatives.

(b) Assets and liabilities not measured at fair value but for which fair value is disclosed

Fair values analysed by level in the fair value hierarchy and carrying value of assets not measured at fair value are as follows:

	31 December 2018				31 December 2017			
In millions of RR	Level 1	Level 2	Level 3	Carrying value	Level 1	Level 2	Level 3	Carrying value
FINANCIAL ASSETS CARRIED AT AMORTISED COST								
Cash and cash equivalents								
- Cash on hand	5,839	-	-	5,839	2,941	-	-	2,941
- Cash balances with the CBRF (other than mandatory reserve deposits)	-	11,158	-	11,158	-	11,201	-	11,201
- Placements with other banks and non-bank credit organizations with original maturities of less than three months	-	16,805	-	16,805	-	9,708	-	9,708
Mandatory cash balances with the CBRF	-	2,435	-	2,435	-	1,675	-	1,675
Due from other banks	-	776	-	776	-	777	-	777
Loans and advances to customers	-	-	198,489	198,489	-	-	140,245	140,245
Guarantee deposits with payment systems	-	-	4,603	4,603	-	-	3,660	3,660
Other financial assets								
Settlement of operations with plastic cards receivable	-	12,694	-	12,694	-	10,280	-	10,280
Other receivables	-	2,948	-	2,948	-	689	-	689
Total financial assets carried at amortised cost	**5,839**	**46,816**	**203,092**	**255,747**	**2,941**	**34,330**	**143,905**	**181,176**

39 Fair Value of Financial Instruments (Continued)

Fair values analysed by level in the fair value hierarchy and carrying value of liabilities not measured at fair value are as follows:

In millions of RR	31 December 2018 Level 1	Level 2	Level 3	Carrying value	31 December 2017 Level 1	Level 2	Level 3	Carrying value
FINANCIAL LIABILITIES CARRIED AT AMORTISED COST								
Due to banks	-	2,708	-	2,708	-	595	-	595
Customer accounts								
Individuals								
-Current/demand accounts	-	137,637	-	137,637	-	76,318	-	76,318
-Term deposits	-	102,829	-	100,227	-	79,694	-	77,377
SME								
-Current/demand accounts	-	41,702	-	41,702	-	23,705	-	23,705
Other legal entities								
-Current/demand accounts		552		552	-	533	-	533
-Term deposits		847	-	798	-	1,223	-	1,112
Debt securities in issue								
RR Bonds issued on domestic market	5,919	-	-	5,851	8,213	-	-	8,050
Euro-Commercial Paper	-	3,754	-	3,754	-	2,769	-	2,769
Subordinated debt								
Perpetual subordinated bonds	20,505	-	-	20,644	18,389	-	-	17,115
Subordinated bonds	-	-	-	-	5,115	-	-	4,886
Other financial liabilities								
Settlement of operations with plastic cards	-	4,904	-	4,904	-	5,271	-	5,271
Trade payables	-	3,189	-	3,189	-	2,538	-	2,538
Credit related commitments	-	-	-	2,041	-	-	-	-
Other financial liabilities	-	1,067	-	1,067	-	234	-	234
Total financial liabilities carried at amortised cost	**26,424**	**299,189**	**-**	**325,074**	**31,717**	**192,880**	**-**	**220,503**

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

As at 31 December 2018 and 31 December 2017 the fair value of the debt securities in issue and subordinated debt has been calculated based on quoted prices from OJSC Moscow Exchange MICEX-RTS and Global Exchange Market, where the Group’s debt securities are listed and traded.

39 Fair Value of Financial Instruments (Continued)

Weighted average discount rates used in determining fair value as of 31 December 2018 and 31 December 2017 depend on currency:

In % p.a.	31 December 2018	31 December 2017
Assets		
Cash and cash equivalents	0.0	0.0
Due from other banks	5.9	5.6
Loans and advances to customers	42.7	45.5
Investment securities available for sale	-	5.8
Investments in debt securities	5.5	-
Repurchase receivables	4.3	10.9
Liabilities		
Due to banks	6.0	2.5
Customer accounts	4.4	5.3
Debt securities in issue	7.6	8.0
Subordinated debt	9.8	6.7

40 Presentation of Financial Instruments by Measurement Category

For the purposes of measurement, IFRS 9 "Financial Instruments" classifies financial assets into the following categories: (a) financial assets at FVTPL; (b) financial assets at FVOCI and (c) financial assets at AC. Financial assets at FVTPL have two sub-categories: (i) assets measured at FVTPL mandatorily, and (ii) assets designated as such upon initial recognition. In addition, finance lease receivables form a separate category.

The following table provides a reconciliation of classes of financial assets with these measurement categories as of 31 December 2018:

In millions of RR	AC	FVTPL (mandatory)	FVOCI	Total
Cash and cash equivalents				
- Cash on hand	5,839	-	-	5,839
- Cash balances with the CBRF (other than mandatory reserve deposits)	11,158	-	-	11,158
- Placements with other banks and non-bank credit organizations with original maturities of less than three months	16,805	-	-	16,805
Mandatory cash balances with the CBRF	2,435	-	-	2,435
Due from other banks	776	-	-	776
Loans and advances to customers	198,489	-	-	198,489
Financial derivatives	-	1,710	-	1,710
Guarantee deposits with payment systems	4,603	-	-	4,603
Investment in debt securities	-	5,666	94,474	100,140
Repurchase receivables	-	-	1,182	1,182
Other financial assets				
- Settlement of operations with plastic cards receivable	12,694	-	-	12,694
- Other receivables	2,948	-	-	2,948
TOTAL FINANCIAL ASSETS	**255,747**	**7,376**	**95,656**	**358,779**

For the purposes of measurement at 31 December 2017, IAS 39 "Financial Instruments" classifies financial assets into the following categories: (a) loans and receivables; (b) available-for-sale financial assets; (c) financial assets held to maturity and (d) financial assets at fair value through profit or loss ("FVTPL"). Financial assets at fair value through profit or loss have two subcategories: (i) assets designated as such upon initial recognition, and (ii) those classified as held for trading.

40 Presentation of Financial Instruments by Measurement Category (Continued)

The following table provides a reconciliation of classes of financial assets with these measurement categories as of 31 December 2017:

In millions of RR	Loans and receivables	Held for trading	Assets designated at FVTPL	Available-for-sale assets	Total
Cash and cash equivalents					
- Cash on hand	2,941	-	-	-	2,941
- Cash balances with the CBRF (other than mandatory reserve deposits)	11,201	-	-	-	11,201
- Placements with other banks and non-bank credit organizations with original maturities of less than three months	9,708	-	-	-	9,708
Mandatory cash balances with the CBRF	1,675	-	-	-	1,675
Due from other banks	777	-	-	-	777
Loans and advances to customers	140,245	-	-	-	140,245
Financial derivatives	-	2,424	-	-	2,424
Guarantee deposits with payment systems	3,660	-	-	-	3,660
Investment securities available for sale	-	-	-	71,676	71,676
Repurchase receivables	-	-	-	798	798
Other financial assets					
- Settlement of operations with plastic cards receivable	10,280	-	-	-	10,280
- Other receivables	523	-	166	-	689
TOTAL FINANCIAL ASSETS	**181,010**	**2,424**	**166**	**72,474**	**256,074**

As of 31 December 2018 and 2017 all of the Group's financial liabilities except derivatives were carried at amortised cost.

41 Related Party Transactions

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

	31 December 2018		31 December 2017	
In millions of RR	Key management personnel	Other related parties	Key management personnel	Other related parties
ASSETS				
Gross amounts of loans and advances to customers (contractual interest rate: 27.8% (31 December 2017: 32.1%))	9	-	21	-
TOTAL ASSETS	**9**	**-**	**21**	**-**

41 Related Party Transactions (Conitnued)

In millions of RR	31 December 2018 Key management personnel	31 December 2018 Other related parties	31 December 2017 Key management personnel	31 December 2017 Other related parties
LIABILITIES				
Customer accounts (contractual interest rate: 4.2% p.a. (31 December 2017: 3.1% p.a.))	1,349	798	1,387	1,145
Debt securities in issue (discount: 4%)	-	3,754	-	2,769
Other non-financial liabilities	888	-	705	-
TOTAL LIABILITIES	**2,237**	**4,552**	**2,092**	**3,914**
EQUITY				
Share-based payment reserve				
- Management long-term incentive programme	1,102	-	1,143	-
TOTAL EQUITY	**1,102**	**-**	**1,143**	**-**

Other related parties in the tables above are represented by entities which are under the control of the Group's ultimate controlling party Oleg Tinkov.

The income and expense items with related parties were as follows:

In millions of RR	2018 Key management personnel	2018 Other related parties	2017 Key management personnel	2017 Other related parties
Interest income calculated using the effective interest rate method	3	-	4	-
Interest expense calculated using effective interest rate method	(46)	(165)	(77)	(41)
Unrealised foreign exchange translation losses less gains	-	(69)	-	(13)

Key management compensation is presented below:

In millions of RR	2018	2017
Short-term benefits:		
- Salaries	792	555
- Short-term bonuses	917	1,147
Long-term benefits:		
- Management long-term incentive programme	564	922
Total	**2,273**	**2,624**

Management long-term incentive program. On 31 March 2016 the Group introduced a MLTIP as both a long-term incentive and a retention tool for the management of the Group. The maximum share capital attributable to the plan on launch was 4.1% of issued share capital at 31 March 2016.

On 8 February 2017 the Group granted shares to new participants in MLTIP and also granted additional shares to certain existing participants which resulted in an increase in total shares granted under MLTIP to 5.6% of issued share capital of the Group. For the purpose of the financial reporting the grant date for newly added rewards is considered to be 8 February 2017, implementation date is 31 March 2017.

41 Related Party Transactions (Conitnued)

On 22 February 2018 the Group granted shares to new participants in MLTIP which resulted in an increase in total shares granted under MLTIP to 5.68% of issued share capital of the Group. For the purpose of the financial reporting the grant date for newly added rewards is considered to be 22 February 2018, implementation date is 31 March 2018.

The total number of GDRs attributable to the Management according to MLTIP is 9,781 thousand as at 31 December 2018 (2017: 9,628 thousand).

Participants cannot own or exercise their shareholder rights over GDRs within MLTIP directly. Participants are entitled to the dividends, if any.

The fair value as at recognition dates of the equity-settled share-based payments (31 March 2016, 8 February 2017 and 22 February 2018) is determined on the basis of a market quote.

The delivery dates as of which the GDRs are allowed to be sold by the participants correspond to the vesting dates at 14 April 2016 and each subsequent 31 March until 2022 for participants joining in 2016, then until 2023 for participants joining in 2017, and until 2024 for participants joining in 2018.

42 Events after the End of the Reporting Period

On 19 February 2019 the Group issued EUR denominated ECP with a nominal value of EUR 12 million with a discount of 1.25% maturing on 18 February 2020.

In March 2019 the Group acquired an additional stake in Kassir.ru.

On 11 March 2019 the Board of Directors declared an interim dividend in line with the current dividend policy of USD 0.32 per share/per GDR with a total amount allocated for dividend payment of around USD 58.4 million.

43 Accounting Policies Applicable before 1 January 2018

Accounting policies applicable to the comparative period ended 31 December 2017 that were amended by IFRS 9, are as follows.

Financial instruments – key measurement terms. Depending on their classification financial instruments are carried at fair value or amortised cost as described below. Refer to Note 3 for the definition of fair value and AC as well as for description of valuation techniques.

Other securities at FVTPL. Other securities at FVTPL are financial assets designated irrevocably, at initial recognition, into this category. Management designates securities into this category only if (a) such classification eliminates or significantly reduces an accounting mismatch that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases; or (b) a group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information on that basis is regularly provided to and reviewed by the Group’s key management personnel.

Loans and advances to customers. Loans and advances to customers are recorded when the Group advances money to purchase or originate an unquoted non-derivative receivable from a customer due on fixed or determinable dates and has no intention of trading the receivable. Loans and advances to customers are carried at amortised cost.

Impairment of financial assets carried at amortised cost. Impairment losses are recognised in profit or loss for the year when incurred as a result of one or more events (“loss events”) that occurred after the initial recognition of the financial asset and which have an impact on the amount or timing of the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. If the Group determines that no objective evidence exists that impairment was incurred for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics, and collectively assesses them for impairment.

The primary factors that the Group considers in determining whether a financial asset is impaired are its overdue status and realisability of related collateral, if any.

43 Accounting Policies Applicable before 1 January 2018 (Continued)

The following other principal criteria are also used to determine whether there is objective evidence that an impairment loss has occurred:

- an instalment is overdue and the late payment cannot be attributed to a delay caused by the settlement systems;
- the borrower experiences a significant financial difficulty as evidenced by the borrower's financial information that the Group obtains;
- the borrower considers bankruptcy or a financial reorganisation;
- there is an adverse change in the payment status of the borrower as a result of changes in national or local economic conditions that impact the borrower;
- concession is granted by the Bank that would not have otherwise been given.

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

Future cash flows in a group of financial assets that are collectively evaluated for impairment, are estimated on the basis of the contractual cash flows of the assets and the experience of management in respect of the extent to which amounts will become overdue as a result of past loss events and the success of recovery of overdue amounts. Past experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect past periods, and to remove the effects of past conditions that do not exist currently. If the terms of an impaired financial asset held at amortised cost are renegotiated or otherwise modified because of financial difficulties of the borrower or issuer, impairment is measured using the original effective interest rate before the modification of terms. The renegotiated asset is then derecognized and a new asset is recognized at its fair value only if the risks and rewards of the asset substantially changed.

This is normally evidenced by a substantial difference between the present values of the original cash flows and the new expected cash flows. Impairment losses are always recognised through an allowance account to write down the asset's carrying amount to the present value of expected cash flows (which exclude future credit losses that have not been incurred) discounted at the original effective interest rate of the asset.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account through profit or loss for the year. Uncollectible assets are written off against the related impairment loss provision after all the necessary procedures to recover the asset have been completed and the amount of the loss has been determined. The amount of uncollectible loan balance is estimated on a loan portfolio basis taking into account defaulted loans recovery statistics. In 2017 the Group refined the approach to determination of uncollectible loan balance as sufficient and appropriate loans recovery statistics has now been accumulated.

Gains or losses on disposal of impaired loans are recognized in the consolidated statement of profit or loss and other comprehensive income in the period when sale occurred.

Investment securities available for sale. This classification includes investment securities which the Group intends to hold for an indefinite period of time and which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

Investment securities available for sale are carried at fair value. Interest income on available-for-sale debt securities is calculated using the effective interest method, and recognised in profit or loss for the year.

43 Accounting Policies Applicable before 1 January 2018 (Continued)

Dividends on available-for-sale equity instruments are recognised in profit or loss for the year when the Group's right to receive payment is established and it is probable that the dividends will be collected. All other elements of changes in the fair value are recognised in other comprehensive income until the investment is derecognised or impaired, at which time the cumulative gain or loss is reclassified from other comprehensive income to profit or loss for the year. Impairment losses are recognised in profit or loss for the year when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of investment securities available for sale. A significant or prolonged decline in the fair value of an equity security below its cost is an indicator that it is impaired. The cumulative impairment loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that asset previously recognised in profit or loss – is reclassified from other comprehensive income to profit or loss for the year. Impairment losses on equity instruments are not reversed and any subsequent gains are recognised in other comprehensive income. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through profit or loss for the year.

Income and expense recognition. Interest income and expense are recorded for all debt instruments on an accruals basis using the effective interest method. 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. Fees integral to the effective interest rate include origination fees received or paid by the entity relating to the creation or acquisition of a financial asset or issuance of a financial liability, for example fees for evaluating creditworthiness, negotiating the terms of the instrument, for servicing of account, and cash withdrawals. Commitment fees received by the Group to originate loans at market interest rates are integral to the effective interest rate if it is probable that the Group will enter into a specific lending arrangement and does not expect to sell the resulting loan shortly after origination. The Group does not designate loan commitments as financial liabilities at fair value through profit or loss.

When loans and other debt instruments 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 original effective interest rate which was used to measure the impairment loss.

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

Commissions and fees arising from negotiating, or participating in the negotiation of a transaction for a third party, such as the acquisition of loans, shares or other securities or the purchase or sale of businesses, which are earned on execution of the underlying transaction are recorded on its completion.