VTB BANK

CONSOLIDATED FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT

FOR THE YEAR ENDED 31 DECEMBER 2018

CONTENTS

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Independent auditor's report

To the Shareholders and Supervisory Council of
VTB Bank (public joint-stock company)

Report on the audit of the consolidated financial statements

Opinion

We have audited the consolidated financial statements of VTB Bank (public joint-stock company) (hereinafter, the "Bank") and its subsidiaries (hereinafter, the "Group"), which comprise the consolidated income statement and consolidated statement of comprehensive income for the year ended 31 December 2018, the consolidated statement of financial position as at 31 December 2018, the consolidated statements of cash flows and changes in shareholders' equity for the year ended 31 December 2018, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

Basis for opinion

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

Key audit matters

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

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

Key audit matter	How our audit addressed the key audit matter
Allowance for loans and advances to customers and provision for credit related commitments	
Given the significance of the allowance for loans and advances to customers and provision for credit related commitments to the Group's financial position, the complexity and judgements related to the estimation of expected credit losses under newly adopted IFRS 9 *Financial instruments* ("IFRS 9"), we considered this area as a key audit matter. Assessment on an individual and a portfolio basis of whether a significant increase in credit risk has occurred since initial recognition, as well as calculation of expected credit losses ("ECL"), require judgement. Determination of whether an increase in credit risk has occurred is based on relative change in credit ratings, days past due and other objective and subjective factors. Selection of thresholds used to conclude that the increase in credit risk is significant, such as the extent of the downgrade in a credit rating, is also judgemental. The calculation of ECL involves estimation techniques that use significant unobservable inputs and factors, such as internal credit ratings, complex statistical modelling and expert judgement. These techniques are used to determine probability of default, projected exposure at default and loss arising at default, based on available historical data and external information, which is adjusted for forward looking information, including forecast of macroeconomic variables. The calculation of expected credit losses for significant credit-impaired financial assets on an individual basis requires analysis of financial and non-financial information and extensive use of assumptions. Assessment of estimated future cash flows is based on significant unobservable inputs, such as current and projected financial performance of the borrower, collateral value, and estimation of probabilities of possible outcomes. The use of different modelling techniques, assumptions and forecasts could produce significantly different estimates of the allowance for expected credit losses. Information on the allowance for expected credit	We focused our audit on the following: ▶ evaluating credit risk models and assumptions used to estimate key provisioning parameters, and determine expected credit losses on a portfolio basis; ▶ assessing management's judgement in relation to the identification of significant increases in credit risk on an individual and portfolio basis based on quantitative and qualitative criteria; ▶ testing estimated future cash flows, including collateral-sourced cash flows, in relation to significant credit-impaired loans and advances to customers and credit related commitments. Our audit procedures included evaluation of expected credit loss methodology developed by the Group in accordance with the requirements of IFRS 9 to calculate the allowance for loans and advances to customers and provision for credit related commitments. We assessed the reasonableness of the credit risk factors and thresholds selected by the management to determine whether significant increase in credit risk has occurred on individual and portfolio basis. We evaluated consistency of application of the criteria selected by the management as of the reporting date. To test allowance calculated on a portfolio basis, we evaluated underlying statistical models, key inputs and assumptions used and assessed incorporation of forward-looking information in the calculation of expected credit losses. For significant credit exposures, we evaluated, on a sample basis, internal credit ratings, credit risk factors and staging. For a sample of significant credit-impaired corporate exposures, we, together with our valuation specialists, challenged assumptions on estimated future cash flows, including value of collateral and probabilities of expected outcomes. We have also considered the results of backtesting of the IFRS 9 models performed by the Group. We also assessed the disclosures in the consolidated financial statements about the Group's

Key audit matter	How our audit addressed the key audit matter
losses on loans and advances to customers and provision for credit related commitments is included in Note 25, *Loans and advances to customers*, Note 44, *Financial and insurance risk management*, and Note 52, *Contingencies and commitments*, to the consolidated financial statements.	allowance for expected credit losses on loans and advances to customers and provision for credit related commitments.
Valuation of land, premises, investment property and property intended for sale in the ordinary course of business	
The Group's aggregate carrying value of land, premises, investment property and property intended for sale in the ordinary course of business was RUR 488.3 billion at 31 December 2018. The Group determines the value of these assets with the assistance of independent or internal valuation specialists. The valuation models prepared by these specialists contain unobservable inputs and assumptions. Changes in these inputs and assumptions may have a significant impact on the valuation. The significance and subjectivity of these valuations make them a key audit matter. Information on the valuation of land, premises, investment property and property intended for sale in the ordinary course of business is included in Note 27, *Land, premises and equipment*, Note 28, *Investment property*, Note 30, *Other assets,* and Note 45, *Fair value measurement,* to the consolidated financial statements.	Our audit procedures included an assessment, on a sample basis, of the valuation methods and models as well as the sources of significant assumptions. We also tested the determination of the net realizable value of a sample of individually significant properties intended for sale in the ordinary course of business. Where management involved a valuation specialist, we assessed their qualification and objectivity. For a sample of individually significant properties, we involved our valuation specialists to assist us in assessing the reasonableness of the methodology and assumptions. We also assessed the Group's disclosures in relation to the valuation of land, premises and investment property.
Valuation of financial instruments not quoted in active market	
Financial instruments not quoted in an active market (instruments in Level 2 and Level 3 of the fair value hierarchy) represent a significant part of the Group's investments in securities and derivatives, due from other banks and loans and advances to customers at fair value through profit or loss. The fair value of these instruments is determined by internally developed valuation models that may use complex assumptions and unobservable inputs. The significance and subjectivity of these valuations make them a key audit matter. Information on the valuation of financial instruments not quoted in an active market is included in Note 45, *Fair value measurement*, to the consolidated financial statements.	Our audit procedures included an assessment, on a sample basis, of internally developed models and the sources of significant assumptions used in determining fair value. For a sample of individually significant instruments, we inspected, with assistance of our valuation specialists, the models and assumptions used, and/or performed an independent valuation assessment using alternative valuation methods and assumptions. We also assessed the Group's disclosures in relation to the valuation of such financial instruments, including disclosures regarding significant Level 3 inputs used and sensitivity of the value to changes in these inputs.

Key audit matter	How our audit addressed the key audit matter
Goodwill impairment	
Impairment of goodwill is a key audit matter due to both the significance of its carrying value and the judgement inherent in the impairment testing. Management has to use significant unobservable inputs and make assumptions in their goodwill impairment analysis to develop cash flow forecasts, and to determine appropriate growth rates and discount rates. The use of different modelling techniques and assumptions could produce significantly different estimates of the impairment. Information on goodwill is included in Note 29, *Goodwill and other intangible assets*, to the consolidated financial statements.	We assessed, with the assistance of our business valuation specialists, management's goodwill impairment analysis, including calculations of carrying values and recoverable amounts of cash-generating units. We evaluated forecasted cash flows, discount rates and long-term growth rates, by comparing them with the historical operating performance, business plans, market indicators and other available evidence. We assessed the disclosure prepared by the Group in relation to the results of testing.

Other information included in VTB Annual Report 2018

Other information consists of the information included in the VTB Annual Report 2018 (hereinafter, the "Annual Report") other than the consolidated financial statements and our auditor's report thereon. Management is responsible for the other information. The Annual Report is expected to be made available to us after the date of this auditor's report.

Our opinion on the consolidated financial statements does not cover the other information and we 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 when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

Responsibilities of management and the Audit Committee for the consolidated financial statements

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

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

The Audit Committee is 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 judgment and maintain professional skepticism throughout the audit. We also:

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

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

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

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

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

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

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

1) Whether the Banking group complied as at 1 January 2019 with the obligatory ratios established by the Bank of Russia;
2) Whether internal control and organization of the risk management systems of the Banking group conformed to the requirements set forth by the Bank of Russia for such systems in respect of the following:
    - subordination of the risk management departments;
    - the existence of methodologies, approved by the Bank's respective authorized bodies, for detecting and managing risks that are significant to the Bank and for performing stress-testing; the existence of a reporting system at the Bank pertaining to its significant risks and capital;
    - consistency in applying and assessing the effectiveness of methodologies for managing risks that are significant to the Bank;
    - oversight performed by the Supervisory Council and executive management of the Bank in respect of the Bank's compliance with risk limits and capital adequacy requirements set forth in the Bank's internal documents, and effectiveness and consistency of the application of the Bank's risk management procedures.

This work included procedures selected based on our judgment, such as inquiries, analysis, reading of documents, comparison of the requirements, procedures and methodologies approved by the Bank with the requirements set forth by the Bank of Russia, and the recalculation, comparison and reconciliation of numerical values and other information.

The findings from our work are provided below.

Compliance by the Banking group with the obligatory ratios established by the Bank of Russia

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

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

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

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

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

- We found that the frequency and consistency of reports prepared by the Bank's risk management departments and internal audit division during the year ended 31 December 2018 with regard to the management of credit, market, operational and liquidity risks of the Banking group complied with the Bank's internal documents, and that those reports included observations made by the Bank's risk management departments and internal audit division in respect of the effectiveness of relevant risk management methodologies.

- We found that, as at 31 December 2018, the authority of the Supervisory Council and executive management bodies of the Bank included control over compliance of the Banking group with internally established risk limits and capital adequacy requirements. For the purpose of control over the effectiveness and consistency of the risk management procedures applied by the Banking group during the year ended 31 December 2018, the Supervisory Council and executive management bodies of the Bank regularly reviewed the reports prepared by the Bank's risk management departments and internal audit division.

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

The partner in charge of the audit resulting in this independent auditor's report is P.P. Tsebernyak.

P.P. Tsebernyak
Partner
Ernst & Young LLC

26 February 2019

Details of the audited entity

Name: VTB Bank (Public joint-stock company)
Record made in the State Register of Legal Entities on 22 November 2002, State Registration Number 1027739609391.
Address: Russia 190000, Saint-Petersburg, Bolshaya Morskaya st., 29.

Details of the auditor

Name: Ernst & Young LLC
Record made in the State Register of Legal Entities on 5 December 2002, State Registration Number 1027739707203.
Address: Russia 115035, Moscow, Sadovnicheskaya naberezhnaya, 77, building 1.
Ernst & Young LLC is a member of Self-regulated organization of auditors "Russian Union of auditors" (Association) ("SRO RUA"). Ernst & Young LLC is included in the control copy of the register of auditors and audit organizations, main registration number 11603050648.

FOR THE YEAR ENDED 31 DECEMBER (IN BILLIONS OF RUSSIAN ROUBLES)

	Note	2018	2017	Change
Interest income calculated using the effective interest method	5, 61	967.6	1,016.6	-4.8%
Other interest income	5, 61	66.4	39.6	67.7%
Interest expense	5	(542.6)	(581.3)	-6.7%
Payments to deposit insurance system	5	(22.8)	(14.7)	55.1%
Net interest income	5	**468.6**	**460.2**	1.8%
Provision charge for credit losses on debt financial assets	24, 25, 26	(160.6)	(169.2)	-5.1%
Net interest income after provision for credit losses		**308.0**	**291.0**	5.8%
Net fee and commission income	6	**90.0**	**95.3**	-5.6%
Losses net of gains arising from sale and revaluation of loans at fair value through profit or loss		(2.0)	n/a	n/a
Gains net of losses arising from other financial instruments at fair value through profit or loss	7	21.1	12.8	64.8%
Gains net of losses arising from sale of financial assets at fair value through other comprehensive income	8	6.3	n/a	n/a
Gains net of losses from investment financial assets available-for-sale	8	n/a	13.6	n/a
Gains net of losses/(losses net of gains) arising from foreign currencies and precious metals	9	21.4	(12.4)	272.6%
Other gains net of losses on financial instruments at amortised cost	10	1.4	39.1	-96.4%
Share in profit of associates and joint ventures		8.1	1.2	575.0%
Impairment of investments in associates	49	(11.8)	–	n/a
Gains/(losses) from disposal of subsidiaries and associates	31, 48, 49	40.8	(0.5)	8,260.0%
Losses net of gains arising from extinguishment of liabilities	11	(0.5)	(0.1)	400.0%
Provision charge for credit losses on credit related commitments and other financial assets	30, 52, 61	(8.3)	(3.2)	159.4%
Reversal of provision for legal claims and other commitments	52, 61	1.8	0.5	260.0%
Excess of fair value of acquired net assets over cost	48	2.7	–	n/a
Other operating income	12	10.1	13.1	-22.9%
Non-interest gains		**91.1**	**64.1**	42.1%
Revenue from operating lease of equipment	13	26.5	22.5	17.8%
Expenses related to equipment leased out	13	(14.9)	(14.1)	5.7%
Revenues less expenses from operating leasing	13	**11.6**	**8.4**	38.1%
Net insurance premiums earned	16	121.8	82.6	47.5%
Net insurance claims incurred, movement in liabilities to policyholders and acquisition costs	17	(99.3)	(61.8)	60.7%
Revenues less expenses from insurance activity		**22.5**	**20.8**	8.2%
Revenue and other gains from other non-banking activities	14	71.3	61.4	16.1%
Cost of sales and other expenses from other non-banking activities	15	(66.3)	(61.5)	7.8%
Impairment of land, premises and intangible assets other than goodwill used in non-banking activities	27, 29	(7.1)	(16.1)	-55.9%
Net loss from change in fair value of investment property recognised on revaluation or disposal	28	(14.4)	(23.1)	-37.7%
Gain from disposal of disposal group held for sale	31	–	0.8	-100.0%
Revenues less expenses from other non-banking activities		**(16.5)**	**(38.5)**	-57.1%
Impairment of land, premises and intangible assets other than goodwill	27, 29	(9.4)	(3.7)	154.1%
Impairment of goodwill	29	(0.1)	(2.7)	-96.3%
Other operating expense	18	(23.0)	(14.1)	63.1%
Staff costs and administrative expenses	19	(259.8)	(260.9)	-0.4%
Non-interest expenses		**(292.3)**	**(281.4)**	3.9%
Profit before tax		**214.4**	**159.7**	34.3%
Income tax expense	20	(35.6)	(39.7)	-10.3%
Net profit after tax		**178.8**	**120.0**	49.0%
Profit after tax from subsidiaries acquired exclusively with a view to resale		–	0.1	-100.0%
Net profit		**178.8**	**120.1**	48.9%
Net profit/(loss) attributable to:				
Shareholders of the parent		179.2	120.3	49.0%
Non-controlling interests		(0.4)	(0.2)	100.0%
Basic and diluted earnings per share (expressed in Russian roubles per share)	57	0.01299	0.00855	51.9%
Basic and diluted earnings per share before profit after tax from subsidiaries acquired exclusively with a view to resale (expressed in Russian roubles per share)	57	0.01299	0.00854	52.1%

The notes № 1-61 form an integral part of these consolidated financial statements.

FOR THE YEAR ENDED 31 DECEMBER (IN BILLIONS OF RUSSIAN ROUBLES)

	2018	2017
Net profit	**178.8**	**120.1**
Other comprehensive income/(loss):		
Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods:		
Net change in fair value of debt financial assets at fair value through other comprehensive income, net of tax	(7.4)	n/a
Reclassification to income statement on sale of debt financial assets at fair value through other comprehensive income, net of tax	(5.1)	n/a
Net result on financial assets available-for-sale, net of tax	n/a	2.5
Cash flow hedges, net of tax	–	(0.1)
Share of other comprehensive income/(loss) of associates and joint ventures	3.5	(0.4)
Effect of translation, net of tax	33.8	0.3
Total other comprehensive income to be reclassified to profit or loss in subsequent periods	**24.8**	**2.3**
Other comprehensive income/(loss) not to be reclassified to profit or loss in subsequent periods:		
Actuarial (losses net of gains)/gains net of losses arising from difference between pension plan assets and obligations	(0.2)	1.1
Net result on equity instruments at fair value through other comprehensive income	(2.7)	n/a
Land and premises revaluation, net of tax	6.2	(0.1)
Total other comprehensive income not to be reclassified to profit or loss in subsequent periods	**3.3**	**1.0**
Other comprehensive income, net of tax	**28.1**	**3.3**
Total comprehensive income	**206.9**	**123.4**
Total comprehensive income/(loss) attributable to:		
Shareholders of the parent	208.1	123.6
Non-controlling interests	(1.2)	(0.2)

The notes № 1-61 form an integral part of these consolidated financial statements.

VTB BANK
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER (IN BILLIONS OF RUSSIAN ROUBLES)

	Note	2018	2017	Change
ASSETS				
Cash and short-term funds	21	935.8	773.8	20.9%
Mandatory cash balances with central banks		111.1	97.1	14.4%
Trading financial assets	22, 61	298.7	277.2	7.8%
- Trading financial assets		264.6	276.9	-4.4%
- Trading financial assets, pledged under repurchase agreements		34.1	0.3	11,266.7%
Derivative financial assets	23	202.5	175.6	15.3%
Due from other banks	24	693.1	835.0	-17.0%
Loans and advances to customers	25	10,695.2	9,171.4	16.6%
- Loans and advances to customers		10,669.3	9,171.4	16.3%
- Loans and advances to customers, pledged under repurchase agreements		25.9	–	n/a
Investment financial assets	26, 61	352.6	321.8	9.6%
- Investment financial assets		339.5	321.4	5.6%
- Investment financial assets, pledged under repurchase agreements		13.1	0.4	3,175.0%
Investments in associates and joint ventures	49	283.2	117.1	141.8%
Assets of disposal groups and non-current assets held for sale	31	22.0	17.2	27.9%
Land, premises and equipment	27	402.3	348.2	15.5%
Investment property	28	197.2	210.4	-6.3%
Goodwill and other intangible assets	29	160.0	157.4	1.7%
Deferred income tax asset	20	119.6	98.7	21.2%
Other assets	30	287.3	408.4	-29.7%
Total assets		**14,760.6**	**13,009.3**	13.5%
LIABILITIES				
Due to other banks	32	1,425.7	810.3	75.9%
Customer deposits	33	10,403.7	9,144.7	13.8%
Derivative financial liabilities	23	140.2	134.0	4.6%
Other borrowed funds	34	329.7	304.5	8.3%
Debt securities issued	35	259.1	322.7	-19.7%
Liabilities of disposal groups held for sale	31	–	7.0	-100.0%
Deferred income tax liability	20	12.4	30.7	-59.6%
Other liabilities	37	452.3	582.5	-22.4%
Total liabilities before subordinated debt		**13,023.1**	**11,336.4**	14.9%
Subordinated debt	36	214.5	193.2	11.0%
Total liabilities		**13,237.6**	**11,529.6**	14.8%
EQUITY				
Share capital	38	659.5	659.5	0.0%
Share premium		433.8	433.8	0.0%
Perpetual loan participation notes	39	156.3	129.6	20.6%
Treasury shares and bought back perpetual loan participation notes		(1.0)	(3.3)	-69.7%
Other reserves	40	82.4	46.1	78.7%
Retained earnings		197.0	200.4	-1.7%
Equity attributable to shareholders of the parent		**1,528.0**	**1,466.1**	4.2%
Non-controlling interests		**(5.0)**	**13.6**	-136.8%
Total equity		**1,523.0**	**1,479.7**	2.9%
Total liabilities and equity		**14,760.6**	**13,009.3**	13.5%

Approved for issue and signed on 26 February 2019.

A.L. Kostin
President – Chairman of the Management Board

D.Y. Olyunin
First Deputy President – Chairman of the Management Board

The notes № 1-61 form an integral part of these consolidated financial statements.

FOR THE YEAR ENDED 31 DECEMBER (IN BILLIONS OF RUSSIAN ROUBLES)

	Note	2018	2017
Cash flows from/ (used in) operating activities			
Interest received		1,047.9	1,068.6
Interest paid		(508.4)	(560.9)
Payments to deposit insurance system		(20.2)	(14.3)
Losses on operations with trading financial assets		(25.4)	(4.0)
Gains/ (losses) incurred on dealing in foreign currency		88.8	(27.4)
Fees and commissions received		143.0	130.1
Fees and commissions paid		(43.1)	(35.1)
Other operating income received		9.3	8.0
Other operating expenses paid		(16.8)	(17.9)
Revenue received from operating lease of equipment		26.9	20.6
Expenses paid related to equipment leased out		(4.7)	(2.4)
Net insurance premiums received		152.2	111.0
Net insurance claims paid		(30.4)	(28.4)
Revenue received from non-banking activities		32.6	36.8
Expenses paid related to non-banking activities		(36.3)	(34.5)
Staff costs, administrative expenses paid		(233.6)	(238.0)
Income tax paid		(44.6)	(52.1)
Cash flows from operating activities before changes in operating assets and liabilities		**537.2**	**360.1**
Net decrease/ (increase) in operating assets			
Net increase in mandatory cash balances with central banks		(13.7)	(2.5)
Net decrease/ (increase) in correspondent accounts in precious metals		29.2	(31.5)
Net increase in trading financial assets	61	(74.5)	(47.8)
Net decrease in due from other banks		122.5	176.6
Net increase in loans and advances to customers		(1,423.6)	(229.8)
Net (increase)/ decrease in other assets		(4.7)	35.5
Net (decrease)/ increase in operating liabilities			
Net increase/ (decrease) in due to other banks		573.7	(473.3)
Net increase in customer deposits		718.9	1,635.5
Net increase in debt securities issued other than bonds issued		13.7	22.4
Net decrease in other liabilities		(2.8)	(12.4)
Net cash from operating activities		**475.9**	**1,432.8**
Cash flows from/ (used in) investing activities			
Dividends and other distributions received		10.0	5.8
Proceeds from redemption and sales of investment financial assets		174.0	n/a
Purchase of investment financial assets		(197.9)	n/a
Proceeds from redemption and sales of investment financial assets designated as at fair value through profit or loss	61	n/a	0.9
Proceeds from redemption and sales of investment financial assets available-for-sale		n/a	416.8
Purchase of investment financial assets available-for-sale		n/a	(345.0)
Acquisition of subsidiaries, net of cash	48	6.9	0.2
Disposal of subsidiaries, net of cash	48	(18.9)	14.5
Purchase of share in associates and other contributions		(140.1)	–
Proceeds from sale of share in associates and other distributions		64.9	4.1
Purchase of investment financial assets held-to-maturity		n/a	(7.1)
Proceeds from redemption of investment financial assets held-to-maturity		n/a	9.3
Purchase of land, premises and equipment		(53.3)	(61.5)
Proceeds from sale of land, premises and equipment		4.8	6.2
Purchase or construction of investment property		(7.3)	(60.7)
Proceeds from sale of investment property		3.5	29.9
Purchase of intangible assets		(10.1)	(11.2)
Proceeds from sale of intangible assets		0.7	0.2
Net cash (used in)/ from investing activities		**(162.8)**	**2.4**

FOR THE YEAR ENDED 31 DECEMBER (IN BILLIONS OF RUSSIAN ROUBLES)

	Note	2018	2017
Cash flows from/ (used in) financing activities			
Dividends paid	41	(78.2)	(44.5)
Proceeds net of repayment in short-term local bonds issued		(11.2)	25.0
Proceeds from local bonds issued		55.6	–
Repayment of local bonds		(33.6)	(6.0)
Buy-back of local bonds		(10.6)	(4.7)
Proceeds from sale of previously bought-back local bonds		3.6	7.1
Repayment of Eurobonds		(115.8)	(105.2)
Buy-back of Eurobonds		(2.5)	(11.4)
Proceeds from sale of previously bought-back Eurobonds		2.4	9.8
Repayment of syndicated loans		(1.6)	(10.0)
Proceeds from other borrowings and funds from local central banks		535.4	473.2
Repayment of other borrowings and funds from local central banks		(540.4)	(1,446.1)
Repayment of subordinated debt		–	(24.3)
Buy-back of subordinated debt		(0.7)	(0.3)
Proceeds from sale of previously bought-back subordinated debt		0.8	0.2
Cash received from sale of treasury shares		4.1	2.2
Cash paid for treasury shares		(2.4)	(2.5)
Purchase of non-controlling interest in subsidiaries		–	(1.6)
Proceeds from issue to non-controlling interest holders in subsidiaries		3.1	3.4
Buy-back of perpetual loan participation notes		(10.5)	(5.4)
Proceeds from sale of previously bought-back perpetual loan participation notes		11.1	4.9
Amounts paid on perpetual loan participation notes	41	(13.7)	(12.3)
Net cash used in financing activities		**(205.1)**	**(1,148.5)**
Effect of exchange rate changes on cash and cash equivalents		83.3	2.8
Effect of change in impairment loss allowance		(0.1)	n/a
Net increase in cash and cash equivalents		**191.2**	**289.5**
At the beginning of period	21	**738.1**	**448.6**
At the end of period	21	**929.3**	**738.1**

Non-cash changes in liabilities arising from financial activities	2018	2017
Foreign currency translation		
Local bonds	–	(0.1)
Eurobonds	(15.6)	11.7
Syndicated loans	(1.4)	(3.4)
Funds from local central banks	(0.1)	(0.3)
Subordinated debt	(18.4)	5.2
Other non-cash changes		
Short-term local bonds	–	0.2
Local bonds	(1.2)	2.5
Eurobonds	1.2	1.4
Syndicated loans	(0.2)	1.0
Funds from local central banks	10.1	19.8
Subordinated debt	(2.8)	1.4

The notes № 1-61 form an integral part of these consolidated financial statements.

FOR THE YEAR ENDED 31 DECEMBER (IN BILLIONS OF RUSSIAN ROUBLES)

	Attributable to shareholders of the parent								
	Share capital	Share premium	Perpetual loan participation notes (Note 39)	Treasury shares and bought back perpetual loan participation loan notes	Other reserves (Note 40)	Retained earnings	Total	Non-controlling interests (Note 50)	Total equity
Balance at 1 January 2017	**659.5**	**433.8**	**136.5**	**(2.5)**	**44.8**	**131.1**	**1,403.2**	**9.7**	**1,412.9**
Net result from treasury shares transactions	–	–	–	(0.3)	–	–	**(0.3)**	–	**(0.3)**
Net result from bought back perpetual loan participation notes transactions	–	–	–	(0.5)	–	–	**(0.5)**	–	**(0.5)**
Profit/(loss) for the period	–	–	–	–	–	120.3	**120.3**	(0.2)	**120.1**
Other comprehensive income	–	–	–	–	2.2	1.1	**3.3**	–	**3.3**
Total comprehensive income/ (loss) for the period	**–**	**–**	**–**	**–**	**2.2**	**121.4**	**123.6**	**(0.2)**	**123.4**
Transfer of premises revaluation reserve upon disposal or depreciation	–	–	–	–	(1.6)	1.6	**–**	–	**–**
Share-based payments (Note 56)	–	–	–	–	–	(0.1)	**(0.1)**	–	**(0.1)**
Increase in share capital of subsidiaries	–	–	–	–	–	–	**–**	3.6	**3.6**
Disposal of subsidiaries (Note 48)	–	–	–	–	–	–	**–**	(0.8)	**(0.8)**
Purchase and other operations with non-controlling interests	–	–	–	–	0.7	(4.9)	**(4.2)**	2.2	**(2.0)**
Amounts paid on perpetual loan participation notes	–	–	–	–	–	(12.3)	**(12.3)**	–	**(12.3)**
Foreign exchange translation of perpetual loan participation notes	–	–	(6.9)	–	–	6.9	**–**	–	**–**
Tax effect recognised on perpetual loan participation notes	–	–	–	–	–	1.1	**1.1**	–	**1.1**
Dividends declared (Note 41)	–	–	–	–	–	(44.4)	**(44.4)**	(0.9)	**(45.3)**
Balance at 31 December 2017	**659.5**	**433.8**	**129.6**	**(3.3)**	**46.1**	**200.4**	**1,466.1**	**13.6**	**1,479.7**
Impact of adopting IFRS 9 at 1 January 2018 (Note 3)	–	–	–	–	8.0	(74.9)	**(66.9)**	(3.1)	**(70.0)**
Impact of adopting IFRS 15 at 1 January 2018 (Note 3)	–	–	–	–	–	1.1	**1.1**	–	**1.1**
Balance at 1 January 2018 after adoption	**659.5**	**433.8**	**129.6**	**(3.3)**	**54.1**	**126.6**	**1,400.3**	**10.5**	**1,410.8**
Net result from treasury shares transactions	–	–	–	1.7	–	0.1	**1.8**	–	**1.8**
Net result from bought back perpetual loan participation notes transactions	–	–	–	0.6	–	–	**0.6**	–	**0.6**
Profit/(loss) for the period	–	–	–	–	–	179.2	**179.2**	(0.4)	**178.8**
Other comprehensive income/(loss)	–	–	–	–	29.1	(0.2)	**28.9**	(0.8)	**28.1**
Total comprehensive income/(loss) for the period	**–**	**–**	**–**	**–**	**29.1**	**179.0**	**208.1**	**(1.2)**	**206.9**
Transfer of premises revaluation reserve upon disposal or depreciation	–	–	–	–	(0.8)	0.8	**–**	–	**–**
Share-based payments (Note 56)	–	–	–	–	–	(1.1)	**(1.1)**	–	**(1.1)**
Acquisition of subsidiaries (Note 48)	–	–	–	–	–	–	–	2.2	**2.2**
Disposal of subsidiaries (Note 48)	–	–	–	–	–	–	–	(15.9)	**(15.9)**
Acquisition of non-controlling interests	–	–	–	–	–	(0.9)	**(0.9)**	0.6	**(0.3)**
Increase in share capital of subsidiaries	–	–	–	–	–	–	–	3.1	**3.1**
Put options over non-controlling interests (Note 48)	–	–	–	–	–	(1.7)	**(1.7)**	–	**(1.7)**
Amounts paid on perpetual loan participation notes	–	–	–	–	–	(13.7)	**(13.7)**	–	**(13.7)**
Foreign exchange translation of perpetual loan participation notes	–	–	26.7	–	–	(26.7)	**–**	–	**–**
Tax effect recognised on perpetual loan participation notes	–	–	–	–	–	8.1	**8.1**	–	**8.1**
Dividends declared (Note 41)	–	–	–	–	–	(73.5)	**(73.5)**	(4.3)	**(77.8)**
Balance at 31 December 2018	**659.5**	**433.8**	**156.3**	**(1.0)**	**82.4**	**197.0**	**1,528.0**	**(5.0)**	**1,523.0**

The notes № 1-61 form an integral part of these consolidated financial statements.

1. PRINCIPAL ACTIVITIES

VTB Bank and its subsidiaries (the "Group") comprise Russian and foreign commercial banks, insurance, leasing and other entities controlled by the Group.

VTB Bank, formerly known as Vneshtorgbank (the "Bank", or "VTB"), was formed as Russia's foreign trade bank under the laws of the Russian Federation on 17 October 1990. In 1998, following several reorganisations, VTB was reorganised into an open joint stock company. In October 2006 the Group started re-branding to change its name from Vneshtorgbank to VTB. In March 2007, the Bank for Foreign Trade was renamed into "VTB Bank" (Open Joint-Stock Company). In June 2015 "VTB Bank" (open joint-stock company) was renamed into VTB Bank (Public Joint-Stock Company) in accordance with the legislative requirements.

On 2 January 1991, VTB received a general banking license (number 1000) from the Central Bank of the Russian Federation (CBR). In addition, VTB holds licenses required for trading and holding securities and engaging in other securities-related activities, including acting as a broker, a dealer and a custodian, and providing asset management and special depositary services. VTB and other Russian banks within the Group are regulated and supervised by the CBR. Foreign banks within the Group operate under the bank regulatory regimes of their respective countries.

On 29 December 2004, the Bank became a member of the obligatory deposit insurance system provided by the State Corporation "Deposit Insurance Agency" (DIA). The Group subsidiary banks in Russia: "BM-Bank", PJSC (currently – "BM-Bank", JSC) and "Vozrozhdenie Bank" are also members of the obligatory deposit insurance system provided by DIA. The State deposit insurance scheme implies that DIA guarantees repayment of individual deposits up to the maximum total guaranteed amount of RUR 1.4 million with a 100% compensation of deposited amount from 29 December 2014.

On 5 October 2005, VTB re-registered its legal address to 29 Bolshaya Morskaya Street, Saint-Petersburg 190000, Russian Federation. VTB's Head Office is located in Moscow.

The Group operates in the corporate and investment banking, retail, real estate and other sectors. Corporate and investment banking include deposit taking and commercial lending, support of clients' export/import transactions, foreign exchange, securities trading and trading in derivative financial instruments. The Group's operations are conducted in both Russian and international markets. The Group conducts its banking business in Russia through VTB as a parent and several subsidiary banks.

On 1 January 2018 the Group completed the merger of "Bank VTB 24", PJSC into VTB Bank (PJSC) under the unified VTB brand.

The Group operates outside Russia through 8 subsidiary banks, located in Germany, Great Britain, Armenia, Belarus, Kazakhstan, Azerbaijan, Georgia and Angola; through 3 representative offices located in Italy, China and Kyrgyzskaya Republic; through 2 VTB branches in China and India, branch of "VTB Bank (Europe)" in Austria and branch of "VTB Capital", Plc in Singapore. The Group investment banking division also performs securities dealing and financial advisory in Hong Kong and investment banking operations in Bulgaria.

VTB's majority shareholder is the Russian Federation, acting through the Federal Property Agency, which holds 60.9% of VTB's issued and outstanding ordinary shares as at 31 December 2018 (31 December 2017: 60.9%).

Unless otherwise noted herein, all amounts are expressed in billions of Russian roubles rounded off to one decimal.

2. BASIS OF PREPARATION

These consolidated financial statements ("financial statements") have been prepared in accordance with International Financial Reporting Standards ("IFRS"). The Bank and its subsidiaries and associates maintain their accounting records in accordance with regulations applicable in their country of registration. These financial statements are based on those accounting books and records, as adjusted and reclassified to comply with IFRS.

These financial statements have been prepared under the historical cost convention, as modified by the initial recognition of trading financial instruments based on fair value, by the revaluation of land, premises and investment properties, investment securities at fair value through profit and loss and through other comprehensive income.

The summary of principal accounting policies applied in the preparation of these financial statements is set out below in Note 59. These policies have been consistently applied to all the periods presented, unless otherwise stated.

These financial statements are presented in Russian roubles (RUR), the national currency of the Russian Federation, where the Bank is domiciled.

3. ADOPTION OF NEW AND REVISED STANDARDS AND INTERPRETATIONS

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

At initial application of IFRS 9 the Group chose as its accounting policy to continue to apply the hedge accounting requirements of IAS 39 instead of the requirements in Chapter 6 of IFRS 9. The Group applies that policy to all of its hedging relationships.

Classification and measurement

Under IFRS 9 *Financial Instruments*, all debt financial assets that do not meet "solely payment of principal and interest" (SPPI) criteria, are classified at initial recognition as fair value through profit or loss (FVPL). Under these criteria, debt instruments that do not correspond to a "basic lending arrangement" are measured at FVPL. For debt financial assets that meet the SPPI criteria, classification at initial recognition is determined based on the business model, under which these instruments are managed:

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

Equity financial assets are required to be classified at initial recognition as FVPL unless an irrevocable designation is made to classify the instrument as FVOCI. For equity investments classified as FVOCI, all realised and unrealised gains and losses, except for dividend income, are recognised in other comprehensive income with no subsequent reclassification to profit and loss. Further information accounting policies applicable for financial assets and liabilities is provided in Note 59.

Credit risk and expected credit loss

Information about credit risk grades and description of definitions, principles and techniques used for assessment of expected credit loss is provided in Note 44.

Effect of transition to IFRS 9

The application of IFRS 9 resulted in the reclassifications explained below:

1. Certain debt financial assets held by the Group's Corporate-Investment banking are classified under IFRS 9 as mandatorily measured at fair value through profit or loss because the contractual cash flows of these assets are not solely payments of principal and interest on the principal outstanding.

2. Certain debt investment financial assets are held by the Group's Treasury to meet everyday liquidity needs. The Group's Treasury seeks to minimise the costs of managing those liquidity needs and therefore manages the return on the portfolio. The return consists of collecting contractual payments as well as gains and losses from the sale of financial assets. The Group considers that under IFRS 9 these assets are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets.

3. Certain debt investment financial assets are held by the Group in a separate portfolio for long-term investments purposes. These assets may be sold in a stress-case scenario only. The Group considers that these securities are held within a business model whose objective is to hold assets to collect the contractual cash flows. These assets are classified and measured at amortised cost under IFRS 9.

4. Certain debt investment financial assets are held by the Group with an objective of short-term profit taking. The Group primarily focuses on fair value information and uses that information to assess the financial assets' performance and to make decisions. These assets are therefore measured at fair value through profit or loss under IFRS 9.

5. Certain equity investments held by the Group for strategic purposes have been designated under IFRS 9 as at fair value through other comprehensive income.

6. Before the adoption of IFRS 9, certain trading assets and investment securities were reclassified out of the fair value through profit or loss and available-for-sale categories to loans and advances at their fair values. On the adoption of IFRS 9, the carrying amount of those assets was adjusted so that their amortised cost under IFRS 9 was as if those assets were accounted for at amortised cost from the inception.

   Certain debt financial securities held by the Group were classified as loans and advances to customers in accordance with the Group accounting policies. The Group classifies as loans and advances to customers (i) government securities received by the Group under the government financial support and capitalisation plans with certain third-parties sale restrictions and (ii) other debt securities acquired through a significant participation in an initial offering and for which the Group does not expect active market trading in the near future.

According to the requirements of IFRS 9 the Group calculates ECL for all types of undrawn credit lines and commitments to extend credit – revocable and irrevocable (Note 52).

3. ADOPTION OF NEW AND REVISED STANDARDS AND INTERPRETATIONS (CONTINUED)

Effect of transition to IFRS 9 (continued)

The following table reconciles the carrying amounts of financial assets and liabilities and amounts of provisions for loan commitments and financial guarantee contracts under IAS 39 and IAS 37 to the carrying amounts under IFRS 9 on transition to IFRS 9 on 1 January 2018:

	Measurement basis under IAS 39	Measurement basis under IFRS 9	Note	Original carrying amount under IAS 39	Reclassification	Remeasurement under IFRS 9	New carrying amount under IFRS 9
Financial assets, including pledged under repurchase agreements where relevant							
Cash and short-term funds	Loans and receivables	Amortised cost		773.8	–	–	773.8
Mandatory cash balances with central banks	Loans and receivables	Amortised cost		97.1	–	–	97.1
Trading financial assets	Fair value through profit or loss	Fair value through profit or loss (mandatorily)	22	277.2	(39.9)	–	237.3
Derivative financial assets at fair value through profit or loss held for trading	Fair value through profit or loss	Fair value through profit or loss (mandatorily)	23	174.9	(6.6)	–	168.3
Derivative financial assets designated as hedging instruments	Fair value through profit or loss (designated)	Fair value through profit or loss (mandatorily)		0.7	–	–	0.7
Due from other banks	Loans and receivables	Amortised cost	24	835.0	(35.5)	(0.7)	798.8
Due from other banks	Loans and receivables	Fair value through other comprehensive income	24	–	20.1	–	20.1
Due from other banks	Loans and receivables	Fair value through profit or loss (mandatorily)	24	–	15.4	(12.6)	2.8
Total Due from other banks				**835.0**	**–**	**(13.3)**	**821.7**
Loans and advances to customers	Loans and receivables	Amortised cost	25	9,171.4	(590.1)	(81.4)	8,499.9
Loans and advances to customers	Loans and receivables	Fair value through profit or loss (mandatorily)	25	–	439.8	(0.7)	439.1
Loans and advances to customers	Loans and receivables	Fair value through other comprehensive income	25	–	145.0	14.1	159.1
Total Loans and advances to customers				**9,171.4**	**(5.3)**	**(68.0)**	**9,098.1**
Investment financial assets	Available-for-sale	Fair value through other comprehensive income	26	321.8	(18.5)	–	303.3
Investment financial assets	Fair value through profit or loss	Amortised cost	26	–	23.5	(0.5)	23.0
Investment financial assets	Fair value through profit or loss (designated)	Fair value through profit or loss (designated)	26	–	18.5	–	18.5
Investment financial assets	Fair value through profit or loss (designated)	Fair value through profit or loss (mandatorily)	26	–	17.4	–	17.4
Investment financial assets	Available-for-sale	Fair value through profit or loss (mandatorily)	26	–	8.2	–	8.2
Investment financial assets	Available-for-sale	Amortised cost		–	2.7	–	2.7
Total Investment financial assets				**321.8**	**51.8**	**(0.5)**	**373.1**
Investments in associates and joint ventures at fair value through profit or loss	Fair value through profit or loss (designated)	Fair value through profit or loss (designated)		66.7	–	–	66.7
Other financial assets	Loans and receivables	Amortised cost	30	65.6	0.1	(0.2)	65.5
Other financial assets	Fair value through profit or loss	Fair value through profit or loss (mandatorily)	30	0.4	(0.1)	–	0.3
Total financial assets, including pledged under repurchase agreements where relevant				**11,784.6**	**–**	**(82.0)**	**11,702.6**
Financial liabilities							
Due to other banks	Amortised cost	Amortised cost		810.3	–	–	810.3
Customer deposits	Amortised cost	Amortised cost		9,144.7	–	–	9,144.7
Derivative financial liabilities at fair value through profit or loss held for trading	Fair value through profit or loss	Fair value through profit or loss (mandatorily)	23	133.3	–	–	133.3
Derivative financial liabilities designated as hedging instruments	Fair value through profit or loss (designated)	Fair value through profit or loss (mandatorily)		0.7	–	–	0.7
Other borrowed funds	Amortised cost	Amortised cost		304.5	–	–	304.5
Debt securities issued	Amortised cost	Amortised cost		322.7	–	–	322.7
Other financial liabilities	Amortised cost	Amortised cost	37	59.4	0.2	–	59.6
Other financial liabilities	Fair value through profit or loss	Fair value through profit or loss (mandatorily)	37	35.7	(0.2)	–	35.5
Other financial liabilities	Fair value through profit or loss (designated)	Fair value through profit or loss (designated)		3.7	–	–	3.7
Other financial liabilities	Provisions for loan commitments and financial guarantee contracts	Provisions for loan commitments and financial guarantee contracts	37, 52	4.1	–	4.1	8.2
Total Other financial liabilities				**102.9**	**–**	**4.1**	**107.0**
Subordinated debt	Amortised cost	Amortised cost		193.2	–	–	193.2
Total financial liabilities				**11,012.3**	**–**	**4.1**	**11,016.4**
Other non-financial liabilities	Provisions for performance guarantee contracts	Provisions for performance guarantee contracts	37, 52	**14.7**	**–**	**2.0**	**16.7**

Increase in net deferred income tax asset related to remeasurement under IFRS 9 amounted to RUR 18.1 billion (Note 20)

3. ADOPTION OF NEW AND REVISED STANDARDS AND INTERPRETATIONS (CONTINUED)

Effect of transition to IFRS 9 (continued)

The following table shows the effects of the reclassification of financial assets measured at fair value under IAS 39 categories into financial assets measured at amortised cost under IFRS 9.

From financial assets held-for-trading under IAS 39	**23.5**
• of which redeemed during the year ended 31 December 2018	(1.6)
• disposed resulting a sale of subsidiary	(21.8)
Fair value as at 31 December 2018	–
Fair value loss that would have been recognised in profit and loss for the year ended 31 December 2018 if the financial assets had not been reclassified	(0.1)
From investment financial assets available-for-sale under IAS 39	**2.7**
• of which redeemed during the year ended 31 December 2018	(1.8)
Fair value as at 31 December 2018	1.0
Fair value gain that would have been recognised in other comprehensive income for the year ended 31 December 2018 if the financial assets had not been reclassified	0.1

The following table reconciles the closing impairment allowance for financial assets and provisions for loan commitments and financial guarantee contracts in accordance with IAS 39 and IAS 37 as at 31 December 2017, to opening expected credit losses allowance determined in accordance with IFRS 9 as at 1 January 2018.

	Note	31 December 2017 (IAS 39 / IAS 37)	Reclassifica-tions and effect of changes in measurement basis	Remeasure-ment under IFRS 9	1 January 2018 (IFRS 9)
Due from banks under IAS 39 / financial assets at amortised cost under IFRS 9	24	(18.6)	18.1	(0.7)	(1.2)
Loans and advances to customers under IAS 39 / financial assets at amortised cost under IFRS 9	25	(601.4)	32.5	(174.2)	(743.1)
Debt investment financial assets available-for-sale under IAS 39 reclassified to amortised cost under IFRS 9	26	–	–	(0.1)	(0.1)
Debt investment financial assets available-for-sale under IAS 39 / debt investment financial assets at fair value through other comprehensive income under IFRS 9	26	–	–	(0.2)	(0.2)
Other financial assets	30	(3.6)	–	(0.2)	(3.8)
Total impairment allowance for financial assets		**(623.6)**	**50.6**	**(175.4)**	**(748.4)**
Undrawn credit lines and financial guarantee contracts issued	52	(4.1)	–	(4.1)	(8.2)
Performance guarantee contracts issued	52	(14.7)	–	(2.0)	(16.7)

As at 1 January 2018, the amount of expected credit losses allowance for financial assets at amortised cost includes the effect of remeasurement for the gross carrying value financial assets.

IFRS 15 Revenue from Contracts with Customers (issued on 28 May 2014 and effective for the periods beginning on or after 1 January 2018). The new standard introduces the core principle that revenue must be recognised when the goods or services are transferred to the customer, at the transaction price. Any bundled goods or services that are distinct must be separately recognised, and any discounts or rebates on the contract price must generally be allocated to the separate elements. When the consideration varies for any reason, minimum amounts must be recognised if they are not at significant risk of reversal. Costs incurred to secure contracts with customers have to be capitalised and amortised over the period when the benefits of the contract are consumed.

The Group applies IFRS 15 using modified retrospective approach, which means that recalculations were performed only for contracts that were not completed as at 1 January 2018.

The effect presented below is primarily attributable to operations of Group members in the construction and development industry:

Effect of transition to IFRS 15	Note	Original carrying amount	Recognition of revenue under IFRS 15 before taxation	New carrying amount under IFRS 15
Other assets	30	408.4	(1.3)	407.1
Other liabilities	37	582.5	(2.7)	579.8

3. ADOPTION OF NEW AND REVISED STANDARDS AND INTERPRETATIONS (CONTINUED)

Decrease in net deferred income tax asset related to recognition of revenue under IFRS 15 amounted to RUR 0.3 billion (Note 20).

The following table analyses the impact, net of tax, of transition from IAS 39 and IAS 18 to IFRS 9 and IFRS 15 on reserves, retained earnings and non-controlling interest. There is no impact on other components of equity.

Other reserves (Fair value reserve for debt and equity investment financial assets and cash-flow hedges – Note 40)	
Closing balance (31 December 2017)	46.1
Remeasurement of debt financial assets at fair value through other comprehensive income under IFRS 9	11.7
Remeasurement of equity investment financial assets at fair value through other comprehensive income under IFRS 9	(3.7)
Opening balance (1 January 2018)	**54.1**
Retained earnings	
Closing balance (31 December 2017)	200.4
Recognition of expected credit losses under IFRS 9 (including lease receivables, loan commitments and financial guarantee contracts) and other remeasurement effects	(74.9)
Recognition of revenue under IFRS 15	1.1
Opening balance (1 January 2018)	**126.6**
Non-controlling interest (Note 50)	
Closing balance (31 December 2017)	13.6
Recognition of expected credit losses under IFRS 9 (including lease receivables, loan commitments and financial guarantee contracts)	(3.1)
Opening balance (1 January 2018)	**10.5**

Amendments to IFRS 2 Share-based Payment issued on 20 June 2016 with the effective date of annual periods beginning on or after 1 January 2018. The amendments clarifying how to account for certain types of share-based payment transactions and provide requirements on the accounting for:

- the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments;
- share-based payment transactions with a net settlement feature for withholding tax obligations; and
- a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled.

Other amendments

The following amendments and interpretation are also effective from 1 January 2018:

- IFRIC Interpretation 22 *Foreign Currency Transactions and Advance Consideration*;
- Amendments to IAS 40 *Transfers of Investment Property*;
- Amendments to IFRS 4 *Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts*;
- Amendments to IAS 28 *Investments in Associates and Joint Ventures* – Clarification that measuring investees at fair value through profit or loss is an investment-by-investment choice. The Group has early adopted these amendments starting 1 April 2017.

Unless otherwise described above, the new and revised standards and interpretations not affect significantly the Group’s consolidated financial statements.

DELVING INTO NUMBERS

4. ANALYSIS BY SEGMENT

In accordance with IFRS 8, *Operating Segments*, the Group has defined five reportable segments.

- Corporate-Investment banking (CIB)
- Medium and Small banking (MSB)
- Retail business (RB)
- Treasury
- Other business

The Group has also separately disclosed Corporate Centre.

The Group also disclosed in 2018 a new acquisition - non distributed item as a separate reportable segment that presents data of a subsidiary acquired in 2018 (Note 48). As the control over the subsidiary was obtained in the fourth quarter 2018, the Group has not yet allocate the respective data to reportable segments. Following the further integration of activities of the subsidiary into the Group's global business lines the data for the subsidiary will be presented within reportable segments listed above.

The composition of reportable segments is approved by resolutions of VTB Group's Management Committee (Chief Decision Makers), the body that on a regular basis assesses performance of reportable segments and allocates resources to them.

(a) Factors that management used in order to identify the reportable segments

The Group's segments are strategic business lines that are managed separately, focus on different clients and have product specialisation.

The majority of the Group's activities and resources are allocated and managed, and their performance is assessed via the respective segment information.

(b) Segments' business activities

The CIB, MSB and RB segments are global business lines that focus on servicing different customer segments.

The Treasury and Other Business segments, as well as Corporate Centre do not constitute separate global business lines.

The criteria used to identify client segments for each global business line are set by the Group Management Committee. They include principles for allocating customers between large, medium and small business customer segments.

CIB and MSB

CIB global business line encompasses operations with corporate customers that are 'large business' customers and banking financial institutions, as well as operations on the securities market, excluding operations with securities for liquidity management purposes.

MSB global business line encompasses operations with corporate customers of "medium business" and "small business" categories.

To provide additional information, the Group also discloses the following product lines as part of the CIB reportable segment:

- Investment banking
- Loans and Deposits
- Transaction banking

Investment Banking

The Investment banking product line in the CIB reportable segment comprises:

- operations with prevailing market risk including loans with exposure to market risks;
- corporate finance operations;
- asset management, brokerage services and financial consulting;
- operations with precious metals;
- profit-taking operations on the financial and currency markets, including interbank market;
- other products and services with prevailing market risk.

The Investment banking product line also includes term funding from certain clients (including promissory notes issued), based on the decision of VTB Group's Management Committee.

Loans and Deposits

The Loans and deposits product line covers:

- operations with prevailing credit risk and interest rate risk, such as lending to corporate customers (large and medium businesses segments), including overdrafts on customers' current accounts;
- trade and export financing;

Transaction Banking

The Transaction banking product line consists of fee-based services and products with prevailing operational risks. It includes:

- operations with corporate customers; current and settlement accounts and term deposits;
- documentary operations, including letters of credit and guarantees;
- depositary operations;
- fee-based services of all kinds not related to operations on the financial markets and currency valuables: settlement and cash services, collection, storage box, remote banking services, payment processing centre service.

4. ANALYSIS BY SEGMENT (CONTINUED)

(b) Segments' business activities (continued)

Retail business

RB global business line encompasses operations with individuals and specific operations with corporate customers.

The retail business reportable segment covers:
Retail banking product line that includes:

- operations with individuals;
- insurance product line which includes all types of insurance products and services;
- pension funds product line, which include non-government pension funds.

The Retail banking product line comprises operations with individuals and also internet and mobile POS-acquiring operations with major retail chains, operations of individuals with plastic cards, payroll related services, payment processing centre service.

Treasury

The Treasury comprises:

- operations to manage liquidity (including those with securities portfolios maintained for liquidity management purposes);
- operations on financial and interbank markets as a part of management of payment and currency positions, as well as interest rate risk management;
- cash flow management within the Head office or subsidiary and between VTB Group members;
- debt financing operations;
- reallocation of resources between segments both within the Head office or subsidiary and between VTB Group members.

The net financial results of the Treasury reportable segment are allocated to other reportable segments in accordance with established methodology.

Corporate Centre

The Corporate Centre represents unallocated staff and administrative expenses related to VTB Group's management, as well as expenses on strategic programmes connected with VTB Group's brand development and positioning on the local and international markets, etc. It may also include other items resulting from intersegment reallocations as determined by VTB Group's Management Committee. Corporate Center also includes investments in associates not allocated to reportable segments.

Other business

The other business includes two lines of business: Construction and development and Other.

The Construction and development business line is non-banking operations undertaken by Group members operating in the construction and development industry.

The Other activities represent non-banking business, other than insurance, construction and development.

(c) Managing operating segments' profit or loss, assets or liabilities

The performance of a segment and its profit or loss are measured in accordance with IFRS, as adjusted by intersegment reallocations and decisions of VTB Group's Management Committee regarding the allocation of operations between segments.

The Head office and the Group members prepare segment reporting using unified rules.

Intersegment transactions within a single entity of the Group are settled using the internal transfer prices, which are designed to reflect the cost of resources. Transfer prices are set and reviewed on a regular basis in each of the Group's entities.

VTB Group's Management Committee evaluates segments' performance based on their net profit after tax, as well as other qualitative and quantitative information.
Intersegment transactions are predominantly conducted in the normal course of business.

As at 31 December 2018, the Group's reportable segments and their compositions remained as disclosed in the consolidated financial statements as at 31 December 2017 except for the changes described below.

As at 1 January 2018, the Group approved new rules of operations allocation assignment to MSB and RB segments. Starting from 1 January 2018, operations with "small business" corporate customers are allocated to MSB segments and excluded from RB segment.

MSB global business line encompasses operations with corporate customers of "medium business" and "small business" categories.

Additionally, following the merger of "Bank VTB 24", PJSC into VTB Bank (PJSC), principles of transfer-pricing system, approved for multi-segment participants of the Group, which have "Treasury" segment, began to be applicable for RB.

Comparative information for the year ended 31 December 2017 and as at 31 December 2017 was not restated due to the fact that areas of responsibility are not reassessed retrospectively, as they are set and valid during 2017 and due to the fact that the necessary information was not readily available and the cost to develop it would have been excessive.

As a result, MSB and RB segment information disclosed in these consolidated financial statements is not presented on a fully comparable basis.

4. ANALYSIS BY SEGMENT (CONTINUED)

	Corporate-Investment banking (CIB)		Medium and Small banking (MSB)		Retail business (RB)		Treasury		Corporate centre		Other business		New acquisitions – non distributed		Inter-segment eliminations		Total	
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
Revenues from:																		
External customers	632.6	615.4	131.9	85.8	576.0	581.0	68.5	113.1	1.7	4.9	50.1	67.7	7.7	n/a	-	-	**1,468.5**	**1,467.9**
Other segments	250.5	249.6	88.3	59.1	229.6	104.9	742.0	552.8	-	0.4	6.8	5.2	0.2	n/a	(1,317.4)	(972.0)	**-**	**-**
Total revenues	**883.1**	**865.0**	**220.2**	**144.9**	**805.6**	**685.9**	**810.5**	**665.9**	**1.7**	**5.3**	**56.9**	**72.9**	**7.9**	**n/a**	**(1,317.4)**	**(972.0)**	**1,468.5**	**1,467.9**
Segment income and expense:																		
Interest income	744.2	759.0	185.9	132.5	592.6	487.2	801.4	632.9	0.2	0.7	5.8	4.2	5.9	n/a	(1,302.0)	(960.3)	**1,034.0**	**1,056.2**
Interest expense	(596.3)	(604.0)	(129.8)	(104.6)	(391.4)	(221.0)	(696.2)	(582.7)	(0.5)	(1.2)	(28.2)	(28.1)	(2.7)	n/a	1,302.5	960.3	**(542.6)**	**(581.3)**
Payments to deposit insurance system	-	-	(0.4)	-	(22.1)	(14.5)	(0.1)	(0.2)	-	-	-	-	(0.2)	n/a	-	-	**(22.8)**	**(14.7)**
Treasury result allocation	20.9	2.1	10.9	5.1	41.5	0.9	(90.1)	(14.1)	7.5	6.1	9.3	(0.1)	-	n/a	-	-	-	-
Net interest income/(expense)	**168.8**	**157.1**	**66.6**	**33.0**	**220.6**	**252.6**	**15.0**	**35.9**	**7.2**	**5.6**	**(13.1)**	**(24.0)**	**3.0**	**n/a**	**0.5**	**-**	**468.6**	**460.2**
(Provision charge) / reversal of provision for credit losses on debt financial assets	(59.3)	(75.4)	(19.9)	(17.4)	(51.8)	(47.5)	0.3	(28.8)	(29.1)	-	0.8	(0.1)	(1.6)	n/a	-	-	**(160.6)**	**(169.2)**
Net interest income/(expense) after provision charge for credit losses	**109.5**	**81.7**	**46.7**	**15.6**	**168.8**	**205.1**	**15.3**	**7.1**	**(21.9)**	**5.6**	**(12.3)**	**(24.1)**	**1.4**	**n/a**	**0.5**	**-**	**308.0**	**291.0**
Net fee and commission income	20.7	22.6	27.1	8.9	38.5	60.5	1.7	2.8	-	-	0.7	0.5	1.4	n/a	(0.1)	-	**90.0**	**95.3**
Other gains net of losses/(losses net of gains) arising from financial instruments and foreign currencies	43.2	45.1	2.8	0.7	4.6	17.0	0.3	(9.6)	-	-	(3.4)	(0.6)	0.2	n/a	-	0.4	**47.7**	**53.0**
Share in profit/(loss) of associates and joint ventures	6.3	(0.6)	0.2	0.2	1.1	-	0.1	(0.3)	1.4	3.1	(1.0)	(1.2)	-	n/a	-	-	**8.1**	**1.2**
Profit/(losses) from disposal of subsidiaries and associates	0.2	(0.7)	-	-	56.7	0.1	(17.3)	-	-	-	1.2	0.1	-	n/a	-	-	**40.8**	**(0.5)**
(Provision charge)/reversal of provision for credit losses on credit related commitments and other financial assets	(1.9)	0.6	(2.1)	(0.8)	(0.4)	(2.5)	-	-	(2.1)	-	(0.2)	-	0.2	n/a	-	-	**(6.5)**	**(2.7)**
Other operating (expense)/income	23.0	16.0	(0.7)	0.5	(2.9)	8.8	(0.1)	-	(0.2)	(0.7)	(34.6)	(39.9)	2.6	n/a	(1.0)	(1.4)	**(13.9)**	**(16.7)**
Net operating income/(expense)	**201.0**	**164.7**	**74.0**	**25.1**	**266.4**	**289.0**	**-**	**-**	**(22.8)**	**8.0**	**(49.6)**	**(65.2)**	**5.8**	**n/a**	**(0.6)**	**(1.0)**	**474.2**	**420.6**
Staff costs and administrative expenses	(65.1)	(62.7)	(31.3)	(18.7)	(125.1)	(145.2)	-	-	(28.7)	(24.4)	(8.6)	(11.9)	(2.4)	n/a	1.4	2.0	**(259.8)**	**(260.9)**
Profit/(loss) before tax	**135.9**	**102.0**	**42.7**	**6.4**	**141.3**	**143.8**	**-**	**-**	**(51.5)**	**(16.4)**	**(58.2)**	**(77.1)**	**3.4**	**n/a**	**0.8**	**1.0**	**214.4**	**159.7**
Income tax (expense)/benefit	(33.6)	(25.8)	(8.8)	(1.6)	(31.5)	(29.5)	-	-	29.8	4.3	8.8	13.0	(0.2)	n/a	(0.1)	(0.1)	**(35.6)**	**(39.7)**
Net profit/(loss) after tax	**102.3**	**76.2**	**33.9**	**4.8**	**109.8**	**114.3**	**-**	**-**	**(21.7)**	**(12.1)**	**(49.4)**	**(64.1)**	**3.2**	**n/a**	**0.7**	**0.9**	**178.8**	**120.0**
Profit after tax from subsidiaries acquired exclusively with a view to resale	-	0.1	-	-	-	-	-	-	-	-	-	-	-	n/a	-	-	-	0.1
Net profit/(loss)	**102.3**	**76.3**	**33.9**	**4.8**	**109.8**	**114.3**	**-**	**-**	**(21.7)**	**(12.1)**	**(49.4)**	**(64.1)**	**3.2**	**n/a**	**0.7**	**0.9**	**178.8**	**120.1**
Capital expenditure	**43.3**	**39.7**	**2.7**	**2.6**	**14.6**	**23.2**	**-**	**-**	**-**	**-**	**16.8**	**18.2**	**-**	**n/a**	**-**	**-**	**77.4**	**83.7**
Depreciation	**14.1**	**11.3**	**3.0**	**3.0**	**9.5**	**9.8**	**-**	**-**	**0.5**	**0.9**	**2.4**	**2.1**	**0.1**	**n/a**	**-**	**0.1**	**29.6**	**27.2**

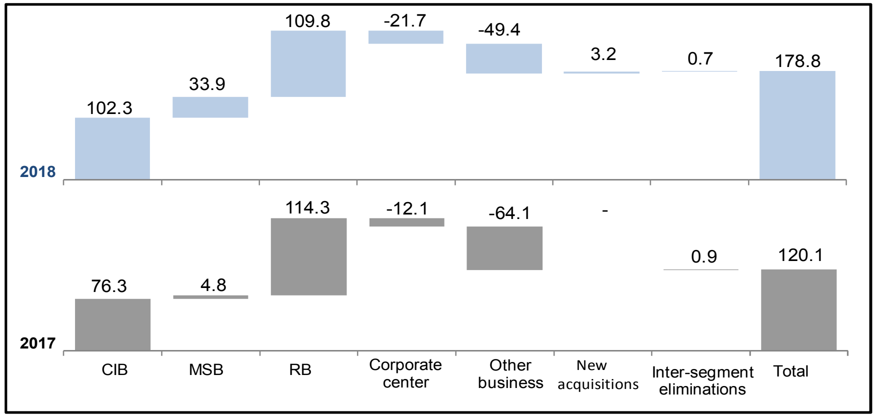
4. ANALYSIS BY SEGMENT (CONTINUED)

	Corporate-Investment banking (CIB)		Medium and Small banking (MSB)		Retail business (RB)		Treasury		Corporate centre		Other business		New acquisitions – non distributed		Inter-segment eliminations		Total	
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
Net profit/(loss)	**102.3**	**76.3**	**33.9**	**4.8**	**109.8**	**114.3**	**-**	**-**	**(21.7)**	**(12.1)**	**(49.4)**	**(64.1)**	**3.2**	n/a	**0.7**	**0.9**	**178.8**	**120.1**
Net result on debt financial assets at fair value through other comprehensive income, net of tax	(3.2)	n/a	-	n/a	-	n/a	(11.6)	n/a	-	n/a	-	n/a	(0.1)	n/a	(0.3)	n/a	**(15.2)**	**n/a**
Net result on financial assets available-for-sale, net of tax	n/a	-	n/a	-	n/a	2.7	n/a	1.5	n/a	-	n/a	(2.6)	n/a	n/a	n/a	0.9	**n/a**	**2.5**
Cash flow hedges, net of tax	-	0.6	-	-	-	-	-	-	-	-	-	(0.7)	-	n/a	-	-	**-**	**(0.1)**
Share of other comprehensive loss of associates and joint ventures	-	-	-	-	-	-	3.2	(0.4)	-	-	0.3	-	-	n/a	-	-	**3.5**	**(0.4)**
Effect of translation, net of tax	-	-	-	-	-	-	33.8	0.3	-	-	-	-	-	n/a	-	-	**33.8**	**0.3**
Actuarial (losses net of gains)/gains net of losses / arising from difference between pension plan assets and obligations	(0.2)	1.1	-	-	-	-	-	-	-	-	-	-	-	n/a	-	-	**(0.2)**	**1.1**
Land and premises revaluation, net of tax	0.3	-	1.6	-	2.9	-	0.1	-	-	-	1.3	(0.1)	-	n/a	-	-	**6.2**	**(0.1)**
Total other comprehensive (loss)/income before treasury result allocation	**(3.1)**	**1.7**	**1.6**	**-**	**2.9**	**2.7**	**25.5**	**1.4**	**-**	**-**	**1.6**	**(3.4)**	**(0.1)**	**n/a**	**(0.3)**	**0.9**	**28.1**	**3.3**
Treasury result allocation	(0.8)	1.0	(0.9)	0.2	(1.3)	0.1	(25.5)	(1.4)	28.5	0.1	-	-	n/a	n/a	-	-	**-**	**-**
Total other comprehensive (loss)/income	**(3.9)**	**2.7**	**0.7**	**0.2**	**1.6**	**2.8**	**-**	**-**	**28.5**	**0.1**	**1.6**	**(3.4)**	**(0.1)**	**n/a**	**(0.3)**	**0.9**	**28.1**	**3.3**
Total comprehensive income/(loss)	**98.4**	**79.0**	**34.6**	**5.0**	**111.4**	**117.1**	**-**	**-**	**6.8**	**(12.0)**	**(47.8)**	**(67.5)**	**3.1**	**n/a**	**0.4**	**1.8**	**206.9**	**123.4**

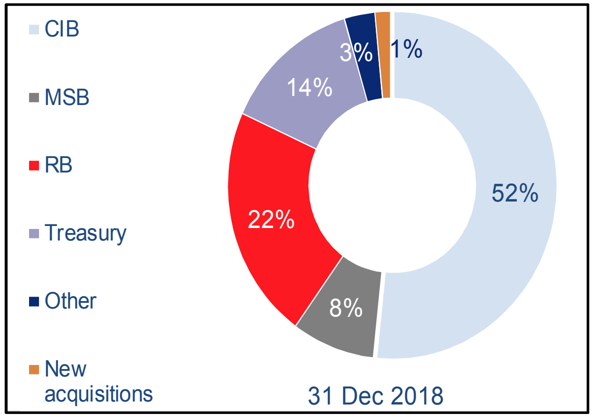
As at 31 December 2018 and for the year then ended provision for credit losses on debt financial assets and provision charge for credit losses on debt financial assets amounted to RUR 732.6 billion and RUR 160.6 billion, respectively; provision and provision charge for credit losses on credit related commitments and other financial assets amounted to RUR 28.1 billion and RUR 8.3 billion, respectively. Included in these amounts is the amount of RUR 94.0 billion, which represents the provision for credit losses on debt financial instruments and off-balance sheet items related to the Group's exposure to certain groups of borrowers that in the Group's management view are subject to industry and other portfolio specific risks. Group's exposure to these groups of borrowers are predominantly residing in the Corporate and Investment Banking segment. For the purpose of CIB segment performance measurement VTB Group's Management Committee has decided to reallocate RUR 31.2 billion from CIB segment to the Corporate Center segment.

4. ANALYSIS BY SEGMENT (CONTINUED)

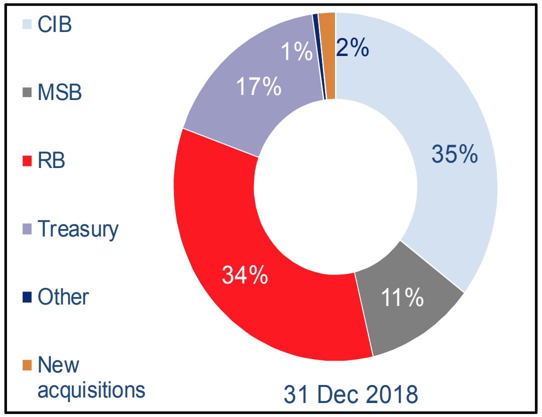
Net (loss)/profit after tax by segment



Segment assets



Segment liabilities

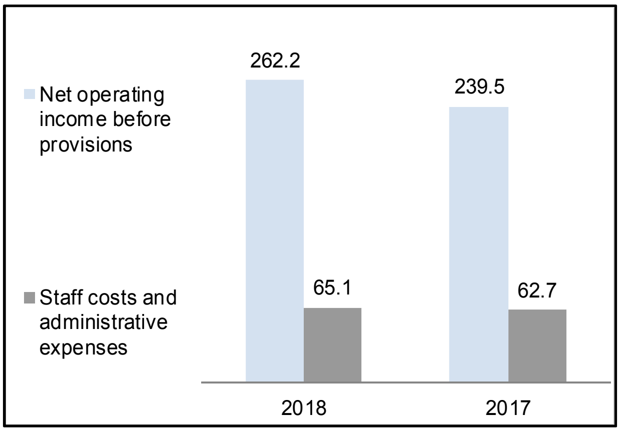


	Corporate-Investment banking (CIB)		Medium and Small banking (MSB)		Retail business (RB)		Treasury		Corporate centre		Other business		New acquisitions – non distributed		Inter-segment eliminations		Total	
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
Cash and short-term funds	25.8	48.6	-	–	103.6	273.0	788.8	452.1	-	–	0.1	0.1	17.5	n/a	-	–	**935.8**	**773.8**
Mandatory cash balances with central banks	-	–	-	–	-	28.4	109.4	68.7	-	–	-	–	1.7	n/a	-	–	**111.1**	**97.1**
Due from other banks	207.4	215.8	-	–	22.2	93.2	443.2	519.3	4.9	6.7	-	–	15.4	n/a	-	–	**693.1**	**835.0**
Loans and advances to customers	6,368.1	5,463.9	1,132.8	755.6	2,694.7	2,502.7	358.7	433.0	(29.1)	–	15.1	16.2	154.9	n/a	-	–	**10,695.2**	**9,171.4**
Other financial instruments	389.4	335.4	0.3	–	138.2	168.5	287.7	261.0	-	–	13.7	9.7	24.5	n/a	-	–	**853.8**	**774.6**
Investments in associates and joint ventures	167.3	68.8	0.6	0.5	73.8	–	7.3	6.6	20.5	15.6	13.7	25.6	-	n/a	-	–	**283.2**	**117.1**
Other assets items	472.8	508.6	78.5	72.7	197.4	210.5	14.0	27.5	2.2	0.7	408.8	420.3	14.7	n/a	-	–	**1,188.4**	**1,240.3**
Net amount of intersegment settlements	-	–	347.3	194.5	1,576.0	1,907.5	760.8	495.5	22.2	–	-	–	15.7	n/a	(2,722.0)	(2,597.5)	**-**	**–**
Segment assets	**7,630.8**	**6,641.1**	**1,559.5**	**1,023.3**	**4,805.9**	**5,183.8**	**2,769.9**	**2,263.7**	**20.7**	**23.0**	**451.4**	**471.9**	**244.4**	**n/a**	**(2,722.0)**	**(2,597.5)**	**14,760.6**	**13,009.3**
Due to other banks	346.0	19.7	1.8	0.8	0.1	0.2	1,076.7	788.0	-	1.6	-	–	1.1	n/a	-	–	**1,425.7**	**810.3**
Customer deposits	3,874.8	3,417.5	1,404.8	893.1	4,201.6	4,294.8	702.2	535.7	-	–	4.6	3.6	215.7	n/a	-	–	**10,403.7**	**9,144.7**
Other borrowed funds	167.2	128.9	0.8	0.2	0.4	8.3	159.4	163.9	-	–	-	3.2	1.9	n/a	-	–	**329.7**	**304.5**
Debt securities issued	25.2	12.2	19.4	13.1	93.0	72.0	118.4	225.4	-	–	-	–	3.1	n/a	-	–	**259.1**	**322.7**
Subordinated debt	-	–	-	–	0	–	211.5	193.2	-	–	-	–	3.0	n/a	-	–	**214.5**	**193.2**
Other liabilities items	270.1	278.5	14.6	10.6	231.2	354.4	12.6	6.9	2.1	–	69.8	103.8	4.5	n/a	-	–	**604.9**	**754.2**
Net amount of intersegment settlements	2,331.5	2,272.3	-	–	-	–	-	–	-	8.8	390.5	316.4	-	n/a	(2,722.0)	(2,597.5)	**-**	**–**
Segment liabilities	**7,014.8**	**6,129.1**	**1,441.4**	**917.8**	**4,526.3**	**4,729.7**	**2,280.8**	**1,913.1**	**2.1**	**10.4**	**464.9**	**427.0**	**229.3**	**n/a**	**(2,722.0)**	**(2,597.5)**	**13,237.6**	**11,529.6**

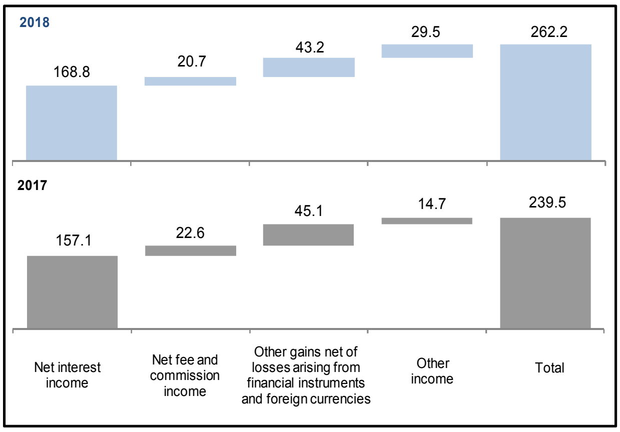
4. ANALYSIS BY SEGMENT (CONTINUED)

	Corporate-Investment banking (CIB) by product lines									
	Investment banking		Loans and deposits		Transaction banking		Inter-CIB eliminations		Total CIB	
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
Revenues from:										
External customers	217.0	198.2	391.2	393.9	24.4	23.3	-	-	**632.6**	**615.4**
Other segments	166.7	161.7	9.3	10.4	74.6	77.6	(0.1)	(0.1)	**250.5**	**249.6**
Total revenues	**383.7**	**359.9**	**400.5**	**404.3**	**99.0**	**100.9**	**(0.1)**	**(0.1)**	**883.1**	**865.0**
Segment income and expense										
Interest income	295.0	298.1	365.3	374.4	83.9	86.5	-	-	**744.2**	**759.0**
Interest expense	(251.5)	(247.9)	(287.0)	(290.6)	(57.8)	(65.5)	-	-	**(596.3)**	**(604.0)**
Treasury result allocation	9.2	4.8	10.0	(4.6)	1.7	1.9	-	-	**20.9**	**2.1**
Net interest income	**52.7**	**55.0**	**88.3**	**79.2**	**27.8**	**22.9**	**-**	**-**	**168.8**	**157.1**
(Provision charge)/reversal of provision for credit losses on debt financial assets	(15.4)	0.5	(43.2)	(75.8)	(0.7)	(0.1)	-	-	**(59.3)**	**(75.4)**
Net interest income after provision charge for credit losses	**37.3**	**55.5**	**45.1**	**3.4**	**27.1**	**22.8**	**-**	**-**	**109.5**	**81.7**
Net fee and commission income	7.8	8.7	1.2	0.5	11.7	13.4	-	-	**20.7**	**22.6**
Other gains net of losses/(losses net of gains) arising from financial instruments and foreign currencies	44.8	44.8	(1.6)	0.4	-	-	-	(0.1)	**43.2**	**45.1**
Share in profit/(loss) of associates and joint ventures	5.6	0.5	0.7	(1.1)	-	-	-	-	**6.3**	**(0.6)**
Profit/(loss) from disposal of subsidiaries and associates	0.2	(0.7)	-	-	-	-	-	-	**0.2**	**(0.7)**
Reversal of provision/(provision charge) for credit losses on credit related commitments and other financial assets	(0.2)	-	(5.8)	0.8	4.1	(0.2)	-	-	**(1.9)**	**0.6**
Other operating income	7.2	1.3	13.3	14.7	2.5	-	-	-	**23.0**	**16.0**
Net operating income	**102.7**	**110.1**	**52.9**	**18.7**	**45.4**	**36.0**	**-**	**(0.1)**	**201.0**	**164.7**
Staff costs and administrative expenses	(33.6)	(30.3)	(21.4)	(21.3)	(10.1)	(11.1)	-	-	**(65.1)**	**(62.7)**
Profit/(loss) before tax	**69.1**	**79.8**	**31.5**	**(2.6)**	**35.3**	**24.9**	**-**	**(0.1)**	**135.9**	**102.0**
Income tax expense	(18.1)	(17.3)	(8.1)	(3.1)	(7.4)	(5.4)	-	-	**(33.6)**	**(25.8)**
Net profit/(loss) after tax	51.0	62.5	23.4	(5.7)	27.9	19.5	-	(0.1)	**102.3**	**76.2**
Profit after tax from subsidiaries acquired exclusively with a view to resale	-	0.1	-	-	-	-	-	-	-	0.1
Net profit/(loss)	51.0	62.6	23.4	(5.7)	27.9	19.5	-	(0.1)	**102.3**	**76.3**
Capital expenditure	**0.6**	**2.0**	**41.8**	**35.8**	**0.9**	**1.9**	**-**	**-**	**43.3**	**39.7**
Depreciation	**0.9**	**0.8**	**12.6**	**9.9**	**0.6**	**0.6**	**-**	**-**	**14.1**	**11.3**

Net operating income and administrative expenses dynamics (CIB)



Net operating income before provisions: structure (CIB)



4. ANALYSIS BY SEGMENT (CONTINUED)

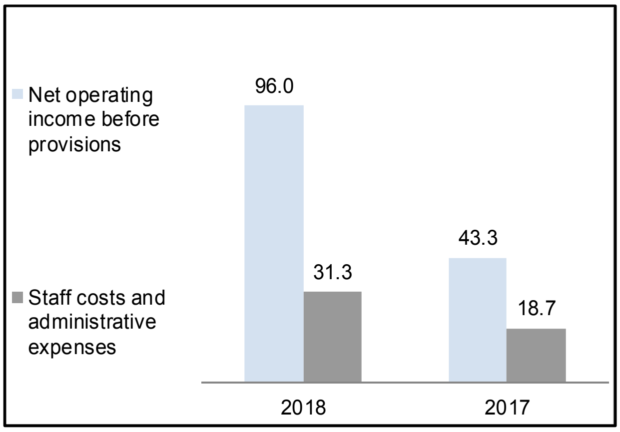
	Corporate-Investment banking (CIB) by product lines									
	Investment banking		Loans and deposits		Transaction banking		Inter-CIB eliminations		Total CIB	
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
Net profit/(loss)	**51.0**	**62.6**	**23.4**	**(5.7)**	**27.9**	**19.5**	**-**	**(0.1)**	**102.3**	**76.3**
Other comprehensive income/(loss):										
Net result on debt financial assets at fair value through other comprehensive income, net of tax	(3.2)	n/a	-	n/a	-	n/a	-	n/a	**(3.2)**	**n/a**
Net result on financial assets available-for-sale, net of tax	n/a	0.9	n/a	(0.9)	n/a	-	n/a	-	**n/a**	**-**
Cash flow hedges, net of tax	-	0.6	-	-	-	-	-	-	**-**	**0.6**
Actuarial (losses net of gains)/gains net of losses arising from difference between pension plan assets and obligations	(0.2)	1.1	-	-	-	-	-	-	**(0.2)**	**1.1**
Land and premises revaluation, net of tax	-	-	0.1	-	0.2	-	-	-	**0.3**	**-**
Total other comprehensive (loss)/income before treasury result allocation	**(3.4)**	**2.6**	**0.1**	**(0.9)**	**0.2**	**-**	**-**	**-**	**(3.1)**	**1.7**
Treasury result allocation	-	0.1	-	-	(0.8)	0.9	-	-	**(0.8)**	**1.0**
Total other comprehensive (loss)/income	**(3.4)**	**2.7**	**0.1**	**(0.9)**	**(0.6)**	**0.9**	**-**	**-**	**(3.9)**	**2.7**
Total comprehensive income/(loss)	**47.6**	**65.3**	**23.5**	**(6.6)**	**27.3**	**20.4**	**-**	**(0.1)**	**98.4**	**79.0**

	Corporate-Investment banking (CIB) by product lines									
	Investment banking		Loans and deposits		Transaction banking		Inter-CIB eliminations		Total CIB	
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
Cash and short-term funds	19.4	48.6	-	–	6.4	–	-	–	**25.8**	**48.6**
Due from other banks	81.9	93.5	125.5	122.3	-	–	-	–	**207.4**	**215.8**
Loans and advances to customers	1,581.4	1,565.2	4,570.4	3,768.6	216.3	130.1	-	–	**6,368.1**	**5,463.9**
Other financial instruments	389.2	335.4	0.2	–	-	–	-	–	**389.4**	**335.4**
Investments in associates and joint ventures	166.2	68.8	1.1	–	-	–	-	–	**167.3**	**68.8**
Other assets items	128.1	205.3	328.8	275.2	15.9	28.1	-	–	**472.8**	**508.6**
Net amount of intersegment settlements	753.1	313.7	-	–	1,323.6	1,132.3	(2,076.7)	(1,446.0)	**-**	**–**
Segment assets	**3,119.3**	**2,630.5**	**5,026.0**	**4,166.1**	**1,562.2**	**1,290.5**	**(2,076.7)**	**(1,446.0)**	**7,630.8**	**6,641.1**
Due to other banks	311.1	11.5	33.8	5.2	1.1	3.0	-	–	**346.0**	**19.7**
Customer deposits	2,362.1	2,195.3	1.2	0.1	1,511.5	1,222.1	-	–	**3,874.8**	**3,417.5**
Other borrowed funds	-	–	167.2	128.9	-	–	-	–	**167.2**	**128.9**
Debt securities issued	18.7	7.2	-	5.0	6.5	–	-	–	**25.2**	**12.2**
Other liabilities items	220.2	227.6	36.3	29.9	13.6	21.0	-	–	**270.1**	**278.5**
Net amount of intersegment settlements	-	–	4,408.2	3,718.3	-	–	(2,076.7)	(1,446.0)	**2,331.5**	**2,272.3**
Segment liabilities	**2,912.1**	**2,441.6**	**4,646.7**	**3,887.4**	**1,532.7**	**1,246.1**	**(2,076.7)**	**(1,446.0)**	**7,014.8**	**6,129.1**

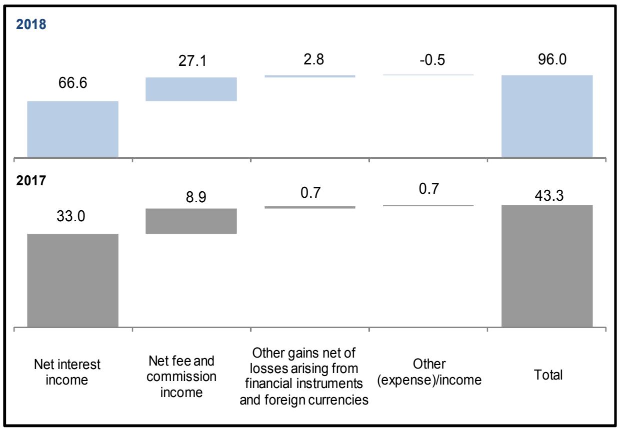
4. ANALYSIS BY SEGMENT (CONTINUED)

	Medium and Small banking (MSB) by product lines					
	Medium business		Small business		Total MSB	
	2018	2017	2018	2017	2018	2017
Revenues from:						
External customers	95.7	85.8	36.2	-	**131.9**	**85.8**
Other segments	69.0	59.1	19.3	-	**88.3**	**59.1**
Total revenues	**164.7**	**144.9**	**55.5**	**-**	**220.2**	**144.9**
Segment income and expense						
Interest income	148.8	132.5	37.1	-	**185.9**	**132.5**
Interest expense	(110.4)	(104.6)	(19.4)	-	**(129.8)**	**(104.6)**
Payments to deposit insurance system	(0.1)	-	(0.3)	-	**(0.4)**	**-**
Treasury result allocation	8.6	5.1	2.3	-	**10.9**	**5.1**
Net interest income	**46.9**	**33.0**	**19.7**	**-**	**66.6**	**33.0**
Provision charge for credit losses on debt financial assets	(19.3)	(17.4)	(0.6)	-	**(19.9)**	**(17.4)**
Net interest income after provision charge for credit losses	**27.6**	**15.6**	**19.1**	**-**	**46.7**	**15.6**
Net fee and commission income	11.0	8.9	16.1	-	**27.1**	**8.9**
Other gains net of losses arising from financial instruments and foreign currencies	1.7	0.7	1.1	-	**2.8**	**0.7**
Share in profit of associates and joint ventures	0.2	0.2	-	-	**0.2**	**0.2**
Provision charge for credit losses on credit related commitments and other financial assets	(1.8)	(0.8)	(0.3)	-	**(2.1)**	**(0.8)**
Other operating (expense)/income	0.3	0.5	(1.0)	-	**(0.7)**	**0.5**
Net operating income	**39.0**	**25.1**	**35.0**	**-**	**74.0**	**25.1**
Staff costs and administrative expenses	(18.5)	(18.7)	(12.8)	-	**(31.3)**	**(18.7)**
Profit before taxation	**20.5**	**6.4**	**22.2**	**-**	**42.7**	**6.4**
Income tax expense	(4.3)	(1.6)	(4.5)	-	**(8.8)**	**(1.6)**
Net profit	**16.2**	**4.8**	**17.7**	**-**	**33.9**	**4.8**
Capital expenditure	**1.5**	**2.6**	**1.2**	**-**	**2.7**	**2.6**
Depreciation	**2.2**	**3.0**	**0.8**	**-**	**3.0**	**3.0**

Net operating income and administrative expenses dynamics (MSB)



Net operating income before provisions: structure (MSB)



4. ANALYSIS BY SEGMENT (CONTINUED)

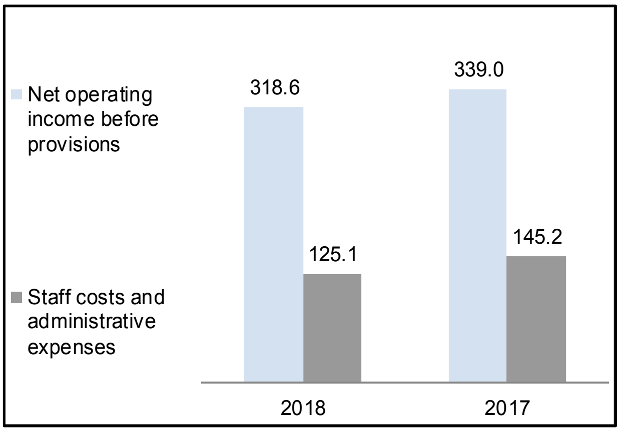
	Medium and Small banking (MSB) by product lines							
	Medium business		Small business		Inter-MSB eliminations		Total MSB	
	2018	2017	2018	2017	2018	2017	2018	2017
Net profit/(loss)	**16.2**	**4.8**	**17.7**	**-**	**-**	**-**	**33.9**	**4.8**
Other comprehensive income/ (loss):								
Land and premises revaluation, net of tax	0.4	-	1.2	-	-	-	**1.6**	**-**
Total other comprehensive income/(loss) before treasury result allocation	**0.4**	**-**	**1.2**	**-**	**-**	**-**	**1.6**	**-**
Treasury result allocation	(0.6)	0.2	(0.3)	-	-	-	**(0.9)**	**0.2**
Total other comprehensive income/(loss)	**(0.2)**	**0.2**	**0.9**	**-**	**-**	**-**	**0.7**	**0.2**
Total comprehensive income/(loss)	**16.0**	**5.0**	**18.6**	**-**	**-**	**-**	**34.6**	**5.0**

	Medium and Small banking (MSB by product lines)							
	Medium business		Small business		Inter-MSB eliminations		Total MSB	
	2018	2017	2018	2017	2018	2017	2018	2017
Cash and short-term funds	-	-	-	-	-	-	**-**	**-**
Loans and advances to customers	978.5	755.6	154.3	-	-	-	**1,132.8**	**755.6**
Other financial instruments	0.3	-	-	-	-	-	**0.3**	**-**
Investments in associates and joint ventures	0.6	0.5	-	-	-	-	**0.6**	**0.5**
Other assets items	55.7	72.7	22.8	-	-	-	**78.5**	**72.7**
Net amount of intersegment settlements	173.0	194.5	174.3	-	-	-	**347.3**	**194.5**
Segment assets	**1,208.1**	**1,023.3**	**351.4**	**-**	**-**	**-**	**1,559.5**	**1,023.3**
Due to other banks	1.8	0.8	-	-	-	-	**1.8**	**0.8**
Customer deposits	1,072.9	893.1	331.9	-	-	-	**1,404.8**	**893.1**
Other borrowed funds	-	0.2	0.8	-	-	-	**0.8**	**0.2**
Debt securities issued	19.1	13.1	0.3	-	-	-	**19.4**	**13.1**
Other liabilities items	9.9	10.6	4.7	-	-	-	**14.6**	**10.6**
Net amount of intersegment settlements	-	-	-	-	-	-	**-**	**-**
Segment liabilities	**1,103.7**	**917.8**	**337.7**	**-**	**-**	**-**	**1,441.4**	**917.8**

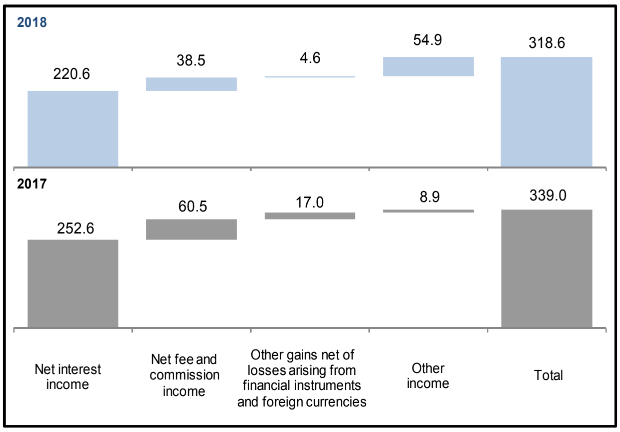
4. ANALYSIS BY SEGMENT (CONTINUED)

	Retail business (RB) by product lines									
	Retail banking		Insurance		Pension business		Inter-RB eliminations		Total RB	
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
Revenues from:										
External customers	430.4	477.3	87.5	72.6	58.1	31.1	-	-	**576.0**	**581.0**
Other segments	241.4	110.7	5.3	5.2	2.1	2.4	(19.2)	(13.4)	**229.6**	**104.9**
Total revenues	**671.8**	**588.0**	**92.8**	**77.8**	**60.2**	**33.5**	**(19.2)**	**(13.4)**	**805.6**	**685.9**
Segment income and expense										
Interest income	570.3	467.5	9.8	8.4	14.3	13.3	(1.8)	(2.0)	**592.6**	**487.2**
Interest expense	(391.4)	(221.3)	-	-	-	-	-	0.3	**(391.4)**	**(221.0)**
Payments to deposit insurance system	(22.1)	(14.5)	-	-	-	-	-	-	**(22.1)**	**(14.5)**
Treasury result allocation	41.5	0.9	-	-	-	-	-	-	**41.5**	**0.9**
Net interest income	**198.3**	**232.6**	**9.8**	**8.4**	**14.3**	**13.3**	**(1.8)**	**(1.7)**	**220.6**	**252.6**
Provision charge for credit losses of debt financial assets	(51.6)	(47.1)	(0.1)	-	-	-	(0.1)	(0.4)	**(51.8)**	**(47.5)**
Net interest income after provision charge for credit losses	**146.7**	**185.5**	**9.7**	**8.4**	**14.3**	**13.3**	**(1.9)**	**(2.1)**	**168.8**	**205.1**
Net fee and commission income/ (expense)	55.7	71.7	(0.7)	(0.6)	(0.7)	(0.7)	(15.8)	(9.9)	**38.5**	**60.5**
Other gains net of losses / (losses net of gains) arising from financial instruments and foreign currencies	5.2	16.1	0.7	0.1	(1.3)	0.8	-	-	**4.6**	**17.0**
Share in profit of associates and joint ventures	1.1	-	-	-	-	-	-	-	**1.1**	**-**
Gains from disposal of subsidiaries and associates	2.6	0.1	54.1	-	-	-	-	-	**56.7**	**0.1**
Provision charge for credit losses on credit related commitments and other financial assets	(0.2)	(2.4)	(0.2)	(0.1)	-	-	-	-	**(0.4)**	**(2.5)**
Other operating (expense)/income	(28.2)	(16.0)	28.2	27.1	(8.8)	(9.8)	5.9	7.5	**(2.9)**	**8.8**
Net operating income	**182.9**	**255.0**	**91.8**	**34.9**	**3.5**	**3.6**	**(11.8)**	**(4.5)**	**266.4**	**289.0**
Staff costs and administrative expenses	(116.7)	(135.2)	(8.9)	(9.6)	(0.5)	(0.4)	1.0	-	**(125.1)**	**(145.2)**
Profit before taxation	**66.2**	**119.8**	**82.9**	**25.3**	**3.0**	**3.2**	**(10.8)**	**(4.5)**	**141.3**	**143.8**
Income tax expense	(13.4)	(25.2)	(20.0)	(4.9)	(0.2)	(0.3)	2.1	0.9	**(31.5)**	**(29.5)**
Net profit after tax	**52.8**	**94.6**	**62.9**	**20.4**	**2.8**	**2.9**	**(8.7)**	**(3.6)**	**109.8**	**114.3**
Capital expenditure	**14.1**	**22.1**	**0.5**	**1.1**	**-**	**-**	**-**	**-**	**14.6**	**23.2**
Depreciation	**8.9**	**9.3**	**0.6**	**0.5**	**-**	**-**	**-**	**-**	**9.5**	**9.8**

Net operating income and administrative expenses dynamics (RB)



Net operating income before provisions: structure (RB)



4. ANALYSIS BY SEGMENT (CONTINUED)

	Retail business (RB) by product lines									
	Retail banking		Insurance		Pension business		Inter-RB eliminations		Total RB	
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
Net profit/(loss)	**52.8**	**94.6**	**62.9**	**20.4**	**2.8**	**2.9**	**(8.7)**	**(3.6)**	**109.8**	**114.3**
Other comprehensive income:										
Net result on financial assets available-for-sale, net of tax	n/a	2.7	n/a	-	n/a	-	n/a	-	n/a	**2.7**
Land and premises revaluation, net of tax	2.9	-	-	-	-	-	-	-	**2.9**	**-**
Total other comprehensive income before treasury result allocation	**2.9**	**2.7**	**-**	**-**	**-**	**-**	**-**	**-**	**2.9**	**2.7**
Treasury result allocation	(1.3)	0.1	-	-	-	-	-	-	**(1.3)**	**0.1**
Total other comprehensive income	**1.6**	**2.8**	**-**	**-**	**-**	**-**	**-**	**-**	**1.6**	**2.8**
Total comprehensive income/(loss)	**54.4**	**97.4**	**62.9**	**20.4**	**2.8**	**2.9**	**(8.7)**	**(3.6)**	**111.4**	**117.1**

	Retail business (RB) by product lines									
	Retail banking		Insurance		Pension business		Inter-RB eliminations		Total RB	
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
Cash and short-term funds	103.4	272.7	-	0.1	0.2	0.2	–	–	**103.6**	**273.0**
Mandatory cash balances with central banks	-	28.4	-	–	-	–	–	–	**-**	**28.4**
Due from other banks.	0.4	19.6	-	43.9	21.8	29.7	–	–	**22.2**	**93.2**
Loans and advances to customers	2,687.5	2,495.0	-	–	7.2	7.7	–	–	**2,694.7**	**2,502.7**
Other financial instruments	0.2	36.8	-	41.7	138.0	90.0	–	–	**138.2**	**168.5**
Investments in associates and joint ventures	73.8	–	-	–	-	–	-	–	**73.8**	**–**
Other assets items	195.8	160.4	-	49.0	1.6	1.1	–	–	**197.4**	**210.5**
Net amount of intersegment settlements	1,542.7	1,827.2	-	57.1	33.3	23.2	–	–	**1,576.0**	**1,907.5**
Segment assets	**4,603.8**	**4,840.1**	**-**	**191.8**	**202.1**	**151.9**	–	**–**	**4,805.9**	**5,183.8**
Due to other banks	0.1	0.2	-	–	-	–	–	–	**0.1**	**0.2**
Customer deposits	4,201.6	4,294.8	-	–	-	–	–	–	**4,201.6**	**4,294.8**
Other borrowed funds	0.4	8.3	-	–	-	–	–	–	**0.4**	**8.3**
Debt securities issued	93.0	72.0	-	–	-	–	–	–	**93.0**	**72.0**
Other liabilities items	39.3	49.3	-	161.1	191.9	144.0	–	–	**231.2**	**354.4**
Segment liabilities	**4,334.4**	**4,424.6**	**-**	**161.1**	**191.9**	**144.0**	–	–	**4,526.3**	**4,729.7**

4. ANALYSIS BY SEGMENT (CONTINUED)

	Other business							
	Construction and development		Other		Inter-Other eliminations		Total Other business	
	2018	2017	2018	2017	2018	2017	2018	2017
Revenues from:								
External customers	38.4	50.3	11.7	17.4	-	-	**50.1**	**67.7**
Other segments	4.9	2.9	2.0	2.3	(0.1)	-	**6.8**	**5.2**
Total revenues	**43.3**	**53.2**	**13.7**	**19.7**	**(0.1)**	**-**	**56.9**	**72.9**
Segment income and expense								
Interest income	5.2	3.2	0.6	1.0	-	-	**5.8**	**4.2**
Interest expense	(20.5)	(19.6)	(7.7)	(8.5)	-	-	**(28.2)**	**(28.1)**
Treasury result allocation	2.2	1.7	7.1	(1.8)	-	-	**9.3**	**(0.1)**
Net interest expense	**(13.1)**	**(14.7)**	**-**	**(9.3)**	**-**	**-**	**(13.1)**	**(24.0)**
Reversal of provision/(provision charge) for credit losses of debt financial assets	0.7	-	0.1	(0.1)	-	-	**0.8**	**(0.1)**
Net (expense)/income after provision charge for credit losses	**(12.4)**	**(14.7)**	**0.1**	**(9.4)**	**-**	**-**	**(12.3)**	**(24.1)**
Net fee and commission income/(expense)	(0.1)	(0.1)	0.8	0.6	-	-	**0.7**	**0.5**
Other losses net of gains arising from financial instruments and foreign currencies	(0.8)	(0.4)	(2.6)	(0.2)	-	-	**(3.4)**	**(0.6)**
Share in loss of associates and joint ventures	-	-	(1.0)	(1.2)	-	-	**(1.0)**	**(1.2)**
Profit from disposal of subsidiaries and associates	0.1	-	1.1	0.1	-	-	**1.2**	**0.1**
Provision charge for credit losses on credit related commitments and other financial assets	(0.1)	-	(0.1)	-	-	-	**(0.2)**	**-**
Other operating expense	(22.0)	(28.8)	(12.6)	(11.1)	-	-	**(34.6)**	**(39.9)**
Net operating expense	**(35.3)**	**(44.0)**	**(14.3)**	**(21.2)**	**-**	**-**	**(49.6)**	**(65.2)**
Staff costs and administrative expenses	(0.6)	(0.3)	(8.0)	(11.6)	-	-	**(8.6)**	**(11.9)**
Loss before taxation	**(35.9)**	**(44.3)**	**(22.3)**	**(32.8)**	**-**	**-**	**(58.2)**	**(77.1)**
Income tax benefit	5.9	7.2	2.9	5.8	-	-	**8.8**	**13.0**
Loss after tax	**(30.0)**	**(37.1)**	**(19.4)**	**(27.0)**	**-**	**-**	**(49.4)**	**(64.1)**
Loss	**(30.0)**	**(37.1)**	**(19.4)**	**(27.0)**	**-**	**-**	**(49.4)**	**(64.1)**
Capital expenditure	**13.5**	**15.5**	**3.3**	**2.7**	**-**	**-**	**16.8**	**18.2**
Depreciation	**0.8**	**0.2**	**1.6**	**1.9**	**-**	**-**	**2.4**	**2.1**

4. ANALYSIS BY SEGMENT (CONTINUED)

	Other business							
	Construction and development		Other		Inter-other eliminations		Total Other business	
	2018	2017	2018	2017	2018	2017	2018	2017
Net loss	**(30.0)**	**(37.1)**	**(19.4)**	**(27.0)**	**-**	**-**	**(49.4)**	**(64.1)**
Other comprehensive income/(loss):								
Net result on financial assets available-for-sale, net of tax	n/a	-	n/a	(2.6)	n/a	-	**n/a**	**(2.6)**
Cash flow hedges, net of tax	-	-	-	(0.7)	-	-	**-**	**(0.7)**
Share in profit of associates and joint ventures	-	-	0.3	-	-	-	**0.3**	-
Land and premises revaluation, net of tax	-	-	1.3	(0.1)	-	-	**1.3**	**(0.1)**
Total other comprehensive (expenses)/income before treasury result allocation	**-**	**-**	**1.6**	**(3.4)**	**-**	**-**	**1.6**	**(3.4)**
Treasury result allocation	-	-	-	-	-	-	**-**	**-**
Total other comprehensive (expenses)/income	**-**	**-**	**1.6**	**(3.4)**	**-**	**-**	**1.6**	**(3.4)**
Total comprehensive loss	**(30.0)**	**(37.1)**	**(17.8)**	**(30.4)**	**-**	**-**	**(47.8)**	**(67.5)**

	Other business							
	Construction and development		Other		Inter-Other eliminations		Total Other business	
	2018	2017	2018	2017	2018	2017	2018	2017
Cash and short-term funds	-	0.1	0.1	–	–	–	**0.1**	**0.1**
Loans and advances to customers	13.5	14.4	1.6	1.8	–	–	**15.1**	**16.2**
Other financial instruments	-	–	13.7	9.7	–	–	**13.7**	**9.7**
Investments in associates and joint ventures	-	–	13.7	25.6	–	–	**13.7**	**25.6**
Other assets items	300.8	308.3	108.0	112.0	–	–	**408.8**	**420.3**
Segment assets	**314.3**	**322.8**	**137.1**	**149.1**	**–**	**–**	**451.4**	**471.9**
Customer deposits	-	–	4.6	3.6	–	–	**4.6**	**3.6**
Other borrowed funds	-	3.2	-	–	–	–	**-**	**3.2**
Other liabilities items	62.8	84.7	7.0	19.1	–	–	**69.8**	**103.8**
Net amount of intersegment settlements	297.6	249.7	92.9	66.7	–	–	**390.5**	**316.4**
Segment liabilities	**360.4**	**337.6**	**104.5**	**89.4**	**–**	**–**	**464.9**	**427.0**

Geographical segment information based on geographical location of entities within the Group:

	2018			2017		
	Russia	Other	Total	Russia	Other	Total
Revenues from external customers for the year	1,364.3	88.5	**1,452.8**	1,343.8	90.1	**1,433.9**
Non-current assets as at end of period	846.2	196.5	**1,042.7**	684.1	149.0	**833.1**

5. INTEREST INCOME AND EXPENSE

	2018	2017
Interest income calculated using the effective interest method		
Financial assets measured at amortised cost		
• Loans and advances to customers	902.7	949.4
• Due from other banks	38.3	45.8
• Investment financial assets	1.9	n/a
• Other financial assets, including securities	n/a	21.4
Debt financial assets measured at fair value through other comprehensive income	24.7	n/a
Total interest income calculated using the effective interest method	**967.6**	**1,016.6**
Other interest income		
Financial assets at fair value through profit or loss	42.1	15.6
Net investments in finance lease	24.3	24.0
Total other interest income	**66.4**	**39.6**
Total interest income	**1,034.0**	**1,056.2**
Interest expense		
Customer deposits	(424.2)	(433.9)
Due to other banks and other borrowed funds	(87.0)	(107.5)
Debt securities issued	(17.6)	(24.9)
Subordinated debt	(11.9)	(15.0)
Total interest expense calculated using the effective interest rate	**(540.7)**	**(581.3)**
Advances received under construction agreements	(1.9)	n/a
Total interest expense	**(542.6)**	**(581.3)**
Payments to deposit insurance system	**(22.8)**	**(14.7)**
Net interest income	**468.6**	**460.2**

6. NET FEE AND COMMISSION INCOME

	2018	2017
Commission on settlement transactions and trade finance	74.6	75.7
Fee received for insurance products distribution and agents' services	20.9	18.2
Commission on guarantees and other credit related commitments issued	11.7	13.2
Commission on cash transactions	10.8	6.7
Commission on operations with securities and capital markets	9.3	10.7
Other	6.1	5.1
Total fee and commission income	**133.4**	**129.6**
Commission on settlement transactions and trade finance	(34.6)	(25.5)
Commission on cash transactions	(2.7)	(2.7)
Commission on operations with securities and capital markets	(1.6)	(2.8)
Commission on guarantees and other credit related facilities received	(1.3)	(0.5)
Other	(3.2)	(2.8)
Total fee and commission expense	**(43.4)**	**(34.3)**
Net fee and commission income	**90.0**	**95.3**

7. GAINS NET OF LOSSES ARISING FROM OTHER FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2018	2017
Gains net of losses arising from derivative financial assets and liabilities	15.5	5.0
Gains net of losses from associates and joint ventures designated as at fair value through profit or loss	6.5	6.6
Gains net of losses arising from non-derivative trading financial assets	5.5	4.8
Losses net of gains arising from investment financial assets mandatorily measured at fair value through profit or loss	(5.0)	n/a
Losses net of gains arising from investment financial assets designated as at fair value through profit or loss	(0.8)	(3.6)
Losses net of gains arising from other financial instruments designated as at fair value through profit or loss	(0.6)	–
Total gains net of losses arising from financial instruments at fair value through profit or loss	**21.1**	**12.8**

8. GAINS NET OF LOSSES ARISING FROM SALE OF FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME AND FROM SALE OF INVESTMENT FINANCIAL ASSETS AVAILABLE-FOR-SALE

	2018	2017
Gains net of losses arising from sale of loans at fair value through other comprehensive income	5.9	n/a
Gains net of losses arising from sale of due from other banks at fair value through other comprehensive income	0.4	n/a
Gains net of losses from sale of investment financial assets available-for-sale	n/a	19.0
Impairment of investment financial assets available-for-sale	n/a	(5.4)
Total gains net of losses arising from sale of financial instruments at fair value through other comprehensive income and from sale of investment financial assets available-for-sale	**6.3**	**13.6**

9. GAINS NET OF LOSSES / (LOSSES NET OF GAINS) ARISING FROM FOREIGN CURRENCIES AND PRECIOUS METALS

	2018	2017
Gains net of losses/(losses net of gains) arising from dealing in foreign currencies and precious metals	93.9	(14.5)
• non-derivative financial assets	59.2	(31.8)
• derivative financial instruments	34.7	17.3
Foreign exchange translation (losses net of gains)/gains net of losses	(72.5)	2.1
Total gains net of losses/(losses net of gains) arising from foreign currencies and precious metals	**21.4**	**(12.4)**

Gains net of losses/(losses net of gains) arising from dealing in foreign currencies represent foreign currency trading results and changes in value of foreign currency derivative positions, including those economically hedging net foreign currency positions.

10. OTHER GAINS NET OF LOSSES ON FINANCIAL INSTRUMENTS AT AMORTISED COST

	2018	2017
Gains net of losses arising from sale of loans and advances to customers at amortised cost including assets previously reclassified	0.7	39.2
Initial recognition of financial assets and liabilities at amortised cost		
Loans and advances to customers	0.7	(0.2)
Trading credit products	–	0.1
Total other gains net of losses financial instruments at amortised cost	**1.4**	**39.1**

Gains net of losses from sale of loans and advances to customers at amortised cost including assets previously reclassified, including debt securities.
The gains reflect increases in value of these securities due to the increased market activity and improved liquidity during the holding period since their acquisition.

For the year ended 31 December 2017, gains predominantly resulted from sale of debt securities of the Russian Federation received as payment for the preference shares issued by the Bank in July 2015 as well as other government and corporate debt securities.

11. LOSSES NET OF GAINS FROM EXTINGUISHMENT OF LIABILITIES

	2018	2017
Due to other banks	(1.0)	0.1
Other borrowed funds	(0.1)	(0.1)
Customer deposits	0.6	–
Own issued debt securities (non-subordinated)	–	(0.1)
Total losses net of gains from extinguishment of liabilities	**(0.5)**	**(0.1)**

12. OTHER OPERATING INCOME

	2018	2017
Income arising from state insurance medical programme	2.9	3.1
Gains arising from disposal of property	1.8	1.3
Fines and penalties received	0.4	0.5
Dividends received on equity investment financial assets at fair value through other comprehensive income	0.3	2.4
Write-off of liabilities upon expiration	0.3	0.1
Reimbursements received and reversal of impairment of other non-financial assets	0.1	–
Other	4.3	5.7
Total other operating income	**10.1**	**13.1**

13. REVENUES LESS EXPENSES FROM OPERATING LEASING

	2017	2017
Revenue from operating lease of equipment	**26.5**	**22.5**
Expenses related to equipment leased out		
Depreciation and amortisation	(11.9)	(9.9)
Insurance	(0.9)	(0.9)
Loss arising from disposal	(0.5)	(1.7)
Taxes other than on income	(0.5)	(0.8)
Impairment of equipment	(0.1)	(0.2)
Other expenses	(1.0)	(0.6)
Total expenses related to equipment leased out	**(14.9)**	**(14.1)**
Total revenues less expenses on operating leasing	**11.6**	**8.4**

14. REVENUES AND OTHER GAINS FROM OTHER NON-BANKING ACTIVITIES

	2018	2017
Construction, development and other real estate operations		
Revenue from sale of property intended for sale in the ordinary course of business	50.9	42.7
Rental income from investment property	4.7	5.5
Other income from real estate operations	6.5	4.4
Revenues and other gains from construction, development and other real estate operations	**62.1**	**52.6**
Other non-banking activities		
Telecommunications and media	4.1	4.8
Food and agriculture	1.2	0.3
Other	3.9	3.7
Revenues from other non-banking activities	**9.2**	**8.8**
Total revenues and other gains from other non-banking activities	**71.3**	**61.4**

15. COST OF SALES AND OTHER EXPENSES FROM OTHER NON-BANKING ACTIVITIES

	2018	2017
Construction, development and other real estate operations		
Cost of sales – property intended for sale in the ordinary course of business	37.8	32.0
Administrative expenses	9.4	7.5
Expenses from write-down of property held for sale and impairment of other assets related to non-banking activities	7.6	8.4
Staff cost	2.4	2.4
Depreciation and amortisation	0.9	0.6
Cost of sales and other expenses from construction, development and other real estate operations	**58.1**	**50.9**
Other non-banking activities		
Cost of sales	4.1	3.0
Administrative expenses	2.3	4.6
Staff cost	1.2	1.1
Depreciation and amortisation	0.6	1.0
Expenses from write-down of property held for sale and impairment of other assets related to non-banking activities	–	0.9
Cost of sales and other expenses from other non-banking activities	**8.2**	**10.6**
Total cost of sales and other expenses from other non-banking activities	**66.3**	**61.5**

16. NET INSURANCE PREMIUMS EARNED

	2018	2017
Gross premiums written	120.5	97.1
Premiums inward	1.6	1.4
Change in provision for unearned premiums, gross	(40.9)	(29.7)
Premiums ceded to reinsurers	(5.1)	(5.7)
Change in reinsurers' share of provision for unearned premiums	(0.2)	0.2
Pension contributions accounted under IFRS 4 *Insurance Contracts*	45.9	19.3
Net insurance premiums earned	**121.8**	**82.6**

The movements in provision for unearned premiums were as follows:

	Provision for unearned premiums, gross	Reinsurers' share of provision for unearned premiums	Provision for unearned premiums, net
2016	**49.6**	**(1.9)**	**47.7**
Change in provision, gross	29.7	–	29.7
Change in reinsurers' share of provision	–	(0.2)	(0.2)
Transfer of third party liability insurance portfolio	(0.1)	–	(0.1)
2017	**79.2**	**(2.1)**	**77.1**
Change in provision, gross	40.9	–	40.9
Change in reinsurers' share of provision	–	0.2	0.2
Reclassification to disposal group	(108.1)	1.9	(106.2)
Transfer of third party liability insurance portfolio	(12.0)	–	(12.0)
2018	**–**	**–**	**–**

17. NET INSURANCE CLAIMS INCURRED, MOVEMENT IN LIABILITIES TO POLICYHOLDERS AND ACQUISITION COSTS

	2018	2017
Gross claims paid	(13.6)	(8.3)
Claims paid inward	(0.2)	(0.5)
Change in loss provisions, gross	(27.4)	(21.9)
Claims ceded to reinsurers	3.9	3.0
Change in reinsurers' share of loss provisions	2.2	3.1
Pension benefits accounted under IFRS 4 *Insurance Contracts*	(7.0)	(10.7)
Change in pension liabilities accounted under IFRS 4 *Insurance Contracts*	(47.7)	(18.1)
Acquisition costs paid net of related commission income from reinsurance ceded	(9.5)	(8.4)
Net insurance claims incurred, movement in liabilities to policyholders and acquisition costs	**(99.3)**	**(61.8)**

The movements in loss provisions were as follows:

	Loss provisions, gross	Reinsurers' share of loss provisions	Loss provisions, net
2016	**28.6**	**(3.4)**	**25.2**
Provision created during the period	32.6	–	32.6
Insurance claims settled	(10.7)	–	(10.7)
Change in reinsurers' share of provision	–	(3.1)	(3.1)
Transfer of third party liability insurance portfolio	(0.4)	–	(0.4)
2017	**50.1**	**(6.5)**	**43.6**
Provision created during the period	41.2	–	41.2
Insurance claims settled	(13.8)	–	(13.8)
Change in reinsurers' share of provision	–	(2.2)	(2.2)
Reclassification to disposal group	(72.0)	8.7	(63.3)
Changes in value of IFRS5 assets after reclassification	(5.5)	–	(5.5)
2018	**–**	**–**	**–**

The movements in pension liabilities accounted under IFRS 4 *Insurance Contracts* were as follows:

	Pension liabilities accounted under IFRS 4 *Insurance Contracts*
2016	**125.1**
Change in pension liabilities accounted under IFRS 4 Insurance contracts	18.1
2017	**143.2**
Change in pension liabilities accounted under IFRS 4 Insurance contracts	47.7
2018	**190.9**

18. OTHER OPERATING EXPENSE

	2018	2017
Expenses under customer loyalty programmes	10.9	5.6
Collection of indebtedness	2.1	2.3
Expenses related to plastic cards' emission and services	1.9	0.6
Impairment loss related to other non-financial assets accounted at cost	1.0	0.8
Losses arising from disposal of property	0.8	0.5
Losses under claims and frauds	0.7	0.5
Taxes other than on income, related to other operating activity	0.2	0.5
Other	5.4	3.3
Total other operating expense	**23.0**	**14.1**

19. STAFF COSTS AND ADMINISTRATIVE EXPENSES

	2018	2017
Staff costs	143.2	142.2
Defined contribution pension expense	14.0	13.0
Depreciation and other expenses related to premises and equipment	21.6	22.7
Advertising expenses	16.7	16.2
Leasing and rent expenses	15.5	15.3
Amortisation and other expenses related to intangibles, except for amortisation of core deposit and customer loan intangible	14.7	13.1
Charity	9.4	6.6
Professional services	9.0	6.4
Post and telecommunication expenses	4.9	5.1
Taxes other than on income	3.2	11.6
Security expenses	2.1	2.0
Transport expenses	1.6	0.8
Amortisation of core deposit and customer loan intangible	1.4	2.8
Insurance	0.3	0.2
Other	2.2	2.9
Total staff costs and administrative expenses	**259.8**	**260.9**

20. INCOME TAX

Income tax expense comprises the following:

	2018	2017
Current tax expense	48.6	58.4
Deferred income tax benefit due to the origination and reversal of temporary differences	(13.0)	(18.7)
Income tax expense	**35.6**	**39.7**

The income tax rate applicable to the majority of the Group's income in 2018 is 20% (2017: 20%). The income tax rate applicable to subsidiaries' income ranges from 0% to 35% in 2018 (2017: 0% to 35%).

	2018	2017
IFRS profit before tax	214.4	159.7
Theoretical tax expense at the applicable statutory rate of each Group entity	47.2	35.5
Tax effect of items, which are not deductible or assessable for tax purposes:		
Change in unrecognised deferred taxes	4.9	3.8
Non-deductible expenses	13.5	8.3
Effect of disposal of subsidiaries	(14.0)	–
Income, which is exempt from taxation	(6.0)	(3.7)
Income taxed at different rates	(8.9)	(3.9)
Other	(1.1)	(0.3)
Income tax expense	**35.6**	**39.7**

The Group's effective income tax rate for the year ended 31 December 2018 was 16.6% (for the year ended 31 December 2017: 24.9%). The difference between the theoretical and actual income tax expense for the year ended 31 December 2018 was mainly due to differences associated with effect of disposal of subsidiaries. The difference between the theoretical and actual income tax expense for the year ended 31 December 2017 was mainly due to differences associated with non-deductible expenses.

Differences between IFRS and taxation regulations give rise to certain temporary differences between the carrying amount of certain assets and liabilities for financial reporting purposes and for profits tax purposes. The tax effect of the movement on these temporary differences is recorded at rates from 0% to 35% (2017: from 0% to 35%). The Bank and its subsidiaries have no right to set off current tax assets and tax liabilities between legal entities, so deferred income tax assets and deferred income tax liabilities are separately assessed for each entity.

20. INCOME TAX (CONTINUED)

Origination and reversal of temporary differences	2016	Origination and reversal of temporary differences: Credited/ (charged) to profit or loss	Credited/ (charged) to other comprehensive income	Credited/ (charged) to retained earnings	Currency translation difference	Business combination	2017	Impact of adopting IFRS 9 and IFRS 15 at 1 January 2018	Origination and reversal of temporary differences: Credited/ (charged) to profit or loss	Credited/ (charged) to other comprehensive income	Credited/ (charged) to retained earnings	Currency translation difference	Business Combination and Disposal of subsidiaries	2018
Tax effect of deductible temporary differences:														
Fair value of loans acquired through business combinations	**23.8**	(0.9)	–	–	0.1	–	**23.0**	(3.8)	–	–	–	–	–	**19.2**
Allowances for impairment and provisions for other losses	**14.8**	(0.3)	–	0.1	(0.5)	–	**14.1**	27.3	(11.4)	–	–	0.4	(6.1)	**24.3**
Tax losses carried forward	**90.4**	(3.1)	–	–	(0.7)	–	**86.6**	–	(17.3)	–	–	(3.7)	(6.1)	**59.5**
Fair value of derivatives	**1.2**	0.4	–	–	0.1	–	**1.7**	–	0.1	–	–	(0.2)	(0.1)	**1.5**
Accruals	**27.6**	8.5	–	–	0.1	–	**36.2**	0.1	5.0	–	–	(0.2)	(5.4)	**35.7**
Fair value of securities	**7.9**	(5.4)	–	(0.3)	–	–	**2.2**	(2.2)	n/a	n/a	n/a	n/a	n/a	**n/a**
Fair value of debt financial assets	**n/a**	n/a	n/a	n/a	n/a	n/a	**n/a**	(0.1)	0.1	0.3	–	(0.1)	–	**0.2**
Fair value of equity financial assets	**n/a**	n/a	n/a	n/a	n/a	n/a	**n/a**	2.3	(0.6)	0.8	–	–	–	**2.5**
Fair value of investment property	**0.1**	2.3	–	–	–	–	**2.4**	0.1	0.8	–	–	0.1	0.1	**3.5**
Loans and advances to customers	**11.2**	7.2	–	–	0.2	–	**18.6**	(13.0)	8.3	1.6	–	0.3	0.2	**16.0**
Effect of currency translation	**0.1**	(0.1)	–	–	–	–	–	–	–	–	–	–	–	**–**
Property and equipment	**3.7**	2.1	–	–	–	–	**5.8**	–	1.5	–	–	–	–	**7.3**
Investments in subsidiaries and associates	**–**	–	–	–	–	–	**–**	–	25.2	–	–	–	–	**25.2**
Other	**21.5**	(7.3)	–	–	(1.2)	–	**13.0**	(0.5)	5.2	–	–	(0.6)	0.3	**17.4**
Gross deferred income tax assets	**202.3**	**3.4**	–	**(0.2)**	**(1.9)**	–	**203.6**	**10.2**	**16.9**	**2.7**	**–**	**(4.0)**	**(17.1)**	**212.3**
Unrecognised deferred income tax assets	**(18.0)**	(3.8)	–	–	1.0	–	**(20.8)**	–	(9.8)	–	–	5.0	12.8	**(12.8)**
Deferred income tax asset	**184.3**	**(0.4)**	–	**(0.2)**	**(0.9)**	–	**182.8**	**10.2**	**7.1**	**2.7**	**–**	**1.0**	**(4.3)**	**199.5**
Tax effect of taxable temporary differences:														
Fair value measurement of securities	**(9.9)**	(0.2)	(0.4)	–	0.2	–	**(10.3)**	10.3	n/a	n/a	n/a	n/a	n/a	**n/a**
Fair value of debt financial assets	**n/a**	n/a	n/a	n/a	n/a	n/a	**n/a**	(10.0)	0.1	1.1	–	0.3	0.2	**(8.3)**
Fair value of equity financial assets	**n/a**	n/a	n/a	n/a	n/a	n/a	**n/a**	(1.3)	–	–	–	–	–	**(1.3)**
Property and equipment	**(14.0)**	1.3	–	0.5	0.1	–	**(12.1)**	–	1.0	(1.4)	–	–	0.8	**(11.7)**
Intangible assets	**(1.5)**	0.4	–	–	–	–	**(1.1)**	–	0.3	–	–	(0.1)	0.5	**(0.4)**
Net investment in lease	**(0.1)**	(2.1)	–	–	–	–	**(2.2)**	–	(1.2)	–	–	–	0.2	**(3.2)**
Fair value of investment property	**(11.3)**	2.4	–	–	0.1	(2.8)	**(11.6)**	–	0.4	–	–	(0.1)	0.2	**(11.1)**
Allowances for impairment and provisions for other losses	**(20.5)**	2.1	–	–	0.1	–	**(18.3)**	6.2	(0.1)	–	–	–	0.5	**(11.7)**
Fair value of derivatives	**(18.1)**	4.4	0.2	–	(0.1)	–	**(13.6)**	–	1.0	–	–	(0.1)	–	**(12.7)**
Other borrowed funds	**(35.0)**	0.4	–	–	–	–	**(34.6)**	–	2.3	–	–	–	2.1	**(30.2)**
Effect of currency translation	**(1.3)**	–	–	–	(0.1)	–	**(1.4)**	–	2.3	(2.3)	–	(0.3)	–	**(1.7)**
Other	**(20.0)**	10.4	–	–	–	–	**(9.6)**	2.7	(0.2)	–	–	1.6	5.5	**–**
Deferred income tax liability	**(131.7)**	**19.1**	**(0.2)**	**0.5**	**0.3**	**(2.8)**	**(114.8)**	**7.9**	**5.9**	**(2.6)**	**–**	**1.3**	**10.0**	**(92.3)**
Deferred income tax asset, net	**87.8**	**9.7**	**3.3**	**(0.2)**	**(1.9)**	–	**98.7**	**13.7**	**7.4**	**2.4**	**–**	**1.3**	**(3.9)**	**119.6**
Deferred income tax liability, net	**(35.2)**	**9.0**	**(3.5)**	**0.5**	**1.3**	**(2.8)**	**(30.7)**	**4.4**	**5.6**	**(2.3)**	**–**	**1.0**	**9.6**	**(12.4)**

20. INCOME TAX (CONTINUED)

As at 31 December 2018, recognised deferred income tax assets included RUR 46.7 billion resulting from tax losses carried forward (31 December 2017: RUR 75.4 billion) primarily related to the Group members located in the Russian Federation. The existing tax losses eligible for carry forward are expected to be fully utilised by 2027.

Effective 1 January 2017, new tax regulations in Russia cancelled the previously existing 10-year limit for tax loss carry forward for tax losses incurred in 2007 and subsequent periods. Further, these regulations stipulate that the taxable income in each of the years 2017-2020 cannot be reduced by prior period tax loss carry forward by more than 50%. Group determined that deferred income tax asset could be utilised, taking into account the level of predicted profitability and assumptions that in the years after 2017 (given planned reorganisations), the predicted profitability would not be lower than that in 2017-2018.

As at 31 December 2018 the Group had unrecognised deferred income tax asset of RUR 12.8 billion (31 December 2017: RUR 11.2 billion) in respect of unused tax loss expiring as presented below:

	2018	2017
Unused tax loss carried forward expiring by the end of:		
31 December 2019	8.1	8.0
31 December 2020	2.2	0.3
After 31 December 2020	30.2	15.0
With no expiry date	57.2	45.2
Total tax loss carry forwards	**97.7**	**68.5**

As at 31 December 2018, the aggregate amount of temporary differences associated with investments in subsidiaries, associates and joint ventures for which deferred income tax liability has not been recognised amounted to RUR 197.0 billion (31 December 2017: RUR 317.5 billion). See also Note 48.

The following table provides disclosure of income tax effects relating to each component of other comprehensive income:

	2018			2017		
	Before tax	Tax expense/ (recovery)	Net of tax	Before tax	Tax expense/ (recovery)	Net of tax
Net result on financial assets available-for-sale	n/a	n/a	n/a	2.9	(0.4)	2.5
Net result on debt financial assets at fair value through other comprehensive income	(9.3)	1.9	(7.4)	n/a	n/a	n/a
Net result on equity financial assets at fair value through other comprehensive income	(3.5)	0.8	(2.7)	n/a	n/a	n/a
Actuarial losses net of gains arising from difference between pension plan assets and obligations	(0.2)	–	(0.2)	1.1	–	1.1
Cash flow hedges	–	–	–	(0.3)	0.2	(0.1)
Share of other comprehensive income of associates and joint ventures	3.5	–	3.5	(0.4)	–	(0.4)
Land and premises revaluation	7.6	(1.4)	6.2	(0.1)	–	(0.1)
Effect of translation	36.1	(2.3)	33.8	0.3	–	0.3
Reclassification to income statement on sale of debt financial assets at fair value through other comprehensive income	(6.2)	1.1	(5.1)	–	–	–
Other comprehensive income/(loss)	**28.0**	**0.1**	**28.1**	**3.5**	**(0.2)**	**3.3**

21. CASH AND SHORT-TERM FUNDS

	2018	2017
Cash on hand	328.6	289.9
Cash balances (other than mandatory) with central banks	386.0	295.5
Correspondent accounts with other banks		
• Russia	155.3	94.7
• OECD	56.9	87.3
• Other countries	9.1	6.4
Total Correspondent accounts with other banks	221.3	188.4
Less: allowance for cash and short term funds impairment	(0.1)	–
Total cash and short-term funds	**935.8**	**773.8**
Less: correspondent accounts in precious metals	(6.4)	(35.6)
Less: restricted cash	(0.1)	(0.1)
Total cash and cash equivalents	**929.3**	**738.1**

The following table shows reconciliation from the opening to the closing balance of the loss allowance of correspondent accounts with other banks at amortised cost by class. Comparative amounts for 2017 represent allowance account for credit losses and reflect measurement basis under IAS 39.

	2018					2017
	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Purchased credit-impaired	Total	Total
Other countries						
Balance at 1 January	–	–	–	–	**–**	**–**
Net remeasurement of loss allowance	0.2	–	–	(0.1)	**0.1**	**–**
Disposal of subsidiaries	–	–	–	0.1	**0.1**	**–**
Foreign exchange	(0.1)	–	–	–	**(0.1)**	**–**
Balance at 31 December	**0.1**	**–**	**–**	–	**0.1**	**–**

22. TRADING FINANCIAL ASSETS

	2018	2017
Trading financial assets		
Debt securities		
• Bonds and eurobonds of Russian companies and banks	143.8	152.5
• Bonds and eurobonds of the Russian Federation	55.9	35.1
• Bonds and eurobonds of foreign companies and banks	12.1	11.2
• Bonds and eurobonds of foreign governments	6.8	17.2
• Russian municipal bonds	6.4	6.8
• Bonds of the Central Bank of the Russian Federation	–	36.0
Total debt securities	225.0	258.8
Equity securities	39.6	13.3
Trading credit products	–	4.8
Total trading financial assets	**264.6**	**276.9**
Trading financial assets, pledged under repurchase agreements		
Debt securities		
• Bonds and eurobonds of the Russian Federation	31.0	0.1
• Bonds and eurobonds of Russian companies and banks	2.7	–
• Bonds and eurobonds of foreign companies and banks	0.1	–
• Bonds and eurobonds of foreign governments	0.1	–
Total debt securities	33.9	0.1
Equity securities	0.2	0.2
Total trading financial assets, pledged under repurchase agreements	**34.1**	**0.3**
Total trading financial assets	**298.7**	**277.2**

At 31 December 2018, bonds and eurobonds of Russian companies and banks are mostly those issued by banks and companies from development real estate; equity securities are mostly represented by railway transport.

22. TRADING FINANCIAL ASSETS (CONTINUED)

Impact of adopting IFRS 9

The following table reconciles the carrying amounts of trading financial assets under IAS 39 to the carrying amounts under IFRS 9 on transition to IFRS 9 on 1 January 2018:

	Original carrying amount under IAS 39	Reclassifi-cation	New carrying amount under IFRS 9
Trading financial assets			
Debt securities			
• Bonds and eurobonds of Russian companies and banks	152.5	(16.3)	136.2
• Bonds of the Central Bank of the Russian Federation	36.0	–	36.0
• Bonds and eurobonds of the Russian Federation	35.1	(9.4)	25.7
• Bonds and eurobonds of foreign governments	17.2	–	17.2
• Bonds and eurobonds of foreign companies and banks	11.2	(0.4)	10.8
• Russian municipal bonds	6.8	–	6.8
Total debt securities	258.8	(26.1)	232.7
Equity securities	13.3	(9.0)	4.3
Trading credit products	4.8	(4.8)	–
Total trading financial assets	**276.9**	**(39.9)**	**237.0**
Trading financial assets, pledged under repurchase agreements			
Debt securities			
• Bonds and eurobonds of the Russian Federation	0.1	–	0.1
Total debt securities	0.1	–	0.1
Equity securities	0.2	–	0.2
Total trading financial assets, pledged under repurchase agreements	**0.3**	**–**	**0.3**
Total trading financial assets	**277.2**	**(39.9)**	**237.3**

23. DERIVATIVE FINANCIAL INSTRUMENTS

Foreign exchange and other financial instruments are generally traded in an over-the-counter market with professional market counterparties on standardised contractual terms and conditions.

The table below includes derivative contracts outstanding at 31 December 2018 and 31 December 2017:

	2018		2017	
	Positive fair value	Negative fair value	Positive fair value	Negative fair value
Derivative financial assets and liabilities held for trading				
Foreign exchange and precious metals contracts				
• forwards	7.7	(6.5)	6.7	(1.9)
• futures	–	–	–	(0.1)
• swaps	31.8	(29.1)	21.2	(9.8)
• options	15.5	(11.7)	2.2	(3.8)
Contracts with securities				
• forward sale of equity securities	4.4	(0.1)	2.0	–
• futures on equity securities	–	(0.2)	–	(0.2)
• options	4.9	(3.1)	6.1	(6.9)
Interest Rate contracts				
• single currency interest rate swaps	22.1	(24.9)	23.5	(26.8)
• cross currency interest rate swaps	89.9	(37.5)	75.5	(51.2)
• cap/floor	1.9	(1.8)	1.3	(0.5)
• swaption	0.1	(0.1)	–	–
Contracts with other underlyings				
• CDS protection sold	0.2	(0.5)	0.7	(0.2)
• CDS protection purchased	0.6	(1.6)	0.1	(1.2)
• futures on indexes	–	(0.1)	0.1	–
• options on indexes	0.3	(0.2)	1.8	(0.8)
• swaps on indexes	0.3	(0.3)	–	–
• commodity swaps	3.8	(1.9)	3.9	(5.6)
• commodity futures	0.7	(0.1)	1.4	(1.3)
• commodity options	18.1	(20.2)	20.7	(22.7)
• commodity forwards	0.1	–	1.1	(0.3)
Embedded derivatives on structured instruments				
• embedded derivatives on foreign exchange instruments	n/a	n/a	2.4	–
• embedded derivatives on commodity instruments	n/a	n/a	4.2	–
Total derivative financial assets and liabilities held for trading	**202.4**	**(139.9)**	**174.9**	**(133.3)**
Derivative financial assets and liabilities designated as hedging instruments				
Derivatives held as fair value hedges				
• interest rate swaps	0.1	–	0.7	(0.3)
Derivatives held as cash flow hedges				
• foreign exchange swaps	–	–	–	(0.1)
• foreign exchange forwards	–	**(0.3)**	–	(0.3)
Total derivative financial assets and liabilities designated as hedging instruments	**0.1**	**(0.3)**	**0.7**	**(0.7)**
Total derivative financial assets and liabilities	**202.5**	**(140.2)**	**175.6**	**(134.0)**

The table below includes gains net of losses / (losses net of gains), arising from derivative contracts held for trading presented in gains net of losses arising from foreign currencies and precious metals :

	2018	2017
Foreign exchange and precious metals contracts	31.1	30.8
Foreign currency component of contracts with other basic underlyings	4.5	0.7
Foreign currency component of contracts with securities	1.0	(0.1)
Foreign currency derivatives embedded in structured instruments	–	(0.5)
Foreign currency component of interest rate swaps	(1.9)	(13.6)
Total gains net of losses from derivative contracts held for trading presented in gains net of losses arising from foreign currencies and precious metals (Note 9)	**34.7**	**17.3**

23. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

Impact of adopting IFRS 9

The following table reconciles the carrying amounts of derivative financial assets and liabilities under IAS 39 to the carrying amounts under IFRS 9 on transition to IFRS 9 on 1 January 2018:

	Original carrying amount under IAS 39		Reclassification		New carrying amount under IFRS 9	
	Positive fair value	Negative fair value	Positive fair value	Negative fair value	Positive fair value	Negative fair value
Derivative financial assets and liabilities held for trading						
Foreign exchange and precious metals contracts						
• forwards	6.7	(1.9)	–	–	6.7	(1.9)
• futures	–	(0.1)	–	–	–	(0.1)
• swaps	21.2	(9.8)	–	–	21.2	(9.8)
• options	2.2	(3.8)	–	–	2.2	(3.8)
Contracts with securities						
• forward sale of equity securities	2.0	–	–	–	2.0	–
• futures on equity securities	–	(0.2)	–	–	–	(0.2)
• options	6.1	(6.9)	–	–	6.1	(6.9)
Interest Rate contracts						
• single currency interest rate swaps	23.5	(26.8)	–	–	23.5	(26.8)
• cross currency interest rate swaps	75.5	(51.2)	–	–	75.5	(51.2)
• cap/floor	1.3	(0.5)	–	–	1.3	(0.5)
Contracts with other underlyings						
• CDS protection sold	0.7	(0.2)	–	–	0.7	(0.2)
• CDS protection purchased	0.1	(1.2)	–	–	0.1	(1.2)
• futures on indexes	0.1	–	–	–	0.1	–
• options on indexes	1.8	(0.8)	–	–	1.8	(0.8)
• commodity swaps	3.9	(5.6)	–	–	3.9	(5.6)
• commodity futures	1.4	(1.3)	–	–	1.4	(1.3)
• commodity options	20.7	(22.7)	–	–	20.7	(22.7)
• commodity forwards	1.1	(0.3)	–	–	1.1	(0.3)
Embedded derivatives on structured instruments						
• embedded derivatives on foreign exchange instruments	2.4	–	(2.4)	–	–	–
• embedded derivatives on commodity instruments	4.2	–	(4.2)	–	–	–
Total derivative financial assets and liabilities held for trading	**174.9**	**(133.3)**	**(6.6)**	**–**	**168.3**	**(133.3)**

24. DUE FROM OTHER BANKS

	2018	2017
Due from other banks at amortised cost		
Due from other banks		
• Russia	372.7	372.2
• OECD	21.7	75.5
• Other countries	291.7	405.9
Total gross due from other banks at amortised cost	686.1	853.6
Less: Impairment loss allowance	(0.6)	(18.6)
Total net due from other banks at amortised cost	**685.5**	**835.0**
Due from other banks at fair value through profit or loss		
Due from other banks		
• Russia	7.6	n/a
Total gross due from other banks at fair value through profit or loss	**7.6**	**n/a**
Total due from other banks	**693.1**	**835.0**

As at 31 December 2018, reverse sale and repurchase agreements with other banks at amortised cost amounted to RUR 74.4 billion (31 December 2017: RUR 33.4 billion).

These reverse sale and repurchase agreements with other banks at amortised cost were collateralised by securities with fair value of RUR 78.5 billion (31 December 2017: RUR 37.6 billion). As at 31 December 2018, amount included in due from other banks of RUR 1.1 billion is pledged against issued local mortgage-backed bonds (31 December 2017: RUR 1.0 billion).

As at 31 December 2018 Due from other banks included subordinated loans to other banking institutions at amortised cost and at fair value through profit or loss in the amount of RUR 6.9 and 7.6 billion respectively (31 December 2017: subordinated loans to other banks at amortised cost in the amount of RUR 21.2 billion, net of related credit loss reserves). These subordinated loans have lower priority in relation to other creditors of these banks and may contain contractual provisions which require full or partial write-off in case of certain triggers specified in the underlying loan agreements, typically minimal capital levels.

Impact of adopting IFRS 9

The following table reconciles the carrying amounts of due from banks under IAS 39 to the carrying amounts under IFRS 9 on transition to IFRS 9 on 1 January 2018:

	Original carrying amount under IAS 39	Reclassifi-cation	Remeasu-rement under IFRS 9	New carrying amount under IFRS 9
Due from other banks at amortised cost				
• Russia	372.2	(53.7)	–	318.5
• OECD	75.5	–	–	75.5
• Other countries	405.9	–	–	405.9
Total gross due from other banks at amortised cost	853.6	(53.7)	–	799.9
Less: Impairment loss allowance	(18.6)	18.2	(0.7)	(1.1)
Total net due from other banks at amortised cost	**835.0**	**(35.5)**	**(0.7)**	**798.8**
Due from other banks at fair value through profit or loss				
• Russia	–	15.4	(12.6)	2.8
Total gross due from other banks at fair value through profit or loss	**–**	**15.4**	**(12.6)**	**2.8**
Due from other banks at fair value through other comprehensive income				
• Russia	–	20.1	–	20.1
Total gross due from other banks at fair value through other comprehensive income	–	20.1	–	20.1
Total net due from other banks at fair value through other comprehensive income	**–**	**20.1**	**–**	**20.1**
Total due from other banks	**835.0**	**–**	**(13.3)**	**821.6**

24. DUE FROM OTHER BANKS (CONTINUED)

The following table shows reconciliation from the opening to the closing balance of the loss allowance of due from banks at amortised cost, including pledged under repurchase agreements by class. Comparative amounts for 2017 represent allowance account for credit losses and reflect measurement basis under IAS 39.

	2018					2017
	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Purchased credit-impaired	Total	Total
Russia						
Balance at 1 January	0.3	–	0.1	–	**0.4**	**1.0**
Net remeasurement of loss allowance	(0.1)	–	–	–	**(0.1)**	**17.8**
Write-offs	–	–	–	–	**–**	**(0.5)**
Foreign exchange	–	–	–	–	**–**	**0.1**
Balance at 31 December	**0.2**	**–**	**0.1**	**–**	**0.3**	**18.4**
OECD						
Balance at 1 January	0.1	–	–	–	**0.1**	**0.1**
Net remeasurement of loss allowance	(0.1)	–	–	–	**(0.1)**	**–**
Balance at 31 December	**–**	**–**	**–**	**–**	**–**	**0.1**
Other countries						
Balance at 1 January	0.6	–	–	–	**0.6**	**0.8**
Transfer to 12-month ECL	0.1	(0.1)	–	–	**–**	**n/a**
Transfer to lifetime ECL not credit-impaired	(0.1)	0.1	–	–	**–**	**n/a**
Transfer to lifetime ECL credit-impaired	(0.1)	–	0.1	–	**–**	**n/a**
Net remeasurement of loss allowance	(0.4)	–	1.0	(0.1)	**0.5**	**(0.1)**
Write-offs	–	–	(1.1)	–	**(1.1)**	**(0.4)**
Disposal of subsidiaries	–	–	–	(0.3)	**(0.3)**	**–**
Foreign exchange	0.1	–	0.1	0.4	**0.6**	**(0.2)**
Balance at 31 December	**0.2**	**–**	**0.1**	**–**	**0.3**	**0.1**

The following table shows reconciliation from the opening to the closing balance of the loss allowance of due from banks at fair value through other comprehensive income. Comparative amounts for 2017 represent allowance account for credit losses and reflect measurement basis under IAS 39.

	2018				2017
	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	**Total**	**Total**
Russia					
Balance at 1 January	0.1	–	–	**0.1**	**n/a**
Net remeasurement of loss allowance	(0.1)	–	–	**(0.1)**	**n/a**
Balance at 31 December	–	–	–	–	**n/a**

25. LOANS AND ADVANCES TO CUSTOMERS

	2018	2017
Loans and advances to customers at amortised cost		
Loans at amortised cost to legal entities		
• Current activity financing	6,144.9	4,974.9
• Project finance and other	1,384.1	1,686.4
• Finance leases	308.0	255.0
• Reverse sale and repurchase agreements	393.9	370.2
Total gross loans at amortised cost to legal entities	8,230.9	7,286.5
Less: Impairment loss allowance	(501.4)	(437.4)
Loans and advances to legal entities at amortised cost pledged under repurchase agreements		
• Reverse sale and repurchase agreements	26.1	–
Total loans and advances to legal entities at amortised cost pledged under repurchase agreements	26.1	–
Less: Impairment loss allowance	(0.2)	–
Net loans at amortised cost to legal entities	**7,755.4**	**6,849.1**
Loans at amortised cost to individuals		
• Consumer loans and other	1,281.1	1,153.4
• Mortgages	1,442.0	1,094.7
• Credit cards	130.7	127.5
• Car loans	123.7	102.9
• Reverse sale and repurchase agreements	11.0	7.8
Total gross loans at amortised cost to individuals	2,988.5	2,486.3
Less: Impairment loss allowance	(230.3)	(164.0)
Net loans at amortised cost to individuals	**2,758.2**	**2,322.3**
Loans and advances to customers at fair value through profit or loss		
Loans at fair value through profit or loss to legal entities	107.4	n/a
Total loans and advances to customers at fair value through profit or loss	**107.4**	n/a
Loans and advances to customers at fair value through other comprehensive income		
Loans at fair value through other comprehensive income to legal entities	74.2	n/a
Total loans and advances to customers at fair value through other comprehensive income	**74.2**	n/a
Total loans and advances to customers	**10,695.2**	**9,171.4**

As at 31 December 2018, the total amount of outstanding loans issued by the Group to 10 largest groups of interrelated borrowers comprises RUR 2,575.8 billion or 22.5% of the gross loan portfolio (31 December 2017: RUR 2,111.8 billion or 21.6%).

As at 31 December 2018, the Group received securities with a fair value of RUR 473.9 billion (31 December 2017: RUR 428.5 billion) as collateral under reverse sale and repurchase agreements with customers.

As at 31 December 2018, the total amount of pledged loans to customers is RUR 113.3 billion (31 December 2017: RUR 69.3 billion). The loans are pledged against the funds accounted for other borrowed funds (Note 34) and due to other banks (Note 32). Included in the above amount of pledged loans are car loans of RUR nil (31 December 2017: RUR 3.9 billion) (Note 58). As at 31 December 2018, the carrying value of mortgage loans pledged against debt securities issued under securitization programme of Vozrozhdenie Bank, PJSC amounted to RUR 12.8 billion (Note 58).

As at 31 December 2018, the carrying value of mortgage loans pledged against debt securities issued under VEB securitization programme amounted to RUR 11.8 billion (31 December 2017: RUR 16.9 billion) (Note 58).

As at 31 December 2018, the carrying value of mortgage loans pledged against debt securities issued under DOM.RF securitization programme amounted to RUR 56.1 billion (31 December 2017: RUR 4.0 billion).

As at 31 December 2018, the gross amount of non-performing loans (refer to Note 44 for a definition of non-performing loans) was RUR 653.7 billion or 5.7% of the aggregate of the gross loan portfolio, including loans pledged under repurchase agreements (31 December 2017 (restated to follow the new definition: RUR 680.0 billion or 6.9%).

As at 31 December 2018, loans and advances to customers with the carrying amount of RUR 212.7 billion (31 December 2017: RUR 239.3 billion) represented by federal loan bonds with debt amortisation (OFZ-AD) purchased in September 2011 by former “Bank of Moscow”, OJSC are included in loans to government bodies for the purpose of economic sector risk concentrations disclosure.

Refer to Note 47 on restrictions related to certain loans represented by OFZ-AD.

25. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

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

	2018		2017	
	Amount	%	Amount	%
Individuals	2,988.5	26.2	2,486.3	25.4
Oil and Gas	1,179.1	10.3	1,324.1	13.5
Building construction	1,157.6	10.1	973.8	10.0
Government bodies	904.8	7.9	492.9	5.0
Metals	803.5	7.0	800.2	8.2
Engineering and Other Manufacturing	735.0	6.4	641.1	6.6
Trade and commerce	682.3	6.0	521.6	5.3
Transport	592.9	5.2	501.3	5.1
Chemical	495.5	4.3	402.3	4.1
Energy	464.4	4.1	488.9	5.0
Telecommunications and media	450.8	3.9	307.3	3.1
Finance	371.3	3.2	331.5	3.4
Food and agriculture	366.8	3.2	278.2	2.8
Coal mining	69.2	0.6	75.7	0.8
Aircraft	9.2	0.1	6.5	0.1
Other	156.2	1.5	141.1	1.6
Total gross loans and advances to customers	**11,427.1**	**100.0**	**9,772.8**	**100.0**

Finance industry includes loans issued to holding companies of industrial groups, mergers and acquisitions financing, and loans to leasing, insurance and other non-bank financial companies.

Finance lease

	2018	2017
Gross investment in leases	273.3	219.6
Less: unearned finance lease income	(74.4)	(51.1)
Net investment in leases before allowance	**198.9**	168.5
Less: allowance for impairment	(23.7)	(18.3)
Net investment in leases	**175.2**	**150.2**

Future minimum lease payments

	2018	2017
Within 1 year	66.9	89.0
From 1 to 5 years	129.6	85.1
More than 5 years	76.8	45.5
Minimum lease payments	**273.3**	**219.6**

Net investments in leases

	2018	2017
Within 1 year	63.9	82.1
From 1 to 5 years	94.1	61.9
More than 5 years	40.9	24.5
Net investment in leases	**198.9**	**168.5**

25. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

The following table shows reconciliation from the opening to the closing balance of the loss allowance of loans and advances to legal entities, including pledged under repurchase agreements, at amortised cost by class and ECL stage. Comparative amounts for 2017 represent allowance account for credit losses and reflect measurement basis under IAS 39.

	2018					2017
	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Purchased credit-impaired	Total	Total
Current activity financing						
Balance at 1 January	**29.3**	**11.9**	**291.4**	**1.7**	**334.3**	**310.6**
Transfer to 12-month ECL	9.8	(8.4)	(1.4)	-	**-**	**n/a**
Transfer to lifetime ECL not credit-impaired	(6.9)	11.0	(4.1)	-	**-**	**n/a**
Transfer to lifetime ECL credit-impaired	(3.1)	(20.9)	24.0	-	**-**	**n/a**
Net remeasurement of loss allowance	(0.6)	79.2	35.1	4.8	**118.5**	**73.6**
Unwinding of discount	-	-	16.3	-	**16.3**	**–**
Write-offs	-	-	(61.4)	(0.9)	**(62.3)**	**(73.3)**
Recoveries of amounts previously written off	-	-	0.3	-	**0.3**	**2.7**
Changes of allowances of disposal group held for sale	-	-	-	-	**-**	**(0.3)**
Disposal of subsidiaries	-	-	(40.7)	-	**(40.7)**	**–**
Reclassification from/to ECL due to reclassification of items from/to this category	-	1.6	-	-	**1.6**	**(2.0)**
Foreign exchange	1.3	1.9	14.2	0.8	**18.3**	**(4.3)**
Balance at 31 December	**29.8**	**76.3**	**273.7**	**6.4**	**386.3**	**307.0**
Project finance and other						
Balance at 1 January	**6.1**	**4.1**	**96.7**	**21.9**	**128.8**	**109.6**
Transfer to 12-month ECL	1.4	(1.3)	(0.1)	-	**-**	**n/a**
Transfer to lifetime ECL not credit-impaired	(1.6)	3.1	(1.5)	-	**-**	**n/a**
Transfer to lifetime ECL credit-impaired	(1.0)	(2.4)	3.4	-	**-**	**n/a**
Net remeasurement of loss allowance	2.4	16.8	(39.8)	0.3	**(20.3)**	**31.6**
Unwinding of discount	-	-	3.7	0.2	**3.9**	**–**
Write-offs	-	-	(24.3)	(23.0)	**(47.3)**	**(32.4)**
Disposal of subsidiaries	-	-	(4.4)	-	**(4.4)**	**n/a**
Recoveries of amounts previously written off	-	-	5.4	1.1	**6.5**	**0.4**
Reclassification from/to ECL due to reclassification of items from/to this category	-	(1.6)	-	-	**(1.6)**	**–**
Foreign exchange	0.7	0.2	11.0	3.6	**15.5**	**(1.0)**
Balance at 31 December	**8.0**	**18.9**	**50.1**	**4.1**	**81.1**	**108.2**
Reverse sale and repurchase agreements						
Balance at 1 January	**0.5**	**-**	**-**	**-**	**0.5**	**0.1**
Transfer to lifetime ECL not credit-impaired	(0.1)	0.1	-	-	-	**–**
Net remeasurement of loss allowance	(0.2)	6.5	-	-	6.3	**0.4**
Foreign exchange	0.2	(0.1)	0.1	-	0.2	**–**
Balance at 31 December	**0.4**	**6.5**	**0.1**	**-**	**7.0**	**0.5**
Finance leases						
Balance at 1 January	**1.5**	**0.1**	**24.8**	**0.2**	**26.6**	**26.2**
Transfer to 12-month ECL	1.1	(0.9)	(0.2)	-	**-**	**n/a**
Transfer to lifetime ECL not credit-impaired	-	0.1	(0.1)	-	**-**	**n/a**
Net remeasurement of loss allowance	(1.5)	4.1	0.5	(0.2)	**2.9**	**0.8**
Write-offs	-	-	(2.7)	-	**(2.7)**	**(6.7)**
Disposal of subsidiaries	-	-	(2.5)	-	**(2.5)**	**–**
Reclass from/to allowance due to reclass of items from/to this category	-	-	-	-	**-**	**2.0**
Foreign exchange	(0.3)	-	2.9	0.1	**2.7**	**(0.6)**
Balance at 31 December	**0.8**	**3.4**	**22.7**	**0.1**	**27.0**	**21.7**

Allowance for finance leases represents allowances for loans to leasing companies and net investment in leases.

The Group management identified a number of industry and other portfolio specific risks, which resulted in the significant increase in the credit risk for certain segments of the loan portfolio. At present, it is not possible to identify the individual borrowers with significantly increased credit risk. Therefore, the Group management determined that a portion of the carrying value of these portfolios should be transferred into Lifetime ECL – not credit impaired category, with recognition the allowance to cover credit risks for these segments of loan portfolio in accordance with IFRS 9. Based on the analysis performed by the Group management, the amount of the corporate loan portfolio exposed to the industry and other portfolio specific risks amounted to RUR 3,001.0 billion (plus RUB 1,412.0 billion of the off-balance sheet liabilities) at 31 December 2018. In accordance with the model developed by the Group, as at 31 December 2018, loan loss allowance for the above-mentioned portion of portfolio (including off-balance sheet liabilities), as of 31 December 2018 amounted to RUR 94 billion, including the allowance for the loan portfolio of RUR 84.9 billion, and allowance for the off-balance sheet exposures of RUR 9.1 billion.

25. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

Significant changes in the gross carrying amount of loan portfolio that contributed to changes in the loss allowance were:

- acquisition of “Vozrozhdenie Bank“, PJSC which increased the loan portfolio by portfolio increased the loan portfolio by RUR 157.0 billion, predominantly in a corporate portfolio, with a corresponding increase in the loss allowance measured on a 12-month basis;

- loss of control of Pochta Bank, which decreased the loan portfolio by RUR 240.8 billion, predominantly in the retail portfolio, with corresponding decrease in loan loss allowance predominantly measured on a 12-month basis;

- loss of control over VTB Ukraine, which decreased the loan portfolio by RUR 51.8 billion, predominantly in the corporate portfolio, with corresponding decrease in loan loss allowance, predominantly measured on a Lifetime ECL credit-impaired basis;

- the write-off of fully impaired loans of RUR 156.8 billion against the allowance reduced the loss allowance for financial assets measured on a Lifetime ECL credit-impaired basis;

- reclassification of 701.4 bln of corporate loans measured on a 12-month basis to Lifetime ECL not credit-impaired basis, following increase in credit risk on a portfolio basis, which contributed to an increase of loan loss allowance in a Lifetime ECL not credit-impaired basis.

The following table shows reconciliation from the opening to the closing balance of loss allowance of finance lease receivables, which are the part of finance lease corporate loans. Comparative amounts for 2017 represent allowance account for credit losses and reflect measurement basis under IAS 39.

	2018				2017
	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Total	Total
Financial lease receivable					
Balance at 1 January	**0.8**	**0.1**	**19.0**	**19.9**	**n/a**
Transfer to 12-month ECL	0.2	0.0	(0.2)	**0.0**	**n/a**
Transfer to lifetime ECL not credit-impaired	0.0	0.1	(0.1)	**0.0**	**n/a**
Net remeasurement of loss allowance	(0.7)	3.3	0.0	**2.6**	**n/a**
Write-offs	0.0	0.0	(0.8)	**(0.8)**	**n/a**
Disposal of subsidiaries	0.0	0.0	(0.5)	**(0.5)**	**n/a**
Foreign exchange	(0.1)	(0.1)	2.7	**2.5**	**n/a**
Balance at 31 December	**0.2**	**3.4**	**20.1**	**23.7**	**n/a**

25. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

The following table shows reconciliation from the opening to the closing balance of the loss allowance of loans and advances to individuals at amortised cost by class and ECL stage. Comparative amounts for 2017 represent allowance account for credit losses and reflect measurement basis under IAS 39.

	2018					2017
	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Purchased credit-impaired	Total	Total
Consumer loans and other						
Balance at 1 January	**25.7**	**7.4**	**157.4**	**–**	**190.5**	**136.9**
Transfer to 12-month ECL	7.7	(7.5)	(0.2)	–	**–**	**n/a**
Transfer to lifetime ECL not credit-impaired	(6.4)	8.4	(2.0)	–	**–**	**n/a**
Transfer to lifetime ECL credit-impaired	(5.4)	(12.4)	17.8	–	**–**	**n/a**
Net remeasurement of loss allowance	15.8	14.2	18.0	–	**48.0**	**37.1**
Disposal of subsidiaries	(8.5)	(2.2)	(26.6)	–	**(37.3)**	**–**
Unwinding of discount	–	–	5.9	–	**5.9**	**n/a**
Write-offs	–	–	(38.7)	–	**(38.7)**	**(53.2)**
Recoveries of amounts previously written off	–	0.1	0.2	–	**0.3**	**1.8**
Foreign exchange	0.2	–	–	–	**0.2**	**(0.1)**
Balance at 31 December	**29.1**	**8.0**	**131.8**	**–**	**168.9**	**122.5**
Mortgages						
Balance at 1 January	**1.6**	**1.3**	**12.4**	**0.1**	**15.4**	**16.0**
Transfer to 12-month ECL	0.9	(0.8)	(0.1)	–	**–**	**n/a**
Transfer to lifetime ECL not credit-impaired	(0.4)	1.3	(0.9)	–	**–**	**n/a**
Transfer to lifetime ECL credit-impaired	(0.2)	(0.8)	1.0	–	**–**	**n/a**
Net remeasurement of loss allowance	0.2	0.4	(1.2)	–	**(0.6)**	**1.6**
Disposal of subsidiaries	–	–	(1.3)	–	**(1.3)**	**–**
Unwinding of discount	–	–	0.2	–	**0.2**	**n/a**
Write-offs	–	–	(0.7)	–	**(0.7)**	**(8.0)**
Recoveries of amounts previously written off	–	–	–	–	**–**	**0.3**
Foreign exchange	–	–	1.1	–	**1.1**	**–**
Balance at 31 December	**2.1**	**1.4**	**10.5**	**0.1**	**14.1**	**9.9**
Credit cards						
Balance at 1 January	**3.9**	**1.1**	**28.5**	**–**	**33.5**	**22.6**
Transfer to 12-month ECL	1.2	(1.2)	–	–	**–**	**n/a**
Transfer to lifetime ECL not credit-impaired	(1.5)	2.6	(1.1)	–	**–**	**n/a**
Transfer to lifetime ECL credit-impaired	(0.9)	(3.4)	4.3	–	**–**	**n/a**
Net remeasurement of loss allowance	0.9	2.0	1.5	–	**4.4**	**6.8**
Disposal of subsidiaries	(0.7)	(0.1)	(2.3)	–	**(3.1)**	**–**
Unwinding of discount	–	–	2.1	–	**2.1**	**n/a**
Write-offs	–	–	(4.7)	–	**(4.7)**	**(7.9)**
Recoveries of amounts previously written off	–	0.1	–	–	**0.1**	**0.3**
Foreign exchange	(0.1)	(0.1)	0.4	–	**0.2**	**0.1**
Balance at 31 December	**2.8**	**1.0**	**28.7**	**–**	**32.5**	**21.9**
Car loans						
Balance at 1 January	**1.0**	**0.2**	**12.2**	**–**	**13.4**	**10.1**
Transfer to 12-month ECL	0.2	(0.2)	–	–	**–**	**n/a**
Transfer to lifetime ECL not credit-impaired	(0.2)	0.2	–	–	**–**	**n/a**
Transfer to lifetime ECL credit-impaired	(0.1)	(0.2)	0.3	–	**–**	**n/a**
Net remeasurement of loss allowance	0.1	0.2	0.4	–	**0.7**	**–**
Unwinding of discount	–	–	0.5	–	**0.5**	**–**
Write-offs	–	–	(0.4)	–	**(0.4)**	**(0.3)**
Foreign exchange	–	–	0.6	–	**0.6**	**(0.1)**
Balance at 31 December	**1.0**	**0.2**	**13.6**	**–**	**14.8**	**9.7**

25. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

The following table shows reconciliation from the opening to the closing balance of the loss allowance of loans and advances to customers at fair value through other comprehensive income. Comparative amounts for 2017 represent allowance account for credit losses and reflect measurement basis under IAS 39.

	2018					2017
	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Purchased credit-impaired	Total	Total
Loans and advances to legal entities at fair value through other comprehensive income						
Balance at 1 January	**0.1**	**–**	**–**	**–**	**0.1**	**n/a**
Foreign exchange	(0.1)	–	–	–	**(0.1)**	**n/a**
Balance at 31 December	**–**	**–**	**–**	**–**	**–**	**n/a**

26. INVESTMENT FINANCIAL ASSETS

	2018	2017
Investment financial assets measured at fair value through other comprehensive income	319.7	n/a
Investment financial assets mandatorily measured at fair value through profit or loss	21.7	n/a
Investment financial assets designated as at fair value through profit or loss	7.0	36.2
Investment financial assets measured at amortised cost	4.2	n/a
Investment financial assets available-for-sale	n/a	285.6
Total investment financial assets	**352.6**	**321.8**

Investment financial assets measured at fair value through other comprehensive income

	2018	2017
Investment financial assets measured at fair value through other comprehensive income		
Debt securities		
• Bonds and eurobonds of the Russian Federation	208.3	n/a
• Bonds of the Central Bank of the Russian Federation	35.6	n/a
• Bonds and eurobonds of foreign governments	33.2	n/a
• Bonds and eurobonds of Russian companies and banks	19.2	n/a
• Bonds and eurobonds of foreign companies and banks	0.5	n/a
• Russian municipal bonds	0.3	n/a
Total debt securities	297.1	n/a
Equity securities	9.5	n/a
Total investment financial assets measured at fair value through other comprehensive income	**306.6**	**n/a**
Investment financial assets measured at fair value through other comprehensive income, pledged under repurchase agreements		
Debt securities		
• Bonds and eurobonds of the Russian Federation	7.8	n/a
• Bonds and eurobonds of Russian companies and banks	3.1	n/a
• Bonds and eurobonds of foreign governments	2.2	n/a
Total debt securities	13.1	n/a
Total investment financial assets measured at fair value through other comprehensive income, pledged under repurchase agreements	**13.1**	**n/a**
Total investment financial assets measured at fair value through other comprehensive income	**319.7**	n/a

26. INVESTMENT FINANCIAL ASSETS (CONTINUED)

Investment financial assets mandatorily measured at fair value through profit or loss

	2018	2017
Investment financial assets mandatorily measured at fair value through profit or loss		
Equity securities	21.7	n/a
Total investment financial assets mandatorily measured at fair value through profit or loss	**21.7**	n/a
Total investment financial assets mandatorily measured at fair value through profit or loss	**21.7**	n/a

Investment financial assets measured at amortised cost

	2018	2017
Investment financial assets measured at amortised cost		
• Bonds and eurobonds of foreign governments	3.9	–
• Bonds and eurobonds of foreign companies and banks	0.3	–
Total investment financial assets measured at amortised cost	**4.2**	**–**

Investment financial assets designated as at fair value through profit or loss

	2018	**2017**
Reverse sale and repurchase agreements to maturity	7.0	18.5
Equity securities	–	17.4
Debt securities		
• Bonds and eurobonds of foreign companies and banks	–	0.3
Total debt securities	**–**	**0.3**
Total investment financial assets designated as at fair value through profit or loss	**7.0**	**36.2**

Investment financial assets available-for-sale

	2018	2017
Investment financial assets available-for-sale		
Debt securities		
• Bonds and eurobonds of the Russian Federation	n/a	210.3
• Bonds and eurobonds of foreign governments	n/a	56.6
• Bonds and eurobonds of Russian companies and banks	n/a	4.8
• Russian municipal bonds	n/a	1.0
Total debt securities	n/a	272.7
Equity securities	n/a	12.5
Total investment financial assets available-for-sale	**n/a**	**285.2**
Investment financial assets available-for-sale, pledged under repurchase agreements		
Debt securities		
• Bonds and eurobonds of foreign governments	n/a	0.4
Total debt securities	n/a	0.4
Total investments financial assets available-for-sale, pledged under repurchase agreements	n/a	**0.4**
Total investment financial assets available-for-sale	**n/a**	**285.6**

26. INVESTMENT FINANCIAL ASSETS (CONTINUED)

Impact of adopting IFRS 9

The following table reconciles the carrying amounts of investment financial assets under IAS 39 to the carrying amounts under IFRS 9 on transition to IFRS 9 on 1 January 2018:

	Original carrying amount under IAS 39	Reclassifi-cation	Remeasu-rement under IFRS 9	New carrying amount under IFRS 9
Investment financial assets available-for-sale				
Debt securities				
• Bonds and eurobonds of the Russian Federation	210.3	(210.3)	–	–
• Bonds and eurobonds of foreign governments	56.6	(56.6)	–	–
• Bonds and eurobonds of Russian companies and banks	4.8	(4.8)	–	–
• Russian municipal bonds	1.0	(1.0)	–	–
Total debt securities	272.7	(272.7)	–	–
Equity securities	12.5	(12.5)	–	–
l investment financial assets available-for-sale	285.2	(285.2)	–	–
Investment financial assets available-for-sale, pledged under repurchase agreements				
Debt securities				
• Bonds and eurobonds of foreign governments	0.4	(0.4)	–	–
Total debt securities	0.4	(0.4)	–	–
Total investments financial assets available-for-sale, pledged under repurchase agreements	0.4	(0.4)	–	–
Total investment financial assets available-for-sale	**285.6**	**(285.6)**	**–**	**–**
investment financial assets designated as at fair value through profit or loss				
Reverse sale and repurchase agreements to maturity	18.5	–	–	**18.5**
Equity securities	17.4	(17.4)	–	–
Debt securities				
• Bonds and eurobonds of foreign companies and banks	0.3	(0.3)	–	–
Total debt securities	0.3	(0.3)	–	–
Total investment financial assets designated as at fair value through profit or loss	**36.2**	**(17.7)**	–	**18.5**
Investment financial assets mandatorily measured at fair value through profit or loss				
Equity securities	–	25.6	–	25.6
Total investment financial assets mandatorily measured at fair value through profit or loss	–	**25.6**	–	**25.6**
Investment financial assets measured at amortised cost				
• Bonds and eurobonds of Russian companies and banks	–	14.2	(0.4)	13.8
• Bonds and eurobonds of the Russian Federation	–	9.3	–	9.3
• Bonds and eurobonds of foreign companies and banks	–	2.7	–	2.7
Less impairment loss allowance	–	–	(0.1)	(0.1)
Total investment financial assets measured at amortised cost	**–**	**26.2**	**(0.5)**	**25.7**
Investment financial assets measured at fair value through other comprehensive income				
Debt securities				
• Bonds and eurobonds of the Russian Federation	–	210.2	–	210.2
• Bonds and eurobonds of foreign governments	–	54.0	–	54.0
• Bonds and eurobonds of Russian companies and banks	–	23.9	–	23.9
• Bonds and eurobonds of foreign companies and banks	–	0.3	–	0.3
• Russian municipal bonds	–	1.0	–	1.0
Total debt securities	–	289.4	–	289.4
Equity securities	–	13.5	–	13.5
Total investment financial assets measured at fair value through other comprehensive income	–	302.9	–	302.9
Investment financial assets measured at fair value through other comprehensive income, pledged under repurchase agreements				
Debt securities				
• Bonds and eurobonds of foreign governments	–	0.4	–	0.4
Total debt securities	–	0.4	–	0.4
Total investments financial assets measured at fair value through other comprehensive income, pledged under repurchase agreements	–	0.4	–	0.4
Total investments financial assets measured at fair value through other comprehensive income	**–**	**303.3**	**–**	**303.3**

26. INVESTMENT FINANCIAL ASSETS (CONTINUED)

The following table shows reconciliations from the opening to the closing balance of the loss allowance of debt investment financial assets at fair value through other comprehensive income, including pledged under repurchase agreements. Comparative amounts for 2017 represent allowance account for credit losses and reflect measurement basis under IAS 39.

	2018					2017
	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Purchased credit-impaired	Total	Total
Debt investment financial assets at fair value through other comprehensive income						
Balance at 1 January	**0.2**	**–**	**–**	**–**	**0.2**	**n/a**
Net remeasurement of loss allowance	0.1	–	–	–	**0.1**	**n/a**
Balance at 31 December	**0.3**	–	–	–	**0.3**	**n/a**

The above loss allowance is not recognised in the consolidated statement of financial position because the carrying amount of debt investment financial assets at fair value through other comprehensive income, including pledged under repurchase agreements (2017: debt investment financial assets available-for-sale, including pledged under repurchase agreements) is their fair value.

The following table shows reconciliations from the opening to the closing balance of the loss allowance of debt investment financial assets at amortised cost, including pledged under repurchase agreements. Comparative amounts for 2017 represent allowance account for credit losses and reflect measurement basis under IAS 39.

	2018					2017
	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Purchased credit-impaired	Total	Total
Balance at 1 January	**–**	**0.1**	**–**	**–**	**0.1**	**0.1**
Write-offs	–	–	–	–	**–**	**(0.1)**
Net remeasurement of loss allowance	0.1	–	–	–	**0.1**	**–**
Changes of allowances of disposal group held for sale	(0.1)	(0.1)	–	–	**(0.2)**	**–**
Balance at the end of the period	**–**	**–**	**–**	**–**	**–**	**–**

27. LAND, PREMISES AND EQUIPMENT

	Land and premises	Equipment	Construction in progress	Equipment in operating lease	Total
Net book amount at 31 December 2017	**116.5**	**43.4**	**55.4**	**132.9**	**348.2**
Cost or revalued amount					
Opening balance at 1 January 2018	122.7	87.7	55.4	155.8	**421.6**
Acquisitions of subsidiaries (Note 48)	4.0	0.8	0.1	–	**4.9**
Disposal of subsidiaries (Note 48)	(3.4)	(13.5)	(0.2)	–	**(17.1)**
Additions	3.1	5.4	18.7	40.0	**67.2**
Transfers and reclassifications	21.9	2.8	(24.3)	(5.0)	**(4.6)**
Disposals	(0.8)	(4.6)	–	(0.4)	**(5.8)**
Impairment	(14.0)	–	(2.9)	–	**(16.9)**
Reversal of impairment	1.4	–	–	–	**1.4**
Revaluation	7.6	–	–	–	**7.6**
Elimination of accumulated depreciation of revalued fixed assets	(8.0)	–	–	–	**(8.0)**
Effect of translation	0.3	1.2	–	29.2	**30.7**
Closing balance at 31 December 2018	**134.8**	**79.8**	**46.8**	**219.6**	**481.0**
Accumulated depreciation					
Opening balance at 1 January 2018	6.2	44.3	–	22.9	**73.4**
Depreciation charge	2.7	8.9	–	10.5	**22.1**
Disposal of subsidiaries (Note 48)	(0.8)	(5.7)	–	–	**(6.5)**
Disposals	(0.1)	(2.5)	–	(0.1)	**(2.7)**
Transfers and reclassifications	(0.3)	(0.8)	–	(2.8)	**(3.9)**
Elimination of accumulated depreciation of revalued fixed assets	(8.0)	–	–	–	**(8.0)**
Effect of translation	0.3	0.6	–	3.4	**4.3**
Closing balance at 31 December 2018	**–**	**44.8**	**–**	**33.9**	**78.7**
Net book amount at 31 December 2018	**134.8**	**35.0**	**46.8**	**185.7**	**402.3**

27. LAND, PREMISES AND EQUIPMENT (CONTINUED)

	Land and premises	Equipment	Construction in progress	Equipment in operating lease	Total
Net book amount at 31 December 2016	**119.8**	**32.4**	**65.5**	**135.0**	**352.7**
Cost or revalued amount					
Opening balance at 1 January 2017	122.9	72.8	65.5	151.9	**413.1**
Acquisitions of subsidiaries	1.0	0.3	0.4	–	**1.7**
Disposal of subsidiaries	(3.1)	(0.2)	–	–	**(3.3)**
Additions	2.5	17.9	18.6	33.8	**72.8**
Transfers and reclassifications	14.6	0.7	(22.4)	(20.3)	**(27.4)**
Disposals	(2.3)	(2.8)	–	(4.0)	**(9.1)**
Impairment	(13.2)	(0.8)	(6.5)	–	**(20.5)**
Reversal of impairment	0.3	–	–	0.1	**0.4**
Revaluation	(0.1)	–	–	–	**(0.1)**
Effect of translation	0.1	(0.2)	(0.2)	(5.7)	**(6.0)**
Closing balance at 31 December 2017	**122.7**	**87.7**	**55.4**	**155.8**	**421.6**
Accumulated depreciation					
Opening balance at 1 January 2017	3.1	40.4	–	16.9	**60.4**
Depreciation charge	3.4	7.7	–	8.9	**20.0**
Disposal of subsidiaries	(0.3)	(0.1)	–	–	**(0.4)**
Disposals	(0.5)	(2.2)	–	(0.4)	**(3.1)**
Transfers and reclassifications	(0.1)	(1.1)	–	(2.0)	**(3.2)**
Effect of translation	0.6	(0.4)	–	(0.5)	**(0.3)**
Closing balance at 31 December 2017	**6.2**	**44.3**	–	**22.9**	**73.4**
Net book amount at 31 December 2017	**116.5**	**43.4**	**55.4**	**132.9**	**348.2**

Transfers and reclassifications include both transfers between the categories of the land, premises and equipment, and reclassifications to/from investment property and property intended for sale in the ordinary course of business in other assets.

Land and premises were revalued at fair value at 31 December 2018. The valuation was carried out by an independent firm of appraisers, who hold a recognised and relevant professional qualification and who had experience in the valuation of assets in similar locations and in a similar category. Fair value was determined by reference to market-based evidence.

If the premises were measured using the cost model, the carrying amounts would be as follows:

	2018	2017
Cost	172.4	161.6
Less: accumulated depreciation and impairment	(23.7)	(22.2)
Net carrying amount	**148.7**	**139.4**

28. INVESTMENT PROPERTY

	2018	2017
Investment property at 1 January	**210.4**	**235.5**
Acquisitions of subsidiaries (Note 48)	4.0	12.5
Disposal of subsidiaries (Note 48)	(6.1)	(1.6)
Additions	3.5	2.1
Disposals	(4.8)	(27.4)
Reclassified (to)/from premises	(0.7)	0.6
Reclassified (to)/from property intended for sale in the ordinary course of business	0.4	3.5
Net losses from changes in fair value	(14.4)	(23.1)
Capitalisation of expenses	4.9	9.2
Effect of translation	1.4	(0.4)
Reclassified (to)/from assets of disposal groups held for sale	(1.3)	0.4
Reclassified (to)/from other accounts	(0.1)	(0.9)
Investment property at 31 December	**197.2**	**210.4**

Where the Group is the lessor, the future minimum lease payments receivable under non-cancellable operating leases are as follows:

	2018	2017
Not later than 1 year	4.6	3.7
Later than 1 year and not later than 5 years	11.2	13.1
Later than 5 years	–	–
Total operating lease payments receivable	**15.8**	**16.8**

28. INVESTMENT PROPERTY (CONTINUED)

For the year ended 31 December 2018 the Group recognised rental income as part of income arising from non-banking activities of RUR 4.7 billion (Note 14) and direct operating expenses of RUR 1.0 billion in relation to investment property that generated rental income (for the year ended 31 December 2017: RUR 5.5 billion and RUR 0.7 billion, respectively).

In 2018, the Group's investment property increased due to business combination in the total amount of RUR 4.0 billion (2017: RUR 12.5 billion) (Note 48).

In 2018, the Group's investment property decreased due to the disposal of subsidiaries in the total amount of RUR 6.1 billion (2017: RUR 1.6 billion) (Note 48).

In 2018, the Group obtained the property of RUR 2.3 billion (2017: RUR 0.9 billion) through foreclosure of collateral under mortgage loans. The acquired investment properties were valued by an independent, professionally qualified appraiser at fair value at the acquisition date.

As at 31 December 2018 investment property in the amount of RUR 23.7 billion was under construction in progress or development (31 December 2017: RUR 22.9 billion).

The fair values of the investment properties were estimated using comparatives and the income approach under the highest and best use assumption. Actually used key valuation assumptions and fair value sensitivity to their changes are disclosed in Note 45.

29. GOODWILL AND OTHER INTANGIBLE ASSETS

The movements in goodwill and other intangible assets were as follows:

	Core deposit and customer loan intangible	Computer software	Relations with the major lessee	Other rights	Brands and trademarks	Goodwill	Total
Net book amount at 31 December 2017	**1.5**	**21.9**	**15.9**	**2.0**	**0.1**	**116.0**	**157.4**
Cost less impairment							
Opening balance at 1 January 2018	21.2	34.8	18.1	2.8	0.2	116.0	**193.1**
Additions	–	10.2	–	–	–	–	**10.2**
Acquisition through business combinations (Note 48)	–	0.3	–	–	–	–	**0.3**
Disposals	–	(0.7)	–	–	–	–	**(0.7)**
Disposals of subsidiaries (Note 48)	–	(3.8)	–	–	–	–	**(3.8)**
Write-offs of fully amortised items	(21.2)	(1.6)	–	–	–	–	**(22.8)**
Write-offs through impairment	–	(1.0)	–	–	–	(0.1)	**(1.1)**
Effect of translation	–	1.2	3.7	0.1	0.1	–	**5.1**
Transfers	–	0.1	–	(1.3)	–	(0.3)	**(1.5)**
Closing balance at 31 December 2018	**–**	**39.5**	**21.8**	**1.6**	**0.3**	**115.6**	**178.8**
Accumulated amortisation							
Opening balance at 1 January 2018	19.7	12.9	2.2	0.8	0.1	–	**35.7**
Amortisation charge	1.4	4.6	1.4	0.2	–	–	**7.6**
Disposals	–	(0.7)	–	–	–	–	**(0.7)**
Disposals of subsidiaries (Note 48)	–	(1.9)	–	–	–	–	**(1.9)**
Write-offs of fully amortised items	(21.2)	(1.6)	–	–	–	–	**(22.8)**
Effect of translation	0.1	0.7	0.6	–	–	–	**1.4**
Transfers	–	(0.4)	–	(0.1)	–	–	**(0.5)**
Closing balance at 31 December 2018	–	**13.6**	**4.2**	**0.9**	**0.1**	**–**	**18.8**
Net book amount at 31 December 2018	**–**	**25.9**	**17.6**	**0.7**	**0.2**	**115.6**	**160.0**

29. GOODWILL AND OTHER INTANGIBLE ASSETS (CONTINUED)

	Core deposit and customer loan intangible	Computer software	Relations with the major lessee	Other rights	Brands and trademarks	Goodwill	Total
Net book amount at 31 December 2016	**4.3**	**13.9**	**17.8**	**2.8**	**0.1**	**116.2**	**155.1**
Cost less impairment							
Opening balance at 1 January 2017	30.2	24.5	19.1	3.6	0.2	116.2	**193.8**
Additions	–	10.6	–	0.2	0.1	–	**10.9**
Acquisition through business combinations	–	0.1	–	0.1	–	2.2	**2.4**
Disposals	(9.0)	(1.3)	–	(0.1)	–	–	**(10.4)**
Disposals of subsidiaries	–	–	–	(0.6)	–	–	**(0.6)**
Write-offs through impairment	–	–	–	(0.4)	–	(2.7)	**(3.1)**
Effect of translation	–	–	(1.0)	0.1	(0.1)	0.3	**(0.7)**
Transfers	–	0.9	–	(0.1)	–	–	**0.8**
Closing balance at 31 December 2017	**21.2**	**34.8**	**18.1**	**2.8**	**0.2**	**116.0**	**193.1**
Accumulated amortisation							
Opening balance at 1 January 2017	25.9	10.6	1.3	0.8	0.1	–	**38.7**
Amortisation charge	2.8	3.5	1.0	0.1	–	–	**7.4**
Disposals	(9.0)	(1.2)	–	(0.1)	–	–	**(10.3)**
Disposals of subsidiaries	–	–	–	–	–	–	**–**
Effect of translation	–	0.1	(0.1)	–	–	–	**–**
Transfers	–	(0.1)	–	–	–	–	**(0.1)**
Closing balance at 31 December 2017	**19.7**	**12.9**	**2.2**	**0.8**	**0.1**	**–**	**35.7**
			–	–			
Net book amount at 31 December 2017	**1.5**	**21.9**	**15.9**	**2.0**	**0.1**	**116.0**	**157.4**

The table below presents the carrying amount of goodwill, core deposit and customer loan intangible, and relations with the major lessee intangible allocated to relevant cash-generating units (CGU) of the following entities:

	2018					2017			
CGU	Carrying amount of goodwill	Carrying amount of core deposit and customer loan intangible	Relations with the major lessee intangible	Total	CGU	Carrying amount of goodwill	Carrying amount of core deposit and customer loan intangible	Relations with the major lessee intangible	Total
"VTB Bank", PJSC					"VTB Bank", PJSC and Bank VTB 24", PJSC				
- CIB	76.1	–	–	**76.1**	- IB-CIB	5.4	–	–	**5.4**
					- LD and TB-CIB	70.7	–	–	**70.7**
- MSB	26.8	–	–	**26.8**	- MCB	25.9	1.2	–	**27.1**
- RB	11.1	–	–	**11.1**	- SB	0.9	–	–	**0.9**
					- RB	11.1	0.3	–	**11.4**
"Avia Capital Management" Ltd.	–	–	17.6	**17.6**	"Avia Capital Management" Ltd.	–	–	15.9	**15.9**
Other subsidiaries	1.6	–	–	**1.6**	Other subsidiaries	2.0	–	–	**2.0**
Net book amount	**115.6**	**–**	**17.6**	**133.2**	**Net book amount**	**116.0**	**1.5**	**15.9**	**133.4**

Avia Capital Management Ltd.

Group recognised an intangible asset (relations with the major lessee) that arose following the acquisition of a subsidiary in 2013. It was allocated to the Avia Capital Management Ltd cash flow generating unit (further "CGU") and tested for impairment as a part of this CGU in accordance with IAS 36 Impairment of Assets.

As at 31 December 2018 and 2017, the recoverable amount was calculated as value in use of the CGU. The key assumptions in determining the value in use were the discount rate in USD which represents the cost of equity and was calculated under CAPM (the Capital Asset Pricing Model) at 11.25% (31 December 2017: 11.2%), as well as the effective funding rate in USD, gradually increasing in the forecasted period (2019-2030) from 4.95% to 5.49% (31 December 2017: gradually increasing in the forecasted period (2018-2030) from 3.83% to 5.18%). The funding rate was calculated under the Rouble funding strategy with a further swap into USD via the use of derivative financial instruments ("DFIs") (loans and DFIs were concluded with related parties). The discount rate (cost of equity) used is pre-tax, and reflects the specific risks related to the given CGU.

29. GOODWILL AND OTHER INTANGIBLE ASSETS (CONTINUED)

Avia Capital Management Ltd. (continued)

As at 31 December 2018, the recoverable amount of the Avia Capital Management Ltd. CGU exceeded its carrying amount by RUB 6.8 billion (31 December 2017: RUB 2.1 billion). The CGU's carrying amount would be equal to the recoverable amount either at a discount rate of 15.37% in USD (31 December 2017: 12.18%) or with the use of an effective funding rate in USD gradually increasing in the forecasted period (2019-2030) from 6.17% to 6.84% (31 December 2017: from 4.35% to 5.70% in the forecasted period (2018-2030)) (all other inputs held constant).

“VTB Bank”, PJSC

In 2018, the Group management defined in the operational structure of “VTB Bank”, PJSC the following key cash flow generating units (“CGUs”):

- Corporate-Investment banking (“CIB”);
- Medium and Small banking (“MSB”);
- Retail banking (“RB”).

Each of the abovementioned segments has its internal unified systems:

- Management system under the leadership of a separate member of the Management Board of VTB Bank;
- Decision-making process and process of allocating resources;
- Bonus system.

In the previous periods Group management defined as separate units within CIB segment investment-banking business with large clients (“IB-CIB”) and other operations with large clients (loan, deposit and transaction banking operations) (“LD and TB-CIB”). After unification of employee bonus systems Group management analyses these two units on a combined basis within CIB structure.

As at 1 January 2018, the Group approved new rules of operations allocation assignment to MSB and RB segments. Starting from 1 January 2018, operations with “small business” corporate customers are allocated to MSB segments and excluded from RB segment (Note 4).

Management reports for each CGU are prepared on a monthly basis and are reviewed by management bodies of VTB Bank, including the Management board as part of operational decision-making.

For the purposes of goodwill impairment test, the recoverable amount of the above individual CGUs was determined based on the net present value of expected cash flows.

Carrying amount of CGU

At 31 December 2018 the carrying amount of the relevant CGUs was determined through allocation of the adjusted VTB shareholders’ equity. VTB shareholders’ equity was adjusted for investment in subsidiaries and other deductions related to regulatory Group Treasury functions. Subsequently the adjusted VTB shareholders’ equity was allocated to CGUs proportionately based on their share in assets and open risk position for credit related commitments on an aggregate basis for the Bank.

Goodwill in the total amount of RUB 114.0 billion, recognised on the acquisition of other banks that were subsequently reorganised with their assets transferred on VTB’s balance, was allocated to CGUs based the amount of acquired assets, generating cash flows.

The goodwill recognised on the acquisition of former “TransCreditBank”, JSC and former “Bank VTB North-West”, OJSC of RUR 8.8 billion was allocated to CIB and MSB.

The goodwill recognised on the acquisition of “Bank of Moscow”, OJSC of RUR 101.8 billion is allocated to CIB, MSB and RB CGUs.

The goodwill recognised on the acquisition of Bank “VTB 24”, PJSC of RUR 3.4 billion is allocated to RB CGUs.

As at 31 December 2018 goodwill and intangible assets of core deposit and customer loan intangible were allocated to the relevant CGUs as follows:

	Goodwill	Intangible assets	Total
CIB	76.1	–	**76.1**
MSB	26.8	–	**26.8**
RB	11.1	–	**11.1**
Total	**114.0**	**–**	**114.0**

As at 31 December 2017 goodwill and intangible assets of core deposit and customer loan intangible were allocated to the relevant CGUs as follows:

	Goodwill	Intangible assets	Total
IB-CIB	5.4	–	**5.4**
LD and TB-CIB	70.7	–	**70.7**
MCB	25.9	1.2	**27.1**
SB	0.9	–	**0.9**
RB	11.1	0.3	**11.4**
Total	**114.0**	**1.5**	**115.5**

For the purpose of impairment testing the carrying amount of the relevant CGUs together with the allocated goodwill and intangible assets were compared to the recoverable amount of the respective CGUs.

DCF Model

The Group determines the recoverable amounts of each CGU on the basis of value in use for a 3-year forecast period up to 2021 and post-forecast period of 2022, calculated using the VTB Bank business model. Future cash flows were discounted to their present value at a rate that reflected investors expected returns in the forecasted periods. Cash flows beyond 2022 period were extrapolated using estimated total growth rate of 4.5% p.a.

29. GOODWILL AND OTHER INTANGIBLE ASSETS (CONTINUED)

"VTB Bank", PJSC (continued)

DCF Model (continued)

Relatively stable forecast of the development of the economy and the banking sector underlies the estimates, assuming an average economic growth rate of 1.4-1.8%, target inflation rate of 4.0% with periodic fluctuations due to instability of the world economy, situation in the regions of oil extraction, changes in the tax regulation of RF (VAT).

Estimates of future cash flows were based on the most recent financial statements, as well as figures, forecasts and budgets for the relevant CGUs, in addition to the economic and market forecasts that chief decision makers approve for internal management purposes.

The following assumptions were used in the DCF model in respect of expected cash flows and the discount rate.

COR: The Cost of Risk, representing the loan impairment provision to loans ratio for each CGU, was projected on the basis of each CGU's key strategic targets and historical data.

NIM: The Net Interest Margin was projected on the basis of a CGU's key strategic targets, expected business profitability and the historical level for each CGU.

CIR: The Cost to Income ratio was projected on the basis of a CGU's key strategic targets, expected cost reduction, efficiencies following the legal merger and the historical levels for each CGU.

Discount rate: The CAPM-based discount rate was determined on the basis of RUB and foreign currency risk-free interest rates, a market risk premium and beta as a measure of systematic market risk. The market risk premium and beta were derived from public sources of information, while the risk-free interest rates for the terminal period were derived both from public and internal sources of information.

The Group applied different discount rate for different future periods based on its expectation of decrease of the risk free rate with potential short-term increase in 2019.

Variations in all of these components might impact the calculation of expected cash flows and might have a material effect on the recoverable amounts of respective CGUs.

As at 31 December 2018, the range of key assumptions for the relevant CGUs for the projection period (2019-2022) was as follows:

CGU	COR, b.p.	NIM, % p.a.	CIR, % p.a.	Discount rate, % p.a.
CIB	80-95	2.1-2.6	27.4-28.1	
MSB	178-181	4.5-5.0	32.8-38.5	13.3-14.7
RB	154-159	4.1-4.7	38.0-51.7	

As at 31 December 2017, the key assumptions for the relevant CGUs for the projection period (2018-2021) were as follows:

CGU	COR, b.p.	NIM, % p.a.	CIR, % p.a.	Discount rate, % p.a.
IB-CIB	20-7	3.7-4.3	33.0	
LD and TB-CIB	148-97	2.0-2.5	24.1-24.4	12.3-12.0
MCB	227-187	4.4-4.1	39.8-37.0	
SB	142-197	12.0-14.1	27.8-19.7	
RB	158-157	5.1-5.3	56.6-44.3	

Sensitivity of recoverable amount to possible changes in key assumptions

The tables show the impact that possible changes in our key assumptions might have on the recoverable amount of the relevant CGUs in terms of the goodwill impairment recognition. As at 31 December 2018 the possible changes in the key assumptions in respect the CGUs other than CIB have not led to goodwill impairment (31 December 2017: other than LD and TB-CIB and MCB).

As at 31 December 2018:

CGU	Key assumption	Reasonably possible change	Goodwill impairment, RUR billion	Recoverable amount exceeds carrying amount, RUR billion	Change in key assumptions resulting in recoverable amount to equal carrying amount
CIB	NIM	-0.60%	(36.0)	221.6	-0.5%

29. GOODWILL AND OTHER INTANGIBLE ASSETS (CONTINUED)

"VTB Bank", PJSC (continued)

Sensitivity of recoverable amount to possible changes in key assumptions (continued)

As at 31 December 2017:

CGU	Key assumption	Reasonably possible change	Goodwill impairment, RUR billion	Recoverable amount exceeds carrying amount, RUR billion	Change in key assumptions resulting in recoverable amount to equal carrying amount
	NIM	-0.30%	(70.8)		-0.04%
	COR	20 b.p.	(53.4)		4.7 b.p.
	COR	40 b.p.	(70.8)		4.7 b.p.
LD and TB-CIB	CIR	2.00%	(4.0)	16.5	1.61%
	CIR	4.00%	(24.4)		1.61%
	Discount rate	0.50%	(7.3)		0.34%
	Discount rate	1.00%	(28.2)		0.34%
MCB	NIM	-0.60%	(5.1)	45.1	-0.54%

The following table summarises uncertainties of key assumptions used in the DCF model:

Input	Assumptions	Uncertainties of Assumptions
	CIB	
CIR	▪ Continued focus on operating efficiency	Cost savings are not realised as anticipated
NIM	▪ Recovery of Russian markets over the forecast period ▪ Expected level of the market interest rates and likely decrease in the CB key rate in middle-term horizon ▪ Decreasing cost of liabilities in VTB, resulting from implementation of the Group's plans to optimise the funding structure	Unfavourable margin development and adverse competition levels in key products beyond expected levels Significant share of large corporates in VTB's loan book limits the Group's pricing power to re-price loans if the key rate is increased
COR	COR is based on anticipated dynamics of the loans	Unexpected market conditions and possible additional sanctions against RF-entities that will increase loan loss risks
Discount rate	Discount rate used is a reasonable estimate of a suitable market rate for the profile of the business	Major industry threats, i.e. market volatility, sovereign debt burden, increasing costs from possible regulatory changes
	MSB	
CIR	▪ Strict discipline applied to operating expenses	Cost savings are not realised as anticipated
NIM	▪ Recovery of Russian markets over the forecast period ▪ Expected level of the market interest rates and likely decrease in the CB key rate in middle-term horizon	Unfavourable margin development and adverse competition levels in key products beyond expected levels
COR	Strict discipline applied to cost of risk	Significant economic decline to increase credit loss provisions
Discount rate	Discount rate used is a reasonable estimate of a suitable market rate for the profile of the business.	Major industry threats, i.e. market volatility, sovereign debt burden, increasing costs from possible regulatory changes
	RB	
CIR	Development of mobile applications for interaction with customers, back office realocation to regions with lower labour costs	Initial stage may be long and high cost
NIM	General economic conditions improve, which would result in the Group reassessing its risk appetite and help to increase the share of high margin banking products	Unfavourable margin development and adverse competition levels in key products beyond expected levels
COR	Solid management of cost of risk despite growth in share of higher margin but more risky products	Significant economic decline potentially resulting in higher unemployment rates, increasing credit loss provisions
Discount rate	Discount rate used is a reasonable estimate of a suitable market rate for the profile of the business	Major industry threats, i.e. market volatility, sovereign debt burden, increasing costs from possible regulatory changes

29. GOODWILL AND OTHER INTANGIBLE ASSETS (CONTINUED)

"VTB Bank", PJSC (continued)

Sensitivity of recoverable amount to possible changes in key assumptions (continued)

Current economic and industry risks such as volatility of the key interest rate determined by the CBR ("key rate"), oil prices, foreign exchange rates might negatively impact actual cash flows as compared to forecasted cash flows and result in impairment of goodwill allocated to CGUs. Management's forecast of NIM, WACC and loan portfolio growth takes into consideration existing expectations regarding the future changes in the key rate. Should the actual reductions in the key rate be slower that it was expected by the management, it might have negative influence on the actual future cash flows and rates.

30. OTHER ASSETS

	2018	2017
Other financial assets at amortised cost:		
Amounts in course of settlement	32.7	7.6
Accrued commission income	11.5	8.5
Advances issued to leasing equipment suppliers	9.8	13.1
Accrued income on operating leases	4.4	5.3
Trade receivables and prepayments	4.3	8.1
Initial margin and other performance collateral	1.4	13.4
Reinsurance and insurance receivables	–	8.0
Other	6.4	5.2
Total other financial assets at amortised cost before allowance for impairment	**70.5**	**69.2**
Less: loss allowance	(2.8)	(3.6)
Total other financial assets at amortised cost	**67.7**	**65.6**
Other financial assets at fair value through profit or loss:		
Amounts in course of settlement related to regular way transactions with financial instruments	–	0.3
Other	–	0.1
Total other financial assets at fair value through profit or loss	**–**	**0.4**
Total other financial assets	**67.7**	**66.0**
Insurance assets:		
Deferred acquisition costs	1.6	4.2
Reinsurers' share of loss provisions	–	6.5
Reinsurers' share of provision for unearned premiums	–	2.1
Total insurance assets	**1.6**	**12.8**
Other non-financial assets accounted at cost less impairment:		
Property intended for sale in the ordinary course of business	109.5	118.7
Other assets related to non-banking activities	20.6	23.6
Inventories	19.4	10.5
Prepayments	9.0	22.5
Deferred expenses	7.2	7.4
Tax prepayments	5.6	8.0
Equipment purchased for subsequent leasing	0.8	3.2
Other	4.1	23.5
Total other non-financial assets accounted at cost less impairment	**176.2**	**217.4**
Other non-financial assets at fair value:		
Precious metals	41.8	112.2
Total other non-financial assets at fair value	**41.8**	**112.2**
Total other non-financial assets	**218.0**	**329.6**
Total other assets	**287.3**	**408.4**

As at 31 December 2018 amounts in course of settlement includes settlements with Deposit Insurance Agency for the reimbursement of bankrupt banks' deposits in the amount of RUR 16.3 billion (31 December 2017: RUR 0.4 billion).

As at December 2018, inventories include the amount of RUR 5.6 billion (31 December 2017: RUR 10.2 billion) representing foreclosed collateral (goods, equipment, etc.) under default loans before further decision (Note 44).

As at 31 December 2018 and 2017, other assets related to non-banking activities were predominantly related to real estate and construction.

As at 31 December 2018, property intended for sale in the ordinary course of business under construction in progress or development amounted to RUR 79.5 billion (31 December 2017: RUR 85.7 billion) and property intended for sale in the ordinary course of business ready for use by buyer amounted to RUR 30.0 billion (31 December 2017: RUR 33.0 billion).

30. OTHER ASSETS (CONTINUED)

	2018	2017
Property intended for sale in the ordinary course of business at 1 January	**118.7**	**115.9**
Impact of adopting IFRS 15 at 1 January 2018 (Note 3)	(1.5)	–
Balance at 1 January 2018 after adoption	**117.2**	**115.9**
Acquisitions of subsidiaries (Note 48)	–	9.7
Additions	0.3	–
Disposals	(39.3)	(32.0)
Reclassified to premises	(0.1)	–
Reclassified to investment property	(0.4)	(3.5)
Impairment	(7.3)	(8.1)
Capitalisation of expenses	39.1	37.3
Reclassified to assets of disposal groups held for sale	–	(0.2)
Reclassified to other accounts	–	(0.4)
Property intended for sale in the ordinary course of business at 31 December	**109.5**	**118.7**

Impact of adopting IFRS 9 and IFRS 15

The following table reconciles the carrying amounts of other assets under IAS 39 and IAS 2 to the carrying amounts under IFRS 9 and IFRS 15 on transition on 1 January 2018:

	Original carrying amount under IAS 39 or IAS 2	Reclassifi-cation	Remeasu-rement under IFRS 9	Recognition of revenue under IFRS 15 before taxation	New carrying amount under IFRS 9 or IFRS 15
Other financial assets at amortised cost					
Other	5.2	0.1	–	–	5.3
Less: loss allowance	(3.6)	–	(0.2)	–	(3.8)
Other financial assets at fair value through profit or loss					
Other	0.1	(0.1)	–	–	–
Other non-financial assets accounted at cost less impairment					
Property intended for sale in the ordinary course of business	118.7	–	–	(1.5)	117.2
Other assets related to non-banking activities	23.6	–	–	0.2	23.8

The movements in allowances for impairment of other financial assets at amortised cost were as follows (comparative amounts for 2017 represent allowance account for credit losses and reflect measurement basis under IAS 39):

	2018				2017
	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Total	Total
Balance at 1 January	**1.0**	**1.3**	**1.5**	**3.8**	**3.6**
Transfer to lifetime ECL credit-impaired	0.1	–	(0.1)	**–**	**n/a**
Net remeasurement of loss allowance	0.4	0.3	(0.1)	**0.6**	**0.9**
Write-offs	(0.4)	(0.5)	(0.3)	**(1.2)**	**(1.1)**
Recoveries of amounts written-off in previous period	–	0.1	–	**0.1**	**0.2**
Disposal of subsidiaries	(0.2)	–	–	**(0.2)**	**–**
Reclassification from/to ECL due to reclassification of items from/to this category	(0.5)	–	0.2	**(0.3)**	**–**
Foreign exchange	0.1	(0.1)	–	**–**	**–**
Balance at 31 December	**0.6**	**1.0**	**1.2**	**2.8**	**3.6**

31. DISPOSAL GROUPS AND NON-CURRENT ASSETS HELD FOR SALE

The Group has non-current assets and investments in the disposal groups held for sale, including subsidiaries acquired exclusively with a view to resale, accounted for in accordance with IFRS 5. The Management of the Group is committed to dispose of these non-current assets and investments in the near future, within one year from the initial classification as a disposal group.

		2018	2017
Assets of disposal groups held for sale:			
Teghout Investments Ltd	100% owned subsidiary	22.0	n/a
Premises	non-current asset held for sale	n/a	n/a
VTB Bank (Belgrade), JSC	100% owned subsidiary	n/a	6.1
Burger King Russia (Cyprus), Ltd	16.62% of shares in associate	n/a	4.6
Irrico Ltd.	65.8% owned subsidiary	n/a	4.0
Hotel Altai, JSC	100% owned subsidiary	n/a	1.0
Hotel Voshod, JSC	100% owned subsidiary	n/a	0.9
Investment property	non-current asset held for sale	n/a	0.3
Other	100% owned subsidiary	n/a	0.3
Total assets of disposal groups and non-current assets held for sale		**22.0**	**17.2**
Liabilities of disposal groups held for sale:			
Teghout Investments Ltd	100% owned subsidiary	–	n/a
VTB Bank (Belgrade), JSC	100% owned subsidiary	n/a	5.2
Irrico Ltd.	65.8% owned subsidiary	n/a	1.5
Other	100% owned subsidiary	n/a	0.3
Total liabilities of disposal groups held for sale		**–**	**7.0**

In August 2018, the Group obtained control over Teghout Investments, Ltd as a result of debt settlement and accounted for this investment as a subsidiary acquired exclusively with a view to resale under IFRS 5 as the sale is considered highly probable. As at 31 December 2018 the Group accounted for investments Teghout Investments, Ltd as a disposal group held for sale under IFRS 5 presented in segment "CIB" and considered that sale was highly probable

In July 2018 The Bank sold 100.0% of shares in VTB Bank (Belgrade), JSC, classified as disposal group held for sale, to a non-related party for the total consideration of RUR 0.9 billion with RUR 0.3 billion profit recognized attributed to segment "Treasury".

In April 2018 the Group sold 100.0% of shares in Mosgorlombard-Auto, LLC classified as assets held for sale, to a non-related party of the total consideration of RUR 0.1 billion. The net assets of Mosgorlombard-Auto, LLC as at the date of disposal amounted to RUR 0.1 billion.

Starting from March 2018 the Group ceased to classify investment in Irrico Ltd. as a disposal Group held for sale under IFRS 5 as the sale is no longer considered to be highly probable.

In February 2018 the Group sold 100.0% of shares in Hotel Altai, OJSC classified as assets held for sale, to a non-related party for the total consideration of RUR 1.0 billion. The net assets of Hotel Altai, OJSC as at the date of disposal amounted to RUR 1.0 billion.

In February 2018 the Group sold 16.62% of shares in associated entity Burger King Russia (Cyprus, Ltd), classified as assets held for sale, to a non-related party for the total cash consideration of 4.6 RUR billion with no gain/loss recognised.

In January 2018 the Group sold 100.0% of shares in Hotel Voshod, JSC classified as assets held for sale, to a non-related party for the total consideration of RUR 0.9 billion. The net assets of Hotel Voshod, JSC as at the date of disposal amounted to RUR 0.9 billion.

Major classes of non-current assets and assets of disposal groups held for sale are as follows:

	2018	2017
Assets of a disposal group held for sale:		
Cash and short-term funds	–	0.5
Mandatory cash balances with central banks	–	0.4
Due from other banks	–	1.1
Loans and advances to customers	–	3.4
Investment financial assets	–	0.5
Investments in associates and joint ventures	–	4.6
Premises and equipment	22.0	4.2
Intangible assets and goodwill	–	0.3
Investment property	–	–
Other assets	–	1.8
Non-current assets held for sale		
Investment property	–	0.4
Premises and equipment	–	–
Total assets of disposal groups and non-current assets held for sale	**22.0**	**17.2**

31. DISPOSAL GROUP AND NON-CURRENT ASSETS HELD FOR SALE (CONTINUED)

Major classes of liabilities of disposal groups held for sale are as follows:

	2018	2017
Due to other banks	–	1.1
Customer deposits	–	5.1
Trade creditors and prepayments received	–	–
Deferred income tax liability	–	–
Other liabilities	–	0.7
Subordinated debt	–	0.1
Total liabilities of disposal groups held for sale	**–**	**7.0**

32. DUE TO OTHER BANKS

	2018	2017
Term loans and deposits	1,006.1	694.8
Correspondent accounts and overnight deposits of other banks	104.0	114.6
Sale and repurchase agreements	315.6	0.9
Total due to other banks	**1,425.7**	**810.3**

The table below shows the amounts of pledged assets and carrying amount of associated liabilities as at 31 December 2018 and 31 December 2017.

	2018			2017		
	Amount of the assets pledged	Carrying amount of the associated liabilities	Net position	Amount of the assets pledged	Carrying amount of the associated liabilities	Net position
Term loans and deposits						
• loans and advances to customers (Note 25)	1.3	0.7	**0.6**	1.6	1.1	**0.5**
Sale and repurchase agreements						
• trading financial assets (Note 22)	33.8	29.4	**4.4**	0.1	0.3	**(0.2)**
• investment financial assets (Note 26)	11.5	10.7	**0.8**	0.4	0.4	**–**
• loans and advances to customers (Note 25)	25.9	22.3	**3.6**	**–**	**–**	**–**
• financial assets received under reverse sale and repurchase agreements	258.0	253.2	**4.8**	0.2	0.2	**–**
Total Sale and repurchase agreements	329.2	315.6	**13.6**	0.7	0.9	**(0.2)**
Total	**330.5**	**316.3**	**14.2**	**2.3**	**2.0**	**0.3**

33. CUSTOMER DEPOSITS

	2018	2017
Government bodies		
• Current/settlement deposits	70.4	118.3
• Term deposits	1,048.4	1,048.4
Other legal entities		
• Current/settlement deposits	1,505.1	1,277.0
• Term deposits	3,336.7	3,072.5
Individuals		
• Current/settlement deposits	1,085.3	906.4
• Term deposits	3,320.4	2,715.2
Sale and repurchase agreements	37.4	6.9
Total customer deposits	**10,403.7**	**9,144.7**

As at 31 December 2018, the Group's 10 largest groups of interrelated customers had aggregated balances amounting to RUR 2,683.1 billion or 25.8% of total customer deposits (Note 54) (31 December 2017: RUR 2,562.0 billion or 28.0%).

As at 31 December 2018, deposits of RUR 39.7 billion (31 December 2017: RUR 386.5 billion) were held as collateral against irrevocable commitments under import letters of credit and guarantees (Note 52).

33. CUSTOMER DEPOSITS (CONTINUED)

Economic sector risk concentrations within customer deposits are as follows:

	2018		2017	
	Amount	%	Amount	%
Individuals	4,407.9	42.4	3,621.6	39.6
Oil and Gas	1,322.1	12.7	1,321.5	14.5
Government bodies	1,118.8	10.8	1,166.7	12.8
Finance	841.4	8.1	709.4	7.8
Building construction	524.1	5.0	426.0	4.7
Engineering and Other Manufacturing	417.1	4.0	431.3	4.7
Trade and commerce	306.2	2.9	254.8	2.8
Transport	265.2	2.5	305.9	3.3
Telecommunications and media	222.3	2.1	160.5	1.8
Metals	208.2	2.0	69.2	0.8
Energy	184.1	1.8	133.7	1.5
Food and agriculture	95.2	0.9	71.5	0.8
Chemical	67.7	0.7	51.1	0.6
Coal mining	46.0	0.4	15.0	0.2
Aircraft	5.6	0.1	20.1	0.2
Other	371.8	3.6	386.4	3.9
Total customer deposits	**10,403.7**	**100.0**	**9,144.7**	**100.0**

As at 31 December 2018 financial assets pledged against sale and repurchase agreements represent trading financial assets with fair value of RUR 0.3 billion (31 December 2017: RUR 0.2 billion) (Note 22), investment assets with fair value of RUR 0.2 billion and securities received under reverse sale and repurchase agreements with fair value of RUR 38.2 billion (31 December 2017: RUR 8.5 billion).

34. OTHER BORROWED FUNDS

	2018	2017
Funds from local central banks:	57.4	71.1
• Term deposits from local central banks	56.0	71.1
• Sale and Repurchase Agreements	1.4	–
Syndicated loans	9.2	9.3
Other borrowings	263.1	224.1
Total other borrowed funds	**329.7**	**304.5**

The table below shows the amounts of pledged assets and carrying amount of associated liabilities as at 31 December 2018 and 31 December 2017.

	2018			2017		
	Amount of the assets pledged	Carrying amount of the associated liabilities	Net position	Amount of the assets pledged	Carrying amount of the associated liabilities	Net position
Funds from local central banks:						
Term deposits						
• loans and advances to customers (Note 25)	39.9	32.6	**7.3**	41.7	42.1	**(0.4)**
• investment financial assets (Note 26)	1.7	1.6	**0.1**	0.9	0.9	**–**
• due from other banks (Note 24)	–	–	–	0.7	0.7	**–**
Total Term deposits	**41.6**	**34.2**	**7.4**	**43.3**	**43.7**	**(0.4)**
Sale and repurchase agreements						
• investment financial assets (Note 26)	1.4	1.4	–	**–**	**–**	**–**
Other borrowings						
• loans and advances to customers (Note 25)	5.1	102.4	**(97.3)**	26.0	93.8	**(67.8)**
Total	**48.1**	**138.0**	**(89.9)**	**69.3**	**137.5**	**(68.2)**

In September 2011, “Bank of Moscow”, OJSC received a RUR 294.8 billion deposit from the related party DIA at 0.51% p.a. maturing in 10 years under the plan of support (the “Plan”) of “Bank of Moscow”, OJSC approved by the CBR and the DIA. During the fourth quarter 2014, the DIA agreed to the deposit extension due to adverse effects of the current political and macro-economic environment on “Bank of Moscow”, OJSC and its clients, which in turn influenced the execution of the Plan. In December 2014, the CBR and the DIA approved the extension of the deposit until September 2026 at 0.51% p.a.

As at 31 December 2018, the carrying amount of the deposit amounted to RUR 102.4 billion (31 December 2017: RUR 91.2 billion) and was included in Other borrowings. The contractual amount of the deposit was RUR 265.8 billion at 31 December 2018 (31 December 2017: RUR 266.0 billion). The deposit was collateralised by loans and advances to customers with the carrying amount of RUR 5.1 billion at 31 December 2018 (31 December 2017: RUR 22.1 billion) (Note 25).

35. DEBT SECURITIES ISSUED

	2018	2017
Bonds	159.2	244.4
Promissory notes	98.6	77.3
Deposit certificates	1.3	1.0
Total debt securities issued	**259.1**	**322.7**

Promissory notes represent notes primarily issued in the local market as an alternative to customer/bank deposits. As at 31 December 2018 promissory notes issued included both discount and interest bearing promissory notes denominated mainly in RUR with maturity ranging from demand to December 2044 (31 December 2017: from demand to December 2044).

The bonds represent eurobonds issued mostly under EMTN program and local bonds issued by VTB and other Group members with the carrying amounts at the end of the reporting periods as follows:

	Rates, p.a.	Maturity	2018	2017
Local bonds	3.00% to 9.25%	2019-2057	99.6	83.3
USD Eurobonds (EMTN)	6.25% to 6.55%	2020-2035	59.6	151.9
CHF Eurobonds (EMTN)	n/a	n/a	–	9.2
Total bonds			**159.2**	**244.4**

Local bonds include short-term bonds issued under an overnight bond programme on the Moscow Stock Exchange.

The table below shows the amounts of pledged assets and carrying amount of associated liabilities as at 31 December 2018 and 31 December 2017.

	2018			2017		
	Amount of the assets pledged	Carrying amount of the associated liabilities	Net position	Amount of the assets pledged	Carrying amount of the associated liabilities	Net position
Local bonds						
• loans and advances to customers (Note 25)	41.1	16.8	24.3	16.9	12.6	4.3
• due from other banks (Note 24)	1.1	0.8	0.3	1.0	1.0	–
• Cash and short-term funds	1.6	0.3	1.3	–	–	–
Total	**43.8**	**17.9**	**25.9**	**17.9**	**13.6**	**4.3**

36. SUBORDINATED DEBT

	Rates, p.a.	Maturity	2018	2017
VTB Bank, PJCS:				
RUR 100 billion subordinated deposit	from 3.5% to 6.89%	2044	101.2	101.7
USD 1.5 billion subordinated Eurobonds	6.95%	2022	94.1	78.0
CHF 350 million subordinated Eurobonds	5.00%	2024	16.2	13.5
Vozrozhdenie Bank, PJSC:				
RUR 1.0 billion subordinated deposit	9.25%	2020	1.0	n/a
RUR 1.0 billion subordinated deposit	9.25%	2020	1.0	n/a
RUR 1.0 billion subordinated deposit	9.25%	2020	1.0	n/a
Total subordinated debt			**214.5**	**193.2**

37. OTHER LIABILITIES

	2018	2017
Other financial liabilities at amortised cost:		
Amounts in course of settlement	25.8	15.3
Accrued expenses	16.5	7.5
Trade creditors and prepayments received	14.7	12.0
Advances received from lessees	4.9	3.7
Deferred income	0.9	1.3
Dividends payable	0.7	1.1
Liabilities related to option purchase agreements, which resulted in potential voting rights	–	10.1
Reinsurance and insurance payables	–	2.9
Other	2.5	5.5
Total other financial liabilities at amortised cost	**66.0**	**59.4**
Other financial liabilities at fair value through profit or loss:		
Obligation to deliver securities	22.1	35.4
Other	–	0.3
Total other financial liabilities at fair value through profit or loss	**22.1**	**35.7**
Other financial liabilities designated as at fair value through profit or loss:		
Non-controlling interests in consolidated mutual funds	2.7	2.6
Other	2.4	1.1
Total other financial liabilities designated at fair value through profit or loss	**5.1**	**3.7**
Provisions for credit related commitments and financial guarantees (Note 52)	15.0	4.1
Total other financial liabilities	**108.2**	**102.9**
Insurance liabilities:		
Pension liabilities accounted under IFRS 4 Insurance contracts	190.9	143.2
Provision for unearned premiums	–	79.2
Loss provisions	–	50.1
Total insurance liabilities	**190.9**	**272.5**
Other non-financial liabilities accounted at cost:		
Other liabilities related to non-banking activities	64.4	97.1
Payable to employees	44.2	42.2
Liabilities to pay taxes	12.5	22.7
Provisions for performance guarantees and legal claims (Note 52)	11.4	14.8
Liabilities on pension plans	3.1	3.2
Deferred income	2.1	0.7
Other	15.5	26.4
Total other non-financial liabilities accounted at cost	**153.2**	**207.1**
Total other liabilities	**452.3**	**582.5**

In 4th quarter of 2018, the Group fulfilled the liability related to option purchase agreements in the amount of RUR 10.1 billion through loan settlement.

As at 31 December 2018 and 2017, other liabilities related to non-banking activities are predominantly related to real estate and construction.

Impact of adopting IFRS 9 and IFRS 15

The following table reconciles the carrying amounts of other liabilities under IAS 39 and IAS 2 to the carrying amounts under IFRS 9 and IFRS 15 on transition on 1 January 2018:

	Original carrying amount under IAS 39 or IAS 2	Reclassifi-cation	Remeasu-rement under IFRS 9	Recognition of revenue under IFRS 15 before taxation	New carrying amount under IFRS 9 or IFRS 15
Other financial liabilities at amortised cost					
Other	5.5	0.2	–	–	5.7
Other financial liabilities at fair value through profit or loss					
Other	0.3	(0.2)	–	–	0.1
Provisions for credit related commitments	4.1	–	4.1	–	8.2
Other non-financial liabilities accounted at cost					
Provisions for performance guarantees and legal claims	14.8	–	2.0	–	16.8
Other liabilities related to non-banking activities	97.1	–	–	(2.7)	94.4

38. SHARE CAPITAL

Authorised, issued and fully paid share capital of the Bank comprises:

	2018		2017	
	Number of shares	Nominal amount	Number of shares	Nominal amount
Ordinary shares	12,960,541,337,338	138.1	12,960,541,337,338	138.1
Type 1 preference shares	21,403,797,025,000	214.0	21,403,797,025,000	214.0
Type 2 preference shares	3,073,905,000,000	307.4	3,073,905,000,000	307.4

Contributions to the Bank's share capital were originally made in RUR, foreign currency and gold bullion. All ordinary shares have nominal value of RUR 0.01, rank equally and carry one vote. Preference shares Type 1 have a nominal value of RUR 0.01 per share, preference shares Type 2 have a nominal value of RUR 0.1 per share. Type 1 and Type 2 preference shares are non-convertible and non-voting preference shares with dividends payable subject to the decision of the General Meeting of VTB shareholders.

As at 31 December 2018 the total authorised ordinary share capital comprised 14,000,000,000,000 shares (31 December 2016: 14,000,000,000,000 shares) with a par value of RUR 0.01 each.

For the year ended 31 December 2018 the net change in Group members' balances of the Bank's ordinary shares decreased by 25,426,340,523 (for the year ended 31 December 2017: decreased by 1,637,859,501) and the number of treasury shares decreased to 10,644,718,753 (31 December 2017: 36,071,059,276). As a result, the number of the outstanding ordinary shares at 31 December 2018 amounted to 12,949,896,618,585 (31 December 2017: 12,924,470,278,062).

39. PERPETUAL LOAN PARTICIPATION NOTES

In August 2012 and November 2012, VTB issued Perpetual Loan Participation Notes for the amount of USD 1.0 billion (RUR 32.5 billion) and USD 1,250 million (RUR 39.2 billion) respectively. The transaction included the issuance of Perpetual Loan Participation Notes by VTB Eurasia Limited (Ireland), a consolidated structured entity, which used the proceeds to provide a subordinated loan to VTB. The Perpetual loan participation notes have an unlimited term and are redeemable at VTB's option starting from December 2022 at their principal amount. Coupon rate is fixed at 9.5% p.a. and will be reset in 10.5 years and then every 10 years as 10 year US Treasury yield increased by 806.7 b.p. Coupon payments are paid semi-annually from December 2012 and may be cancelled or deferred in accordance with the terms of the notes. Such cancellation or deferral is at the discretion of VTB.

Due to the undefined maturity and optional non-cumulative cancellation of coupon payments, the Group accounts for the Perpetual loan participation notes as an equity instrument and as a Tier I eligible instrument for the purpose of Basel Capital Adequacy Ratio calculation. Further, the CBR approved the inclusion of the subordinated loan in the statutory capital ratio calculation of VTB Bank.

The Group accounts for the USD-denominated Perpetual loan participation notes in the amount of RUR equivalent amount using the foreign exchange rate at the reporting date with foreign exchange translation effects recorded in retained earnings. Issuance costs were also recorded in retained earnings. As at 31 December 2018, the carrying amount of the Perpetual Loan Participation Notes is RUR 156.3 billion (31 December 2017: RUR 129.6 billion).

Under the current terms of the Perpetual Loan Participation Notes, the payment of coupon is not mandatory, therefore, coupon amounts due under Perpetual Loan Participation Notes are recorded on their payment dates in June and December of each year, subject to VTB's decision to make such payments (Note 41).

In their capacity as market-makers, VTB Group subsidiaries buy and sell Perpetual loan participation notes in the market, usually with a short holding period. During the holding period, Perpetual loan participation notes are included in Treasury shares and bought back perpetual loan participation notes in equity.

40. OTHER RESERVES

Movements in other reserves were as follows:

	Fair value reserve for debt and equity investment financial assets and cash-flow hedges	Assets of disposal groups held for sale revaluation reserve	Land and premises revaluation reserve	Currency translation difference	Total
2016	**3.7**	**0.8**	**19.7**	**20.6**	**44.8**
Total comprehensive income/(loss) for the period	2.8	0.1	(0.1)	(0.6)	**2.2**
Transfer of premises revaluation reserve upon disposal or depreciation	–	(0.9)	(0.7)	–	**(1.6)**
Acquisition of non-controlling interests and other capital transactions	–	–	–	0.7	**0.7**
2017	**6.5**	**–**	**18.9**	**20.7**	**46.1**
Impact of adopting IFRS 9 at 1 January 2018 (Note 3)	8.0	–	–	–	**8.0**
Balance at 1 January 2018 after adoption	**14.5**	**–**	**18.9**	**20.7**	**54.1**
Total comprehensive income/(loss) for the period	(15.4)	–	6.5	38.0	**29.1**
Transfer of premises revaluation reserve upon disposal or depreciation	–	–	(0.8)	–	**(0.8)**
2018	**(0.9)**	**–**	**24.6**	**58.7**	**82.4**

41. DIVIDENDS AND AMOUNTS PAID UNDER PERPETUAL LOAN PARTICIPATION NOTES

In accordance with the VTB dividend policy as approved by the Supervisory Council 29 January 2016 dividends are distributed based on an annual IFRS net profit. The Supervisory Council proposes the amount of dividends for the approval by the Annual General Meeting of VTB. The approved dividend amounts are paid out to eligible shareholders within 25 working days.

Following the decision approved by the Extraordinary General Meeting of VTB shareholders 8 December 2016 the amount of dividends on Type 1 preference shares and Type 2 preference shares may be determined upon results of the first three months, six months and nine months of the reporting year, and/ or upon results of the reporting year by the General Shareholders Meeting on the recommendation of the Supervisory Council.

In May 2018, the Annual General Meeting of VTB shareholders declared dividends for 2017 for ordinary shares in the total amount of RUR 44.8 billion (RUR 0.00345349138975912 per ordinary share); for Type 1 preference shares in the total amount of RUR 11.8 billion (RUR 0.000551499742855177 per Type 1 preference share); for Type 2 preference shares in the total amount of RUR 16.9 billion (RUR 0.00551499742855177 per Type 2 preference share). Dividends declared were paid in June 2018.

In February 2018, the Annual General Meeting of VTB Capital AD shareholders approved dividends for 2017 in the amount of RUR 783,000.0 (EUR 11,090.0) for each Class B share, all payable to non-controlling shareholders, and paid in full in March 2018. The total amount of dividends to non-controlling shareholders was RUR 0.2 billion.

In June 2018, the Annual General Meeting of “Post Bank”, PJSC shareholders approved dividends for 2017 in the amount of RUR 1.0 billion for distribution by line basis for each ordinary share issued. The total amount of dividends to non-controlling shareholders was RUR 0.5 billion. Dividends declared were paid in July-August 2018.

In August 2018, the Extraordinary General Meeting of Citer Invest B.V. shareholders approved interim dividends for 2017 in the amount of RUR 479,017,156.20 for each Class B share, and RUR 3,297,305,255.57 for the sole Class C share. The total amount of dividends to non-controlling shareholders was RUR 3.3 billion. Dividends declared were paid in September-October 2018.

In September 2018, the Annual General Meeting of VTB Africa S.A. shareholders approved dividends for 2017 in amount of RUR 58.96 (AOA 266.444) per ordinary share including dividends payable to non-controlling shareholders in amount of RUR 0.2 billion.

In September and November 2018, the Annual General Meeting of Vedomstvo-Kapital, JSC shareholders approved dividends for the period of 6 months 2018 in the amount of RUR 2,500,000.0 for each ordinary share and for the period of 9 months 2018 in the amount of RUR 2,500,000.0 for each ordinary share. The dividends were paid in full in October - December 2018. The total amount of dividends paid to non-controlling shareholders was RUR 0.1 billion.

In April 2017, Annual General Meeting of VTB shareholders declared dividends for 2016 for ordinary shares in the total amount of RUR 15.2 billion (RUR 0.00117 per ordinary share); for Type 1 preference shares in the total amount of RUR 11.1 billion (RUR 0,00052 per Type 1 preference share); for Type 2 preference shares in the total amount of RUR 18.1 billion (RUR 0.00588849 per Type 2 preference share). Dividends declared were paid in May-June 2017.

In May 2017, the Annual General Meeting of VTB Capital AD shareholders approved dividends for 2016 in the amount of RUR 362,614 (EUR 5,658) for each Class B share, all payable to non-controlling shareholders, and paid in full in June 2017. The total amount of dividends to non-controlling shareholders was RUR 0.1 billion.

In August 2017, the Annual General Meeting of VTB Africa S.A. shareholders approved dividends for the previous years starting from 2013 to 2016 in amount of RUR 249.632 (AOA 713.9136) per ordinary share including dividends payable to non-controlling shareholders in amount of RUR 0.8 billion.

In June and December 2018 VTB paid the amounts under Perpetual Loan Participation Notes in the total amount of USD 213.7 million (RUR 13.7 billion). In June and December 2017 VTB paid the amounts under Perpetual Loan Participation Notes in the total amount of USD 213.7 million (RUR 12.3 billion).

RISK

42. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS

The Group makes estimates and assumptions that affect the amounts recognised in the consolidated financial statements, and the carrying amounts of assets and liabilities within the next financial year. Estimates and judgments 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 judgments, apart from those involving estimations, in the process of applying the accounting policies. These estimates are based on information available as of the date of the financial statements. Actual results can differ significantly from such estimates. Judgments that have the most significant effect on the amounts recognised in the consolidated financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

Classification of financial assets

The Group determines the business model within which the assets are held and assesses of whether the contractual terms of the financial asset are solely payments of principal and interest on the principal amount outstanding.

Business model assessment includes assessing the risks that affect the performance of the business model and performance of the portfolio.

Assessment whether contractual cash flows are solely payments of principal and interest includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition.

Impairment of financial assets

The Group assesses whether credit risk on the financial asset has increased significantly since initial recognition and incorporates of forward-looking information in the measurement of ECL (Note 44).

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use or fair value less cost to sell of the cash-generating units, to which goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2018 was RUR 115.6 billion (31 December 2017: RUR 116.0 billion) (Note 29).

Impairment of intangible assets with finite useful lives

The Group assesses whether intangible assets with finite lives are impaired whenever there is an indication that the intangible asset may be impaired. This requires an estimation of the value in use or fair value less cost to sell of the corresponding intangible asset. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the intangible asset and also to choose a suitable discount rate in order to calculate the present value of those cash flows (Note 29).

Land and premises

The fair value of land and premises is determined by using valuation techniques. Further details of the judgements and assumptions made are presented in Note 45.

Property intended for sale in the ordinary course of non-banking activities

Property intended for sale in the ordinary course of non-banking activities is stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. Net realisable value for completed property is assessed with reference to market conditions and prices existing at the reporting date and is determined by the Group having taken suitable external advice and in the light of recent market transactions. Net realisable value for property under construction is assessed with reference to the selling market prices at the reporting date for similar completed property, less estimated cost to complete the construction provided in the current construction budget, adjusted for the time value of money if material.

Lack of control over entities in which the Group holds more than half of voting right

The Group considers that it does not have control over certain investees although it owns more than 50% of their voting rights. Factors considered by the Group include placement of the company under external administration and other factors leading to inability to exercise effective control over the investee's operations (Notes 31, 49).

Control over entities in which the Group holds less than half of voting right

The Group has control over certain investees in accordance with IFRS 10 although it owns less than 50% of their voting rights. Factors considered by the Group include existence of potential voting rights, contractual arrangement between the Bank and other vote holders and other factors leading to ability to exercise control over the investee's operations (Note 47).

Existence of significant influence in other entities

The Group may have voting rights in other entities approaching to, but lower than 20%. In assessing whether the Group has significant influence over such entities, judgment is exercised to determine whether the Group has the power to participate in the financial and operating policy decisions of the investee including the ability to block certain changes which are unfavourable to the Group but without control or joint control in those entities. The Group's investments in those entities where the Group has significant influence are detailed in Note 49.

42. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

Deferred income tax asset recognition

Income tax expense in respect of the current tax assets and liabilities is recognised based on the income tax rates enacted by the end of the reporting period in relevant tax jurisdictions where the Group is presented. Income tax expense in respect of the deferred income tax assets and liabilities is measured at the income tax rates that are expected to be applied to the period when deferred assets are realised or liability are settled based on the income tax rates officially enacted by the end of the reporting period.

The recognised deferred income tax asset represents income taxes recoverable through future deductions from taxable profits, and is recorded in the statement of financial position. Deferred income tax assets are recorded to the extent that realisation of the related tax benefit is probable. The future taxable profits and the amount of tax benefits that are forecasted probable in the future are based on a medium term business plan prepared by management. The Group considers consolidating tax profitable entities with tax loss making entities for tax purposes. Refer to Note 20.

Structured entities

Structured entities are designed so that voting or similar rights are not the dominant factor in deciding who controls the entity. Judgment is also required to determine whether the substance of the relationship between the Group and a structured entity indicates that the structured entity is controlled by the Group.

The Group does not consolidate structured entities that it does not control. As it can sometimes be difficult to determine whether the Group does control a structured entity, management makes judgments about its exposure to the risks and rewards, as well as about its ability to make operational decisions for the structured entity is in question. In many instances, elements that are presented, considered in isolation, indicate control or lack of control over a structured entity, but when considered together make it difficult to reach a clear conclusion. In cases where more arguments are in place towards existence of control, the structured entity is consolidated. Refer to Note 51 for further information about the Group's exposure to structured entities.

Fair value estimation of financial instruments where significant unobservable inputs have been used

Details of fair value estimation of unquoted shares classified as financial assets at fair value through profit or loss, investment financial assets available-for-sale and Investments in associates and joint ventures designated as at fair value through profit or loss are provided in Note 45. Assessment of significance of particular fair value measurement input requires management judgment and is disclosed in Note 45.

Investment property

The fair value of investment properties is determined by using valuation techniques. For further details of the judgements and assumptions made, refer to Note 45.

Net investment in a foreign operation

The Group classified certain intercompany amounts due from and loans to several foreign subsidiaries as part of the Group's net investment in these foreign operations. The settlement for these intercompany transactions is neither planned nor likely to occur in the foreseeable future.

As at 31 December 2018, net accumulated gains arising from the foreign exchange differences on these transactions in the amount of RUR 0.9 billion were included as part of the currency translation difference (Note 40) in the Group's equity (31 December 2017: net accumulated losses in the amount of RUR 23.1 billion). In 2018 and 2017, the net foreign exchange differences on these transactions amounted to RUR 5.5 billion (net gain) and RUR 2.5 billion (net loss), respectively. In 4 quarter 2018, due to deconsolidation of a subsidiary bank previously recognized net accumulated losses arising from the foreign exchange differences were transferred to profit or loss (Note 48).

Litigations

The Group is involved in a number of litigations. The Group uses its judgement to evaluate their expected outcome, and to estimate the necessary provision. Note 52 discloses information on claims where outflow of economic benefits was deemed to be possible, and provides information on the provision created on those claims where the outflow of economic benefits was deemed to be probable.

43. OPERATING ENVIRONMENT OF THE GROUP

The Russian Federation

The Group conducts the majority of its operations in the Russian Federation (Russia). The Russian Federation displays certain characteristics of an emerging market. The legal, tax and regulatory frameworks continue to develop and are subject to frequent changes and varying interpretations. Its economy is particularly sensitive to oil and gas prices. The Russian economy is susceptible also to the ongoing political tension in the region and international sanctions against certain Russian companies and individuals.

These matters may have significant impact on the Group's future operations and financial position, the effect of which is difficult to predict. The future economic and regulatory situation and its impact on the Group's operations may differ from management's current expectations. Additionally, certain economic factors, including contraction of real incomes of households, reduced corporate liquidity and profitability and increased corporate and personal insolvencies, may affect the Group's borrowers' ability to repay the amounts due to the Group.

43. OPERATING ENVIRONMENT OF THE GROUP (CONTINUED)

The Russian Federation (continued)

Adverse changes in economic conditions may result in deterioration in the value of collateral held against loans and other obligations. The Group considered available current macro-economic information in its impairment assessments.

As of 31 December 2018 and 31 December 2017, select Russian macro-economic indicators were as follows:

(1) The CBR key interest rate was 7.75% p.a. and 7.75% p.a., respectively;

(2) The CBR foreign exchange rate was RUR 69.4706 per USD 1 and RUR 57.6002 per USD 1, respectively.

Ukraine

In 2014 and 2015, the economic and political situation in Ukraine deteriorated significantly. As a result, Ukraine has experienced a fall in gross domestic product, a significant negative balance of payments and a sharp reduction in foreign currency reserves. The National Bank of Ukraine imposed certain restrictions on foreign currency operations. Restrictions have also been introduced for certain cross-border settlements, including payments of dividends. International rating agencies have downgraded sovereign debt ratings for Ukraine.

While the monetary restrictions are being phased out gradually and the gross domestic product trends stabilised recently, the aforementioned factors still impacted the operating environment in 2018 to a considerable degree.

The combination of the above events has resulted in tighter credit conditions and deterioration of asset quality.

The persistent restrictions imposed by government and regulatory authorities of Ukraine caused loss of control over Ukraine-based subsidiary bank of the Group (Note 48).

Other jurisdictions

In addition to Russia, the Group conducts operations in Belarus, Kazakhstan, Azerbaijan, Armenia and Georgia, certain European countries (Austria, Germany, Great Britain) and several other countries. Difficult economic and financial market situation in certain of these jurisdictions led to a decrease or negative growth of GDP, currency devaluation, reduced consumption, as well as a decline in investment activities.

The Group operates in the UK via a subsidiary bank. Negotiations between the UK and the EU in relation to an exit deal remain complicated. The draft agreement includes a 21-month transition period (to 31 December 2020) to smooth the exit process and allow for further negotiations in relation to a trade agreement between the EU and the UK. However, the UK parliament has rejected the draft agreement and is considering changes to the agreement which would have to be negotiated with the EU. At this time there seems to be little willingness at the EU to accept any changes to the draft which means that there is a real risk that the UK will leave the EU without an overarching deal (the so-called “hard Brexit”). There also still remains a possibility that the UK will extend the timetable, or even not leave the EU (possibly via a second referendum).

Due to the uncertainty surrounding the final Brexit deal and the subsequent UK relationship with the EU, the net effect on business and markets cannot be accurately gauged. The Bank has been analysing different BREXIT scenarios and their impact on the Bank’s client offering and trading business, and is taking measures to minimize the potential impact.

Sanctions

Since the second half of 2014 the Group operates under limited sectorial sanctions imposed by several countries on the Group. The Group considers these sanctions in its activities, continuously monitors them and analyses the effect of the sanctions on the Group’s financial position and its financial performance.

While management believes it is taking appropriate measures to support the sustainability of the Group’s business in the current circumstances, unexpected further deterioration in the areas described above could negatively affect the Group’s results and financial position in a manner not currently determinable.

44. FINANCIAL AND INSURANCE RISK MANAGEMENT

The Group is exposed to financial risks, including credit, liquidity and market risks.

According with "VTB Group Consolidated Risk Management Concept" and the Group's business model risk management system of VTB Group has a matrix structure which:

- includes local (at the Company Group level) and consolidated (at the Group level in general) levels of risk management with a high degree of centralization of a group function of a risk management;
- is structured in the context of global business lines of the Group (corporate and investment business, medium and small business, retail business) and its risk specifics and also broken down by types of risk.

Risk management organization structure in VTB Group includes:

- collegial bodies (committees) of the Group;
- central office (chief risk manager of the Group and risk competence centres of the Group);
- local governing bodies, working collegial bodies (committees), structural divisions / authorized officers of the Group's participants.

In each bank of VTB Group risks are managed by the appropriate authorities, primary by Supervisory Council (Board of Directors) and Management Board. The standard organizational structure of VTB Group's banks includes a Chief Risk Officer and one or several Risk divisions responsible for risk management. In the subsidiary financial companies whose activity implies exposure to financial risks (such as "VTB Leasing", "VTB Factoring" and "VTB Capital") the general principles of risk management organization are the same as in banks of Group.

The consolidated risk management function of VTB Group is centralised and is carried out by VTB Bank. The main divisions responsible for risk management at the level of Group in VTB Bank organizational structure are Department of Integrated Risk Management, Corporate Credit Risk Department, Retail Credit Risks Department (in accordance with changes in the organisational system of the VTB, effective starting November 2018).

VTB Bank' Supervisory Council according to requirements of the Bank of Russia carries out risk management functions of Group (in particular, approves and regularly reconsiders the risk and capital management strategy of the Group, including key risk appetite parameters, considers regular significant risks and capital adequacy of the Group and its participant's reports).
The Management Board of VTB bank has overall responsibility for risk management at VTB Group.

Additionally on the Group level a number of collegial bodies performs day-to-day coordination of consolidated risk management activities. General supervision of risk management in the Group's participants is executed by the Group Management Committee ("GMC").

Being a high-level Group's management coordination body, GMC takes decisions in the area of the Group's risk management policies and procedures based on delegated powers. Decisions and recommendations of the GMC are basis for the respective management decisions of VTB Group's participants.

Risk management methodological and operational issues are considered by special committees / coordination commissions under GMC and authorized divisions / risk competence centres of the Group.

The Group Risk Committee ("GRC") functions under the GMC. The principal tasks of the GRC include:

- setting of priorities, the development, approval and implementation of the group-wide documents (methodologies, regulations) defining risk management methods (approaches, standards) in VTB Group;
- development of the system of aggregated limitations (limits, internal ratios, target goals), including the existing risk appetite control system in the VTB Group;
- regular review (monitoring, analysis) of the current profile and the level of risks assumed by the Group (within the competence of the Committee);
- elaboration and coordination of the necessary measures to be taken in the context of the current and perspective risk management in VTB Group. (including the issues concerning the development of unified risk management approaches / standards in the Group and monitoring / coordination of their implementation).

In particular, GRC is actively involved in the elaboration and monitoring of implementation of risk management strategic initiatives in VTB Group.

GRC includes:

- managers and representatives of VTB Bank's divisions involved in consolidated risk control including Department of Integrated Risk Management, Corporate Credit Risk Department, Retail Credit Risks Department and Financial Department;
- managers and representatives of VTB Bank's divisions which are responsible for global business lines;
- chief risk officers of a number key VTB Group subsidiaries.

44. FINANCIAL AND INSURANCE RISK MANAGEMENT (CONTINUED)

The Commission on the Implementation of Risk Management Methods and Business Continuity Management in VTB Group functions under the GRC. Its responsibilities include:

- coordination of work and consideration of the proposals of the Group companies concerning implementation of effective risk management methods and procedures in the VTB Group;
- creation of conditions to optimize the interaction of VTB Bank and its subsidiaries in respect of the risk function in the VTB Group;
- establishment of a general information and methodological platform for risk management operating processes within the Group, including the issues of coordination of project activities of VTB Bank and subsidiary companies and issues of business continuity in VTB Group companies;
- assessment of responses to non-standard and emergency situations in VTB Group companies;
- coordination and control of the recovery of critical activities of VTB Group, as a result of non-standard and emergency situations.

The International CIB Risk Management Committee functions under GMC, its main responsibilities include:

- unification of approaches to risk management in International CIB companies in accordance with VTB Group requirements and international best practices;
- centralisation of International CIB risk management and increasing the efficiency of risk management divisions by eliminating duplication of functions and internal arbitration between International CIB companies;
- ensuring unification of IT infrastructure for International CIB risk management.

The Retail Risks Committee of VTB Group was abolished; performed functions were reshuffled in GRC.

Information on other committees and coordination commissions under GMC (credit committees; assets and liabilities management committee) of financial risks management of VTB Group is disclosed below in sections by types of risks.

One of the key approaches to VTB Group' financial risks management is ensuring VTB Group activities with respect to the risk-appetite.

VTB Group risk-appetite is a system of quantitative and quality measures, which defines a target aggregated level / risk profile that VTB Group is capable and/or willing to accept taking into account requirements of interested parties (shareholders, regulators, the management, rating agencies, investors) in order to achieve the established strategic goals.

CREDIT RISK

Credit risk means the risk of Group' losses, reduction of revenue and /or extra costs arising from non-performance or improper performance of financial obligations by counterparty to Group companies according to terms of the contract.

VTB Group's exposures to credit risk arise principally from banking activities such as granting loans to corporate and retail customers, interbank lending, issuance of unpaid letters of credit and guarantees, securities and derivative financial instruments business and leasing business.

Credit risk management within the VTB Group is based on a combination of the following approaches:

- local credit risk management at the level of individual Group members;
- consolidated credit risk management at the Group level.

As part of the local credit risk management system, the Group members assume and manage credit risks independently (including insurance, hedging, etc.) in the scope of the established powers and limits with regard to risk indicators, in accordance with the national regulations and the standards of the Group. The Group members are responsible for the results of their lending activity, for the quality of their loan portfolios and for monitoring and control of credit risk level in their portfolios.

As per the "VTB Group Consolidated Risk Management Concept", adopted by the GMC, the consolidated credit risk management comprises the following functions:

- consideration and approval of the Group-wide strategy, policies, unified basic principles and approaches related to the lending / investment activities and credit risk management;
- control of the current credit risk level (concentration) on a consolidated basis and elaboration of the necessary measures to mitigate risks (potential losses).

Consolidated credit risk management covers the main types of assets and off-balance sheet (contingent) exposures of the Group members, which bear credit risk and require control of their concentration at the Group level. In the context of consolidated control and reporting the scope and parameters of such operations are defined by the co-coordinating bodies of the Group.

44. FINANCIAL AND INSURANCE RISK MANAGEMENT (CONTINUED)

CREDIT RISK (CONTINUED)

The key elements of consolidated credit risk management in the VTB Group are as follows:

- periodic review of the credit risk policies of the VTB Group, harmonising and streamlining of credit policies of the subsidiaries with the Group's credit policy;
- setting of consolidated limits, portfolio limits (including limits on common counterparties / groups of related counterparties, countries, industry sectors), internal indicative limitations of large credit exposure;
- unifying credit procedures and methods of credit risk assessment (credit rating systems – for corporate customers and financial institutions, and also rating (scoring) systems – for retail customers);
- optimization of business procedures for problem (low-quality) assets, incl. with the involvement of the third parties on the terms and conditions of the contract in compliance with current legislation;
- improving the credit decision system quality;
- unification and standardisation of the technological processes of credit products production and realization with "mass" credit conditions;
- assessment of economic capital (Capital-at-Risk) sufficient to cover Group credit risks;
- consolidated analytical reporting on credit risks;
- stress-testing;
- making/monitoring provisions for expected credit losses according to IFRS.

The Group-wide policies and other documents, which are adopted by the GMC and its relevant sub-committees, outline the main approaches and standards of risk management and organisation of credit operations in the Group. These principles should be complied with by each subsidiary bank and separate financial companies of the Group. The Group's credit policy covers, particularly, the following areas:

- roles and responsibilities of different bodies and divisions in the area of Group lending and credit risk management;
- regulations related to the approval and revision of credit policies in VTB subsidiary banks;
- Group-wide uniform basic methods, models, approaches to credit risk assessment and management;
- principles of pricing policy (interest rates and commissions), security policy and others.

Subsidiary banks should implement credit risk management system as well as credit policies and procedures in compliance with the Group's standards.

Credit risk policies are adopted by each subsidiary bank and are subject to a regular review, usually once in one or two years

The general (typical) procedure for adopting credit policies is as follows:

- the draft credit policies or significant amendments are subject to the preliminary consideration and agreement by VTB bank;
- the credit policies and amendments should be approved by the Supervisory Council (Board of Directors) of the subsidiary bank;
- VTB bank may propose amendments to the credit policies of a subsidiary bank as part of centralised regulation and credit risk control for the Group, provided that such amendments are in line with local regulations.

The authorities of management and executive bodies of the Group members in relation to decision making and lending transactions are determined by their constituent documents and applicable statutory legislation. On a Group-wide basis credit risk management is overseen and co-ordinated by the following collegiate bodies:

- the GMC;
- the GRC and its Commission on the Implementation of Risk Management Methods;
- VTB Group Corporate Investment Business Credit Committee ("GCIBCC"),
- VTB Group Medium Business Credit Committee ("GMBCC").

GCIBCC and GMBCC are permanent collective decision-making (relevant to Corporate Investment Business Global line and Medium Business Global line customers respectively) committees under the GMC. GCIBCC chaired by the VTB Bank Management Board Member responsible for the group-wide risk management and GMBCC chaired by Corporate Credit Risk Department representative and includes representatives of divisions (Risk, Legal, Corporate Business Support, Investment Banking, Treasury etc.). The key tasks of this committee are as follows:

- taking decisions on VTB Group risk concentration policy (relevant to Corporate Investment Business Global line and Medium Business Global line customers respectively);
- setting consolidated limits for the credit risk;
- consideration of some individual operations and large-scale transactions of Group members.

VTB Group is set to reduce the risk factors related to loan concentration per separate large corporate customers / group of related customers and to ensure credit risk diversification. For this purpose the benchmark for the share of VTB Group largest borrowers in Group's corporate loan portfolio is set. VTB Group Companies are recommended to determine reasonable local levels of similar benchmarks within their local credit policies/ risk strategies, based on the Group's acceptable credit risk concentration target.

In VTB Bank the Corporate Credit Risk Department (CCRD) is responsible for corporate credit risk management on a Group-wide basis including development of credit risk management system, relevant Group data consolidation and consolidated limits monitoring.

44. FINANCIAL AND INSURANCE RISK MANAGEMENT (CONTINUED)

CREDIT RISK (CONTINUED)

Retail Credit Risk Department (RCRD) coordinates retail credit risk management across the Group and is responsible for:

- developing standards of retail risk management in VTB Group;
- developing systems of retail credit risk limits;
- developing standards of decision making procedure in VTB Group;
- developing standards of monitoring and reporting of retail credit risks (methodology and formats);
- consolidating reports on retail lending of the Group;
- monitoring performance and management of retail loan portfolios across the Group.

In 2018 on the Group Risk Committee RCRD approves the "Basic statements of retail credit risk management in the VTB Group". The VTB subsidiary banks, which engage in retail credit granting, apply to these group standards, other group-wide documents (in the field of retail risk management) and Credit policies applicable to VTB Group retail lending, approved by the GMC.

Credit risk monitoring at the Group level is supported by regular reporting from subsidiaries to the CCRD and RCRD for assessing of credit risk exposures on a consolidated basis.

Credit risk grades

2018		2017	
Credit risk grades	Description	Category	Reference provision rate
Pass	Acceptable risk level assets by internal probability of default calculation viewed as target segment by the Bank in context of loan portfolio growth. Specific lending transactions could be ranked in this category on the basis of expected loss assessment (as the basic parameter of quantitative evaluation of risk in this segment).	Pass	0% to 2%
Watch	Higher-level risk assets ranked untargeted by the Bank in context of new loans, by internal probability of default calculation.	Watch	from 2% to 5%
Sub-standard	High-risk assets exposed to substantial credit risk factors or assets ranked unacceptable by the Bank in context of new loans, by internal probability of default calculation . This category may also include loans the Group was forced to restructure. Such loans are currently serviced in accordance with the schedule but criteria for Default status rescinding for them were not yet met because not enough time has passed since restructuring or significant part of loan was not yet repaid under the terms of restructured loan.	Sub-standard	from 5% to 20%
Doubtful	Default classified assets with substantial amount of expected losses	Doubtful	from 20% to 50%
Non-performing loans (NPL)	The Group defines non-performing loans (NPL) as lifetime ECL credit-impaired financial assets with contractual principal and (or) interest payments overdue more than 90 days and POCI loans with principal and (or) interest payments becoming overdue more than 90 days after the date of initial recognition. Loans with no contractual payments until maturity, grace period on principal and or interest payments, as well as restructured loans are not considered NPL unless amounts due contractually become more than 90 days overdue.	Loss	from 50% to 100%.

Definitions

Expected Credit Loss (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). An ECL measurement is unbiased and should be determined by evaluating a range of possible outcomes.

An ECL measurement is based on four components used by the Group:

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.

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

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

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

44. FINANCIAL AND INSURANCE RISK MANAGEMENT (CONTINUED)

CREDIT RISK (CONTINUED)

Definitions (continued)

Lifetime period – the maximum period over which ECL should be measured. For loans with fixed maturity, the lifetime period is equal to the remaining contractual period. For loan commitments and financial guarantee contracts, this is the maximum contractual period over which an entity has a present contractual obligation to extend credit. For credit cards issued to individuals, it is the period that is based on internal statistics, and it is equal to 2 years.

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.

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 amounts to exposure on the balance 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 – a loan is in default, or credit-impaired, when it meets one or more of the following criteria:

- the borrower is more than 90 days past due on its contractual payments
- the bank has sold the borrower’s debt with losses
- the borrower meets the unlikeliness-to-pay criteria and other qualitative factors listed below:
  - distressed restructuring
  - the borrower is deceased (retail loans)
  - the borrower is insolvent(bankruptcy)
- the borrower is classified in 4th or 5th category according to CBR 590-P “Regulation on the procedure for making loan loss provisions and provisions for loan debts and similar debts by credit institutions” with significant increase in prudential provisions.

Default criteria redefined in accordance with BCBS recommendations (Basel II) and is applied consistently across all financial instruments and customer segments. The default definition stated above is applied to all types of financial assets of the Group.

Significant increase in credit risk (SICR)

The SICR assessment is performed on an individual basis and on a portfolio basis. For loans issued to legal entities, interbank loans and debt securities accounted for at AC or at FVOCI, SICR is assessed on an individual basis by monitoring the triggers stated below. The criteria used to identify a SICR are monitored and reviewed periodically for appropriateness by the Corporate Credit Risk Department, Retail Credit Risks 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 loans issued to corporate and interbank borrowers:

- The number of days past due is higher than 31 days bur lower than 90 days.
- A significant increase in credit risk, expressed in the relative threshold based on internal ratings. SICR is determined based on comparison between credit risk ratings as of the origination date and credit risk rating as of the reporting date for each financial asset individually. Decrease of credit risk rating sufficient to indicate SICR is determined by the Group for each credit risk rating based on relative increase in probability of default with decrease of credit risk rating.
- “Potentially problem exposure” watch list status according to the internal credit risk monitoring process.
- Information is available regarding significant increase in credit risk within a group of financial instruments with similar credit risk characteristics.

For retail loans:

- The number of days past due is higher than 31 but lower than 90 days.
- A significant increase in credit risk, expressed in the relative increase in the risk of a default (PD as a measure of the default risk) since initial recognition. SICR is determined based on comparison between credit risk ratings as of the origination date and credit risk rating as of the reporting date for each financial asset individually. Decrease of credit risk rating sufficient to indicate SICR is determined by the Group for each credit risk rating based on relative increase in probability of default with decrease of credit risk rating.
- Existence or forecast of adverse changes in commercial, financial or economic conditions that adversely affect the creditworthiness of the borrower.
- The loan had experienced a forced restructuring and such restructuring was due to deterioration of the borrower's creditworthiness, and at the reporting date, the loan is in the recovery state.

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44. FINANCIAL AND INSURANCE RISK MANAGEMENT (CONTINUED)

CREDIT RISK (CONTINUED)

If there is evidence that the SICR criteria are no longer met, the instrument will be transferred back to Stage 1. If an exposure has been transferred to Stage 2 Based on a qualitative indicator, the Group monitors whether that indicator continues to exist or has changed.

General principle of ECL measurement

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 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 group of financial instruments for which there has been recorded no significant increase in the level of the credit risk since initial recognition and provisions for this group are created in the amount of 12-month ECL, and interest income is calculated based on the gross book value.
- Stage 2: a group of financial instruments for which there has been recorded a significant increase in the level of credit risk since the initial recognition and provisions for which are created in the amount of ECL for the whole lifetime, and interest income is calculated based on the gross book value.
- Stage 3: a group of credit-impaired financial instruments, the provisions for which are created in the amount of ECL for the whole lifetime, and the interest income is accrued based on the amortised cost.

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

The Group performs an assessment on an individual basis for credit-impaired financial assets taking into account the principles, listed below.

The Group performs an assessment on a portfolio basis for the following types of loans: retail loans, loans issued to SMEs and particular categories of corporate borrowers. This approach incorporates aggregating the portfolio into homogeneous segments based on borrower-specific information, such as delinquency, the historical data on losses and forward-looking macroeconomic information.

Principles of assessment on individual basis - ECL assessments on an individual basis are done by weighting the estimates of credit losses for different possible outcomes against the probabilities of each outcome. The Group defines at least two possible outcomes for each loan, one of which leads to credit loss in spite of the probability of such a scenario. Individual assessment is mainly based on the expert judgement. Expert judgements are regularly tested in order to decrease the difference between estimates and actual losses. Retail loans with residual above RUR 400 million are assessed individually.

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. If the Group is not able to combine financial instruments on the basis of shared credit risk characteristics, and credit risk for these financial instruments considered to increase significantly from initial recognition, the Group recognizes lifetime ECL for financial assets with significantly increased credit risk.
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 at least once a year.

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

ECL measurement – description of estimation techniques

Distribution of legal entities loans, debt securities and credit-related contingencies is determined by principles specified in Bank's methodologies for borrower's ranking and defines homogenous segments.

The ECL is determined by predicting credit risk parameters (EAD, PD and LGD) for each future period during the lifetime period for each individual exposure or collective segment. These three components are multiplied together and adjusted for the likelihood of survival (i.e. the exposure has been repaid or defaulted in an earlier month). This effectively calculates an ECL for each future period, which is then discounted back to the reporting date and summed up. The discount rate used in the ECL calculation is the original effective interest rate or an approximation thereof, for POCI financial assets – credit risk adjusted EIR.

The EADs are determined based on the expected payment profile, which varies by product type:

- for amortising products and bullet repayment loans, EAD is based on the contractual repayments.
- for revolving products, the EAD is predicted by taking the current drawn balance and adding a "credit conversion factor (CCF)" that accounts for the expected drawdown of the remaining limit by the time of default. These assumptions vary by product type, current limit utilisation and other borrower-specific behavioural characteristics. As assessment of the CCF for credit lines is based on the latest available historic data about residuals on balance and off-balance accounts of defaulted credit lines. For other off balance sheet exposures CCF is determined based on available historical data and expert judgment.

44. FINANCIAL AND INSURANCE RISK MANAGEMENT (CONTINUED)

CREDIT RISK (CONTINUED)

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 (or over the remaining life of the financial instrument if less than 12 months). This parameter is used to calculate 12-month ECLs;
- 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. An assessment of a Lifetime PD is based on the latest available historic default data and adjusted for forward looking information.

ECL measurement – description of estimation techniques (continued)

An assessment of a 12-month PD is based on:

- statistical analysis of the internal historic default and internal/external ratings. Calibrated PD checked on the latest available information.
- expert rating models are used in case no historical or external information is available, however expert rating models are applied to limited number of segments.
- Approach for PD calibration should lead to concordance of weighted average model PD to central tendency (average default rate for the economic cycle) and also to proportionality of PD change with change of rating grade to predictive power of a ranking model.

Then obtained 12-month PDs were adjusted for forward-looking information.

Forward-looking information has been incorporated into the determination of 12-month PDs by considering the dynamics of the macro-factors, including annual real GDP, average annual RUB/USD exchange rate, and average annual price for a barrel of URALS oil.

Forecasts of economic variables (the "base economic scenario") are confirmed by the Management Committee Presidium of VTB Bank on a yearly basis and provide estimate of the economy over the next 12 months.

The impact of the economic variables on the PD has been determined by performing statistical regression analysis (using an ensemble of single factor models) to understand the impact changes in these variables historically had on default rates. In addition to the base economic scenario, the Group considers other possible scenarios along with scenario weighting. The scenarios are determined by a statistical analysis, taking into account the percentiles of distributions of annual growth rates of each chosen macro-factor.

To calculate Lifetime PD, the Group uses different statistical approaches depending on the segment and product type, such as the extrapolation of 12-month PDs based on migration matrixes, developing lifetime PD curves based on the historical default data, hazard rate approach, approach based on an assumption of convergence of marginal PDs to the central tendency on the horizon of the economic cycle length or other. In certain cases, in order to determine lifetime PD the Group may use expert judgement, which is based on comprehensive analysis of credit risk of particular borrower and/or group of borrowers, including macroeconomic projections.

The duration of the economic cycle is defined as the length of the period of fluctuations in the economic situation, covering at least one stage of recession and recovery in accordance with indicators characterizing the dynamics of economic development of the Russian Federation.

LGD represents the Group's expectation of the extent of loss on a defaulted exposure and assessed on the latest available recovery statistics. LGD is applied to non-defaulted exposures.

For loans secured by real estate, cash and liquid securities (e.g. REPO), the Group calculates LGD based on specific characteristics of the collateral, such as projected collateral values, historical discounts on sales, other factors, and a history of collateral repossessions and sales.

For conventional borrowers the Group calculates LGD based on recovery of previously defaulted loans. The Group considers actual amounts recovered and projected recoveries on multi-scenario, probability weighted basis.

All cash flows received in respect of defaulted loans are discounted to the date of default using original effective interest rate.

44. FINANCIAL AND INSURANCE RISK MANAGEMENT (CONTINUED)

CREDIT RISK (CONTINUED)

Maximum credit risk exposure

The following table discloses the Group's maximum credit risk exposure:

	2018	2017
Balance sheet exposure:		
Cash and short-term funds (excluding cash on hand)	607.3	483.9
Trading credit products at fair value through profit or loss	–	4.8
Debt securities	580.3	550.8
Trading financial assets	225.0	258.8
• debt securities of Russian companies and banks	143.8	152.5
• debt securities of Russian Federal and municipal authorities	62.3	41.9
• debt securities of foreign companies and banks	12.1	11.2
• debt securities of foreign government and municipal authorities	6.8	17.2
• debt securities of the Central Bank of the Russian Federation	–	36.0
Trading financial assets, pledged under repurchase agreements	33.9	0.1
• debt securities of Russian companies and banks	2.7	–
• debt securities of Russian Federal and municipal authorities	31.0	0.1
• debt securities of foreign government and municipal authorities	0.1	–
• debt securities of foreign companies and banks	0.1	–
Investment financial assets available-for-sale	n/a	272.7
• debt securities of Russian Federal and municipal authorities	n/a	211.3
• debt securities of foreign government and municipal authorities	n/a	56.6
• debt securities of Russian companies and banks	n/a	4.8
Investment financial assets available-for-sale, pledged under repurchase agreements	n/a	0.4
• debt securities of foreign government and municipal authorities	n/a	0.4
Investment financial assets mandatorily measured at fair value through profit or loss	0.1	n/a
• debt securities of foreign government and municipal authorities	0.1	n/a
Investment financial assets mandatorily measured at fair value through profit or loss, pledged under repurchase agreements	0.1	n/a
• debt securities of foreign government and municipal authorities	0.1	n/a
Investment financial assets measured at fair value through other comprehensive income	297.1	n/a
• debt securities of Russian Federal and municipal authorities	208.6	n/a
• debt securities of foreign government and municipal authorities	33.2	n/a
• debt securities of the Central Bank of the Russian Federation	35.6	n/a
• debt securities of Russian companies and banks	19.2	n/a
• debt securities of foreign companies and banks	0.5	n/a
Investment financial assets measured at fair value through other comprehensive income, pledged under repurchase agreements	13.1	n/a
• debt securities of Russian government and municipal authorities	7.8	–
• debt securities of Russian companies and banks	3.1	–
• debt securities of foreign government and municipal authorities	2.2	n/a
Investment financial assets designated as at fair value through profit or loss	7.0	18.8
• reverse sale and repurchase agreements to maturity	7.0	18.5
• debt securities of foreign companies and banks	–	0.3
Investment financial assets at amortised cost	4.2	–
• debt securities of foreign government and municipal authorities	3.9	–
• debt securities of foreign companies and banks	0.3	–
Due from other banks	693.1	835.0
Due from other banks at amortised cost	685.5	835.0
• Russia	372.4	353.8
• Other countries	291.4	405.8
• OECD	21.7	75.4
Due from other banks measured at fair value through profit or loss	7.6	n/a
• Russia	7.6	n/a
Loans and advances to customers	10,695.2	9,171.4
Loans to legal entities at amortised cost	7,729.5	6,849.1
• Current activity financing	5,758.6	4,667.9
• Project finance and other	1,303.0	1,578.2
• Reverse sale and repurchase agreements	386.9	369.7
• Finance leases	281.0	233.3
Loans and advances to customers at amortised cost pledged under repurchase agreements	25.9	–
• Reverse sale and repurchase agreements	25.9	–
Loans to individuals at amortised coat	2,758.2	2,322.3
• Mortgages	1,427.9	1,084.8
• Consumer loans and other	1,112.2	1,030.9
• Car loans	108.9	93.2
• Credit cards	98.2	105.6
• Reverse sale and repurchase agreements	11.0	7.8
Loans to legal entities measured at fair value through profit or loss	107.4	n/a
• Current activity financing	97.0	n/a
• Project finance and other	10.4	n/a
Loans to legal entities measured at fair value through other comprehensive income	74.2	n/a
• Current activity financing	74.2	n/a
Exposure arising from credit default swaps	0.8	0.8
• CDS protection purchased	0.6	0.1
• CDS protection sold	0.2	0.7
Other financial assets	67.7	65.6
Total balance sheet exposure	**12,644.4**	**11,112.3**

44. FINANCIAL AND INSURANCE RISK MANAGEMENT (CONTINUED)

CREDIT RISK (CONTINUED)

Maximum credit risk exposure (continued)

	2018	2017
Off-balance sheet exposure:		
• Financial guarantees issued	70.4	412.8
• Import letters of credit	45.9	46.4
• Undrawn credit lines (irrevocable)	31.8	21.4
• Commitments to extend credit	2.7	3.7
Total off-balance sheet exposure	**150.6**	**484.3**
Total maximum exposure to credit risk	**12,795.0**	**11,596.6**

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

Credit quality by class of due from other banks

The following table shows analysis by credit quality of the due from other banks (gross). Comparative amounts for 2017 are presented based on IAS 39.

	2018					2017		
	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Purchased credit – impaired	Total	Individually assessed	Collectively assessed	Total
Due from other banks at amortised cost								
Russia	372.6	–	0.1	–	372.7	99.1	719.8	818.9
• pass	372.6	–	–	–	372.6	n/a	n/a	n/a
• NPL	–	–	0.1	–	0.1	n/a	n/a	n/a
OECD	21.7	–	–	–	21.7	24.2	51.3	75.5
• pass	21.7	–	–	–	21.7	n/a	n/a	n/a
Other countries	291.6	–	0.1	–	291.7	16.7	388.3	405.0
• pass	291.6	–	–	–	291.6	n/a	n/a	n/a
• NPL	–	–	0.1	–	0.1	n/a	n/a	n/a

44. FINANCIAL AND INSURANCE RISK MANAGEMENT (CONTINUED)

CREDIT RISK (CONTINUED)

Credit quality by class of debt securities

Credit quality of debt investment financial assets (gross), including pledged under repurchase agreements, at 31 December 2018 is presented in the table below. Represented assets are categorized as credit risk pass.

	2018				
	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Purchased credit-impaired	Total
Debt investment financial assets measured at fair value through other comprehensive income:					
• Bonds and eurobonds of the Russian Federation	208.3	–	–	–	**208.3**
• Bonds and eurobonds of foreign governments	33.2	–	–	–	**33.2**
• Bonds and eurobonds of foreign companies and banks	0.5	–	–	–	**0.5**
• Bonds and eurobonds of Russian companies and banks	19.2	–	–	–	**19.2**
• Russian municipal bonds	0.3	–	–	–	**0.3**
• Bonds of the Central Bank of the Russian Federation	35.6	–	–	–	**35.6**
• Promissory notes of Russian companies and banks	–	–	–	–	**–**
Total debt investment financial assets measured at fair value through other comprehensive income	**297.1**	**–**	**–**	**–**	**297.1**
Debt investment financial assets measured at fair value through other comprehensive income, pledged under repurchase agreements:					
• Bonds and eurobonds of the Russian Federation	7.8	–	–	–	**7.8**
• Bonds and eurobonds of foreign governments	2.2	–	–	–	**2.2**
• Bonds and eurobonds of foreign companies and banks	–	–	–	–	–
• Bonds and eurobonds of Russian companies and banks	3.1	–	–	–	**3.1**
• Russian municipal bonds	–	–	–	–	**–**
• Promissory notes of Russian companies and banks	–	–	–	–	**–**
Total debt investment financial assets measured at fair value through other comprehensive income, pledged under repurchase agreements	**13.1**	**–**	**–**	**–**	**13.1**
Debt investment financial assets at amortised cost:					
• Bonds and eurobonds of the Russian Federation	–	–	–	–	**–**
• Bonds and eurobonds of foreign governments	3.9	–	–	–	**3.9**
• Bonds and eurobonds of foreign companies and banks	0.3	–	–	–	**0.3**
• Bonds and eurobonds of Russian companies and banks	–	–	–	–	**–**
• Russian municipal bonds	–	–	–	–	**–**
• Promissory notes of Russian companies and banks	–	–	–	–	**–**
Total debt investment financial assets at amortised cost	**4.2**	**–**	**–**	**–**	**4.2**

44. FINANCIAL AND INSURANCE RISK MANAGEMENT (CONTINUED)

CREDIT RISK (CONTINUED)

Credit quality of debt securities, which are neither past due nor impaired at 31 December 2017 is presented based on IAS 39 in accordance with the long-term credit rating as presented below:

A rated			B (I) rated			B (II) rated			C rated		
Standard & Poor's	Moody's	Fitch IBCA	Standard & Poor's	Moody's	Fitch IBCA	Standard & Poor's	Moody's	Fitch IBCA	Standard & Poor's	Moody's	Fitch IBCA
AAA	Aaa	AAA	BBB+	Baa1	BBB+	BB+	Ba1	BB+	CCC+	Caa1	CCC+
AA+	Aa1	AA+	BBB	Baa2	BBB	BB	Ba2	BB	CCC	Caa2	CCC
AA	Aa2	AA	BBB-	Baa3	BBB-	BB-	Ba3	BB-	CCC-	Caa3	CCC-
AA-	Aa3	AA-				B+	B1	B+	CC	Ca	CC
A+	A1	A+				B	B2	B	C	C	C
A	A2	A				B-	B3	B-	D		D
A-	A3	A-									

Credit quality by class of debt securities (continued)

Credit quality of trading debt securities, which are neither past due nor impaired at 31 December 2017, is presented in the tables below:

	A rated	B (I) rated	B (II) rated	C rated	Unrated	Total
Trading debt securities						
• Bonds and eurobonds of Russian companies and banks	–	40.4	107.1	–	5.0	**152.5**
• Bonds of the Central Bank of the Russian Federation	–	–	–	–	36.0	**36.0**
• Bonds and eurobonds of the Russian Federation	–	34.7	0.3	–	0.1	**35.1**
• Bonds and eurobonds of foreign governments	12.5	3.9	0.8	–	–	**17.2**
• Bonds and eurobonds of foreign companies and banks	6.2	1.2	2.0	0.1	1.7	**11.2**
• Russian municipal bonds	–	0.1	6.7	–	–	**6.8**
Trading debt securities, pledged under repurchase agreements						
• Bonds and eurobonds of the Russian Federation	–	0.1	–	–	–	**0.1**
Total neither past due nor impaired trading debt securities	**18.7**	**80.4**	**116.9**	**0.1**	**42.8**	**258.9**

Credit quality of investment debt securities, which are neither past due nor impaired at 31 December 2017 is presented in the tables below:

	A rated	B (I) rated	B (II) rated	C rated	Unrated	Total
Investment debt securities available-for-sale						
• Bonds and eurobonds of the Russian Federation	–	210.3	–	–	–	**210.3**
• Bonds and eurobonds of foreign governments	51.6	–	4.1	–	0.9	**56.6**
• Bonds and eurobonds of Russian companies and banks	–	0.1	1.3	–	3.4	**4.8**
• Russian municipal bonds	–	–	0.6	–	0.4	**1.0**
Investment debt securities available-for-sale, pledged under repurchase agreements						
• Bonds and eurobonds of Russian companies and banks						
• Bonds and eurobonds of foreign governments	–	–	0.4	–	–	**0.4**
Investment debt securities designated as at fair value through profit or loss						
• Bonds and eurobonds of foreign companies and banks	–	–	–	–	0.3	**0.3**
Total neither past due nor impaired investment debt securities	**51.6**	**210.4**	**6.4**	**–**	**5.0**	**273.4**

44. FINANCIAL AND INSURANCE RISK MANAGEMENT (CONTINUED)

CREDIT RISK (CONTINUED)

Credit quality by class of loans and advances to customers

The table below shows credit quality by class of loans and advances to customers at amortised cost (gross) at 31 December 2018.

	2018				
	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Purchased credit-impaired	Total
Loans and advances to legal entities					
Current activity financing					
• Pass	4,730.4	99.2	-	56.7	4,886.3
• Watch	103.8	25.0	-	-	128.8
• Sub-Standard	21.3	636.1	71.6	-	729.0
• Doubtful	-	-	24.9	-	24.9
• NPL	n/a	n/a	372.1	3.8	**375.9**
Project finance and other					
• Pass	950.5	27.5	–	–	**978.0**
• Watch	8.8	7.4	–	–	**16.2**
• Sub-Standard	0.5	144.0	180.8	14.9	**340.2**
• Doubtful	–	–	1.7	–	**1.7**
• NPL	n/a	n/a	44.7	3.3	**48.0**
Reverse sale and repurchase agreements					
• Pass	357.0	0.4	–	–	**357.4**
• Watch	0.7	–	–	–	**0.7**
• Sub-Standard	–	35.8	–	–	**35.8**
• Doubtful	–	–	–	–	**–**
• NPL	n/a	n/a	–	–	**–**
Finance leases					
• Pass	184.8	3.0	–	22.1	**209.9**
• Watch	1.6	0.3	–	–	**1.9**
• Sub-Standard	1.8	37.7	41.6	–	**81.1**
• Doubtful	–	–	0.2	–	**0.2**
• NPL	n/a	n/a	14.9	–	**14.9**
Loans and advances to legal entities pledged under repurchase agreements					
Reverse sale and repurchase agreements					
• Pass	26.1	–	–	–	**26.1**
• Watch	–	–	–	–	**–**
• Sub-Standard	–	–	–	–	**–**
• Doubtful	–	–	–	–	**–**
• NPL	n/a	n/a	–	–	**–**
Total loans and advances to legal entities	**6,387.4**	**1,005.0**	**763.6**	**100.8**	**8,257.0**

44. FINANCIAL AND INSURANCE RISK MANAGEMENT (CONTINUED)

CREDIT RISK (CONTINUED)

Credit quality by class of loans and advances to customers (continued)

	2018				
	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Purchased credit-impaired	Total
Loans and advances to individuals					
Mortgages					
• Pass	1,367.8	–	–	0.1	**1,367.9**
• Watch	19.4	0.1	–	–	**19.5**
• Sub-Standard	0.7	31.6	0.1	0.2	**32.6**
• Doubtful	–	–	2.1	–	**2.1**
• NPL	n/a	n/a	19.6	0.3	**19.9**
Consumer loans and other					
• Pass	859.9	0.1	–	–	**860.0**
• Watch	209.8	0.1	–	–	**209.9**
• Sub-Standard	35.6	32.5	0.1	–	**68.2**
• Doubtful	–	–	3.4	–	**3.4**
• NPL	n/a	n/a	139.6	–	**139.6**
Credit cards					
• Pass	92.9	–	–	–	**92.9**
• Watch	2.2	–	–	–	**2.2**
• Sub-Standard	2.1	3.4	–	–	**5.5**
• Doubtful	–	–	0.2	–	**0.2**
• NPL	n/a	n/a	29.9	–	**29.9**
Car loans					
• Pass	96.4	–	–	–	**96.4**
• Watch	9.9	–	–	–	**9.9**
• Sub-Standard	1.1	1.4	–	–	**2.5**
• Doubtful	–	–	0.2	–	**0.2**
• NPL	n/a	n/a	14.7	–	**14.7**
Reverse sale and repurchase agreements					
• Pass	10.8	–	–	–	**10.8**
• Watch	0.1	–	–	–	**0.1**
• Sub-Standard	0.1	–	–	–	**0.1**
• Doubtful	–	–	–	–	**–**
• NPL	n/a	n/a	–	–	**–**
Total loans and advances to individuals	**2,708.8**	**69.2**	**209.9**	**0.6**	**2,988.5**

44. FINANCIAL AND INSURANCE RISK MANAGEMENT (CONTINUED)

CREDIT RISK (CONTINUED)

Credit quality by class of loans and advances to customers (continued)

The table below shows credit quality by class of loans and advances to customers (gross) at 31 December 2017, individually assessed. For individually assessed loans, if no impairment had been recognised as a result of individual assessment the allowance was calculated on a collective basis.

	Not impaired			Impaired		
	Pass	Watch	Sub-standard	Doubtful	Loss	Total
Loans to legal entities	**249.9**	**19.4**	**540.1**	**122.7**	**330.6**	**1,262.7**
Current activity financing	76.0	19.3	140.7	88.7	255.0	**579.7**
Project finance and other	137.0	–	386.7	17.7	61.4	**602.8**
Reverse sale and repurchase agreements	29.5	–	–	–	–	**29.5**
Finance leases	7.4	0.1	12.7	16.3	14.2	**50.7**
Loans to individuals	**0.7**	**0.1**	**0.4**	**0.1**	**3.4**	**4.7**
Mortgages	0.1	0.1	0.4	0.1	2.5	**3.2**
Consumer loans and other	0.6	–	–	–	0.6	**1.2**
Credit cards	–	–	–	–	0.1	**0.1**
Car loans	–	–	–	–	0.2	**0.2**
Total loans and advances to customers individually assessed	**250.6**	**19.5**	**540.5**	**122.8**	**334.0**	**1,267.4**

The table below shows credit quality by class of loans and advances to customers (gross) at 31 December 2017, collectively assessed.

	Not impaired			Impaired		
	Pass	Watch	Sub-standard	Doubtful	Loss	Total
Loans to legal entities	**5,344.5**	**507.2**	**137.3**	**13.7**	**21.1**	**6,023.8**
Current activity financing	3,889.0	369.2	103.8	12.4	20.8	**4,395.2**
Project finance and other	935.8	130.0	17.5	0.1	0.2	**1,083.6**
Reverse sale and repurchase agreements	335.4	5.3	–	–	–	**340.7**
Finance leases	184.3	2.7	16.0	1.2	0.1	**204.3**
Loans to individuals	**2,271.3**	**7.3**	**18.7**	**22.9**	**161.4**	**2,481.6**
Mortgages	1,072.9	2.3	3.6	7.7	5.0	**1,091.5**
Consumer loans and other	1,000.1	3.1	12.0	13.3	123.7	**1,152.2**
Credit cards	100.0	1.5	2.3	1.2	22.4	**127.4**
Car loans	90.5	0.4	0.8	0.7	10.3	**102.7**
Reverse sale and repurchase agreements	7.8	–	–	–	–	**7.8**
Total loans and advances to customers collectively assessed	**7,615.8**	**514.5**	**156.0**	**36.6**	**182.5**	**8,505.4**

The table below shows credit quality by class of loans and advances to customers (gross) at 31 December 2017, neither past due nor impaired.

	Pass	Watch	Sub-standard	Total
Loans to legal entities	**5,571.5**	**504.9**	**629.1**	**6,705.5**
Current activity financing	3,944.7	367.0	199.8	**4,511.5**
Project finance and other	1,072.4	129.9	403.7	**1,606.0**
Reverse sale and repurchase agreements	364.9	5.3	–	**370.2**
Finance leases	189.5	2.7	25.6	**217.8**
Loans to individuals	**2,247.3**	**4.7**	**0.2**	**2,252.2**
Mortgages	1,056.9	0.7	–	**1,057.6**
Consumer loans and other	994.2	2.6	0.1	**996.9**
Credit cards	99.1	1.4	–	**100.5**
Car loans	89.3	–	0.1	**89.4**
Reverse sale and repurchase agreements	7.8	–	–	**7.8**
Total loans and advances to customers	**7,818.8**	**509.6**	**629.3**	**8,957.7**

44. FINANCIAL AND INSURANCE RISK MANAGEMENT (CONTINUED)

CREDIT RISK (CONTINUED)

Credit quality by class of loans and advances to customers (continued)

Analysis of loans and advances to customers (gross) individually impaired by economic sector at 31 December 2017 is presented in the table below.

	2017
Building construction	118.7
Finance	63.5
Manufacturing	51.7
Trade and commerce	44.2
Energy	39.7
Transport	39.8
Food and agriculture	30.3
Metals	22.4
Telecommunications and media	17.0
Oil and gas	6.6
Chemical	6.4
Individuals	3.5
Government bodies	0.1
Other	12.9
Total loans and advances to customers individually impaired	**456.8**

As at 31 December 2017, the Group has a pool of collectively assessed impaired loans and advances in the amount of RUR 219.1 billion.

Ageing analysis (by days of delay in repayment) of past due, but not impaired loans and advances to customers (gross) by class at 31 December 2017 is presented in the table below.

	From 1 to 30 days	From 31 to 60 days	From 61 to 90 days	From 91 to 180 days	From 181 days to 1 year	More than 1 year	Total
Loans to legal entities	**22.4**	**3.1**	**0.7**	**4.5**	**7.0**	**55.2**	**92.9**
Current activity financing	20.8	2.0	0.6	4.5	4.8	53.8	**86.5**
Project finance and other	–	0.5	–	–	–	0.5	**1.0**
Finance leases	1.6	0.6	0.1	–	2.2	0.9	**5.4**
Loans to individuals	**35.6**	**4.8**	**2.1**	**2.7**	**1.0**	**0.1**	**46.3**
Mortgages	14.4	2.1	1.8	2.4	1.0	0.1	**21.8**
Consumer loans and other	16.4	2.3	0.1	0.1	–	–	**18.9**
Credit cards	3.2	0.1	–	–	–	–	**3.3**
Car loans	1.6	0.3	0.2	0.2	–	–	**2.3**
Total loans and advances to customers past due but not impaired	**58.0**	**7.9**	**2.8**	**7.2**	**8.0**	**55.3**	**139.2**

Credit quality by class of credit related commitments

The table below shows credit quality by class of credit related commitments.

	2018				2017
	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Total	Total
Loan commitments (irrevocable)					
• Pass	53.9	20.5	–	**74.4**	**–**
• Watch	2.7	–	–	**2.7**	**–**
• Sub-Standard	–	3.8	0.1	**3.9**	**–**
• Doubtful	–	–	0.1	**0.1**	**–**
Financial guarantees					
• Pass	57.0	0.5	–	**57.5**	**–**
• Watch	6.4	0.2	–	**6.6**	**–**
• Sub-Standard	0.4	6.0	1.0	**7.4**	**–**
• Doubtful	–	–	–	**–**	**–**

44. FINANCIAL AND INSURANCE RISK MANAGEMENT (CONTINUED)

CREDIT RISK (CONTINUED)

Collateral and other credit enhancements

Exposure to credit risk is managed, in part, by obtaining collateral and guarantees issued by state authorities, entities and individuals.

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

Collateral received by the Group from borrowers as a result of loan settlement is usually represented by real estate, financial instruments and other assets.

Securities and guarantees are also obtained from counterparties for all types of lending.

The list of acceptable forms of credit support is subject to periodical review. Different forms of credit support may be used in combination. In cases when a loan is secured by guarantees received, the Group performs an analysis of the guarantor's financial performance, except for the state authorities.

The Group has a set of requirements applicable to each form of credit support. The value of the pledged property is determined by reference to its market value taking into account a liquidity margin. The value of the assets determined for these purposes must be sufficient to recover principal, interest, commissions and expenses related to the enforcement of the pledge. A liquidity margin related to different types of pledges varies from 10% to 70%.

The valuation and acceptance of each type and item of collateral may vary depending on individual circumstances. Generally, the Group takes collateral with a view to ensure that an adequate margin is obtained and maintained throughout the term of the facility, where applicable. The appropriate department responsible for collateral assessment establishes parameters for each individual facility.

In cases where a loan is secured by a pledge, the borrower is required to insure such assets and name the Group as the beneficiary of the insurance policy. The Group takes a complex approach to pledged assets insured. It depends on the level of risk involved in the loan operation, the borrower's financial condition and the risk of loss of the pledged property.

Collateral is taken to enhance an acceptable credit proposal, rather than being used as the sole rationale for any credit approval. Where facilities are approved against security, full details, including the type, value, and the frequency of review of the security should be detailed in the Application for Credit Facility Form. Where practical, a bank officer conducts inspection the physical existence of collateral offered.

The Group reassesses the fair value of pledged property with frequency stated for each form of pledge and, if necessary, requires additional collateral or other acceptable forms of credit support.

Collateral repossessed

The Group's policy is to dispose of repossessed properties in accordance with the established internal and legal procedures. The proceeds are used to reduce or repay the outstanding claim.

During 2018 and 2017 the Group obtained assets by taking possession in accordance with additional agreements with its borrowers of collateral held as security in exchange for the indebtedness of these borrowers.

The carrying values and the nature of assets received as the collateral repossessed during the relevant year are as follows:

	2018	2017
Trading financial assets	10.1	–
Investments in associates	4.7	26.8
Investment property	2.7	2.1
Premises and equipment	1.9	–
Other assets	0.7	5.4
Total collateral repossessed during the period	**20.1**	**34.3**

After finalisation of transferring procedures, these assets were accounted in accordance with the Group accounting policies and included in the relevant items in the statement of financial position.

The table below shows carrying amount and the nature of the assets obtained and held as at the reporting date:

	2018	2017
Investment property	90.1	90.6
Premises and equipment	49.6	49.5
Investments in associates	18.5	25.6
Trading financial assets	14.9	–
Other assets	5.6	10.2
Investment financial assets	0.9	1.4
Property held for sale	0.1	–
Total collateral repossessed	**179.7**	**177.3**

44. FINANCIAL AND INSURANCE RISK MANAGEMENT (CONTINUED)

MARKET RISK

Market Risk, for the purpose hereof, shall mean a risk of worsening of either the Group financial result or its capital base under the IFRS due to unfavorable changes in the value of the Group assets/liabilities affected by market indicators – risk factors.

In VTB Group Asset and Liability Management Committee ("ALCO") acts as a permanent collegial body under GMC for consolidated assets and liabilities management. The main goals of ALCO functioning are resolution of the following issues:

- VTB Group consolidated assets and liabilities management;
- VTB Group treasury risks management;
- determination of principles of internal and external pricing in VTB Group;
- determination of approaches to capital allocation by types of risks in VTB Group;
- determination of approaches to capital distribution between VTB Group companies.

The Coordination commission on management of assets and liabilities and interaction with financial institutions functions under ALCO in 2017, its main responsibilities include:

- ensuring an effective functioning of a consistent group principles, procedures and limits system of assets and liabilities management;
- realization of an effective interaction within intragroup frames of business rules with financial institutions.

Group Risk Committee (GRC) participates in management of market risk setting the operational and framework limits and allocating the risk appetite for Trading book across group members and business lines.

VTB Group market risk Policy (the Policy) sets out procedures for identification and monitoring of market risks, market risk limit structure and hierarchy from VTB Group level to the level of the group members and separate divisions; sets out procedures for control over compliance with the limits and restrictions and also for response to them when being exceeded; it also sets out the Group market risk reporting procedure.

According to the Policy market risk assessment and management is carried out in the context of the following types of Books:

- Trading Book, consists of positions held for trading or to hedge elements of the Trading book;
- Treasury bond portfolio, consists of operations executed by Treasury with bonds which are carried at fair value;
- Banking Book, consists of interest bearing instruments which are carried at amortized cost or instruments that are used to hedge the elements of Banking book. It also includes risk from SPPI-failed corporate loans.

Based on the analytical division of the whole VTB Group portfolio (provided above) the following directions of Market risk are identified:

- Interest rate risk of Banking book;
- Foreign exchange (FX) risk of Banking book and Treasury bond portfolio All Group FX exposure is divided by the nature of operations that generate the risk and thus it's divided for Trading book FX risk and Banking book FX risk.
- Market risk of Trading book and Treasury bond portfolio.

INTEREST RATE RISK EXPOSURE OF BANKING BOOK AND SENSITIVITY ANALYSIS

The Group is exposed to interest rate risk of the Banking Book (IRRBB). Interest rate risk – risk of financial loss (damage) due to unfavourable change in the Basic yield curve corresponding to assets, liabilities and off-balance sheet claims and commitments under the IFRSsensitive to interest rate change.

Banking Book shall include interest bearing instruments/ operations, which are not subject to marking-to-market under the IFRS and which do not belong either to Trading Operations or Treasury Debt Securities Portfolio.

The Department of Integrated Risk Management submits a report to the ALCO on a monthly basis on interest rate risk profile of the Group and of individual banks of the Group, including net present value of assets and liabilities exposed to interest rate risk, Economic Capital, and sensitivity analysis of Net Interest Income as well as of present value of assets and liabilities to stress scenario of interest rates changes as well as to 100 b.p. Valuations are made by using Kamakura Risk Manager software.

To mitigate IRRBB the ALCO set up limits and triggers on Economic Capital and on sensitivity of Net Interest Income to cover interest rate risk of the Group and/or of individual banks of the Group.

The Treasury manages and hedges Group exposures by entering into interest rate derivative transactions within the limits and parameters set by the ALCO.

44. FINANCIAL AND INSURANCE RISK MANAGEMENT (CONTINUED)

INTEREST RATE RISK EXPOSURE OF BANKING BOOK AND SENSITIVITY ANALYSIS (CONTINUED)

As at 31 December 2018, the Group has the following interest rate exposures based on information provided internally to key management personnel. Included in the table are Group's monetary assets and liabilities, categorised by the contractual repricing date. IRRBB exposures include SPPI-failed corporate loans and exclude transactions of internal funding of the trading portfolio.

	On demand and up to 1 month	From 1 month to 3 months	From 3 months to 6 months	From 6 months to 1 year	From 1 year to 3 years	From 3 years to 5 years	More than 5 years	Total
Assets								
Interest bearing assets								
RUR	1,650.7	605.8	473.6	586.9	1,784.2	1,276.3	1,514.6	**7,892.1**
USD	1,159.0	707.0	51.0	74.7	146.4	179.8	35.7	**2,353.6**
EUR	360.6	699.4	97.7	678.9	44.4	86.0	31.5	**1,998.5**
Other currencies	72.0	42.5	9.9	28.4	133.5	36.0	6.1	**328.4**
Total assets	3,242.3	2,054.7	632.2	1,368.9	2,108.5	1,578.1	1,587.9	**12,572.6**
Liabilities								
Interest bearing liabilities								
RUR	3,410.0	1,857.0	1,013.6	715.4	344.6	6.9	380.2	**7,727.7**
USD	327.0	249.5	158.9	640.7	778.2	255.9	2.5	**2,412.7**
EUR	520.8	106.8	73.6	98.7	192.1	108.8	5.8	**1,106.6**
Other currencies	23.9	8.0	9.8	44.2	144.0	35.9	1.7	**267.5**
Total liabilities	**4,281.7**	**2,221.3**	**1,255.9**	**1,499.0**	**1,458.9**	**407.5**	**390.2**	**11,514.5**
Net repricing gap	**(1,039.4)**	**(166.6)**	**(623.7)**	**(130.1)**	**649.6**	**1,170.6**	**1,197.7**	**1,058.1**

As at 31 December 2017, the Group has the following interest rate exposures based on information provided internally to key management personnel. Included in the table are Group's monetary assets and liabilities, categorised by the contractual repricing date.

	On demand and up to 1 month	From 1 month to 3 months	From 3 months to 6 months	From 6 months to 1 year	From 1 year to 3 years	From 3 years to 5 years	More than 5 years	Total
Assets								
Interest bearing assets								
RUR	1,680.9	313.5	421.7	606.1	1,566.3	929.9	1,168.0	**6,686.4**
USD	829.0	590.7	180.1	358.1	212.9	165.6	50.7	**2,387.1**
EUR	506.8	386.1	74.2	107.8	41.0	28.0	30.2	**1,174.1**
Other currencies	111.6	12.9	32.5	70.8	19.3	9.6	4.1	**260.8**
Total assets	3,128.3	1,303.2	708.5	1,142.8	1,839.5	1,133.1	1,253.0	**10,508.4**
Liabilities								
Interest bearing liabilities								
RUR	2,962.9	1,153.4	879.2	458.3	149.6	20.4	401.0	**6,024.8**
USD	584.1	202.9	246.6	250.7	814.4	240.3	7.6	**2,346.6**
EUR	355.9	33.2	50.3	20.2	40.7	357.2	17.2	**874.7**
Other currencies	20.2	8.1	17.5	122.0	24.0	1.3	1.4	**194.5**
Total liabilities	**3,923.1**	**1,397.6**	**1,193.6**	**851.2**	**1,028.7**	**619.2**	**427.2**	**9,440.6**
Net repricing gap	**(794.8)**	**(94.4)**	**(485.1)**	**291.6**	**810.8**	**513.9**	**825.8**	**1,067.8**

The interest rate sensitivities set out in the tables below represent an effect on the historical net interest income for one-year period in case of a parallel shift in all yield curves. The calculations are based on the Group's actual interest rate risk exposures of the Banking Book at the relevant reporting dates. It also includes risk from SPPI-failed corporate loans. The Group includes in the interest position calculation and sensitivity analysis instruments at both floating and fixed rates.

44. FINANCIAL AND INSURANCE RISK MANAGEMENT (CONTINUED)

INTEREST RATE RISK EXPOSURE OF BANKING BOOK AND SENSITIVITY ANALYSIS (CONTINUED)

Interest rate sensitivity analysis as at 31 December 2018 as an effect on net interest income is as follows.

Currency	Interest rate increase, b.p.	Effect on net interest income	Interest rate decrease, b.p.	Effect on net interest income
RUR	75	(23.3)	(100)	31.0
USD	50	5.0	(15)	(1.5)
EUR	20	1.3	(1)	(0.1)
Total		**(17.0)**		**29.4**

Interest rate sensitivity analysis as at 31 December 2017 as an effect on net interest income is as follows.

Currency	Interest rate increase, b.p.	Effect on net interest income	Interest rate decrease, b.p.	Effect on net interest income
RUR	50	(11.4)	(150)	34.2
USD	70	3.7	(8)	(0.4)
EUR	25	1.2	(1)	–
Total		**(6.5)**		**33.8**

The total interest rate sensitivity of NII disclosed in the above tables, is attributable to assets and liabilities of the Banking Book sensitive to possible changes of interest rates including savings accounts of individuals, SPPI-failed corporate loans portfolio_ but excluding other current/ settlement accounts of customers and transactions of internal funding of the trading portfolio.

Management considers sensitivity of current/settlement customer accounts to fluctuations of interest rates in the financial market as low based on historical performance and competitive environment.

Interest rate sensitivity analysis as at 31 December 2018 as an effect on the net present value (NPV) of SPPI-failed corporate loans portfolio with fixed interest rates calculated by Kamakura Risk Manager software as at 31 December 2018 is as follows:

Currency	Interest rate increase (b.p.)	Effect on NPV	Interest rate decrease (b.p.)	Effect on NPV
RUR	75	(0.1)	(100)	0.2
EUR	20	(0.1)	(1)	–
Other	50	(0.6)	(15)	0.2
Total		**(0.8)**		**0.4**

44. FINANCIAL AND INSURANCE RISK MANAGEMENT (CONTINUED)

FOREIGN EXCHANGE RISK OF BANKING BOOK

Foreign exchange ("FX") risk of Banking book arises from open positions of the Banking Book in foreign currencies. Group policy is to hold the lowest possible levels of FX risk of Banking book.

The Group manages its FX risk of Banking book by seeking to match the currency of its assets with that of its liabilities on a currency-by-currency basis within established limits and triggers for economic capital set by the GRC and regulatory OCP limits set by the CBR.

The Department of Integrated Risk Management of VTB performs evaluations of economic capital to cover Currency risk of Banking book by using hypothetical stress scenario of fluctuation of foreign currencies against RUR, analyses the structure of open currency positions and prepares reports for the ALCO on a monthly basis. The ALCO approves the methodology of the currency risk analysis, management and control procedures and sets limits on open currency positions.

The Treasury manages and hedges currency risk of Banking book on a daily basis by entering into foreign exchange spot and forward/option transactions within the limits set by Group ALCO. The Bank on a daily basis monitors compliance with these limits and the relevant CBR limits.

As at 31 December 2018 and 2017, the Group had the following exposures to FX risk of Banking book, which include balance sheet positions and off-balance sheet foreign currency derivatives positions of the Banking Book against RUR (open structural currency positions).

	Open positions	
Currency	2018	2017
USD	177.3	122.6
EUR	68.2	52.8
CHF	(4.1)	(1.3)
HKD	1.5	1.0
BYN	10.5	7.7
JPY	(2.5)	–
AMD	8.1	5.1
AOA	4.3	4.5
GEL	7.0	3.8
UAH	(1.9)	2.8
CNY	2.5	(2.3)
A98	–	(0.2)
KZT	1.2	0.7
GBP	1.5	(5.4)
AZN	3.2	(5.8)
Other	0.4	0.7

FX sensitivity analysis as at 31 December 2018 as an effect on FX income is as follows:

Currency	Currency up (%)	Effect on FX income	Currency down (%)	Effect on FX income
USD	14.0	24.8	(14.0)	(24.6)
EUR	14.0	9.6	(14.0)	(9.6)
Other		4.6		(4.6)
Total		**39.0**		**(39.0)**

FX sensitivity analysis as at 31 December 2017 as an effect on FX income is as follows:

Currency	Currency up (%)	Effect on FX income	Currency down (%)	Effect on FX income
USD	11.0	13.5	(11.0)	(13.5)
EUR	12.5	6.6	(12.5)	(6.6)
Other		2.3		(2.0)
Total		**22.4**		**(22.1)**

The FX sensitivity, disclosed in the above table, is attributable to the Banking Book sensitive to possible changes of foreign exchange rates against RUR.

Inclusion of USD 2.25 billion of perpetual loan participation notes in open structural currency position calculation will result in the following sensitivity of the Banking book in USD: as of 31 December 2018 - RUR 2.9 billion and RUR (2.9) billion respectively; as of 31 December 2017 - RUR (0.8) billion and RUR 0.8 billion, respectively.

44. FINANCIAL AND INSURANCE RISK MANAGEMENT (CONTINUED)

PRICE RISK

The Group is exposed to the market risk in Trading book and Treasury bond portfolio which is related to a negative revaluation of instruments due to the change of values of various risk factors including quotes of bonds, equities, commodity instruments, fx rates, interest rates, credit spreads, volatilities of risk factors and correlations between risk factors.

Although Treasury bond portfolio is separated from the Trading book due to the different goals of positions held within these portfolios, market risk of Treasury bond portfolio is managed the same way as market risk of Trading book.

In order to bound Group market risk the set of limits is used. All the limits can be divided into the two following groups: framework limits (VaR-limit, Stop-Loss limit, Stress-Loss limit) and operational limits which restrict the concentration in particular indicators or types of assets in portfolio (limit for DV01, FX Delta and etc.).

The Department of Integrated Risk Management is responsible for calculation and reporting Group Market risk profile, review of limits structure and preparation of suggestions on the mitigation and managing of Market risk in Trading book and Treasury bond portfolio.

On a weekly basis Department of Integrated Risk Management controls Group market risk limits utilisation. Local risk management teams control local market risk limits on a daily basis. On a weekly basis Department of Integrated Risk Management reports limits usage to the Business Departments, on a monthly basis Department of Integrated Risk Management provides detailed information on Group market risk profile of Trading book and Treasury bond portfolio to ALCO.

Stress-test result and VaR are used for the assessment of Market risk of Trading book and Treasury bond portfolio. Methodology used for estimation of these risk measures is approved by GRC and shared between all Group members.

Stress testing

The revaluation result of Group Trading book and Treasury bond portfolio is modelled based on historical changes in risk-factors (observed in conditions of severe changes of macroeconomic indicators) and on hypothetical risk-factors changes.

The scenario analysis showed that in 2018 the largest market risk severe impacts would be due to a severe rise in RUB risk free rates and widening of credit spreads.

VaR

Parameters used for VaR estimation are the following:

- historical period – 2 years;
- holding period – 1 trading day;
- confidence level – 95%;
- method – historical simulation.

Total Group's VaR 1d.95% measure for Trading book and Treasury bond portfolio for 2018 amounts to RUR 1.1 billion (2017: RUR 0.5 billion). The year to year rise in VaR is primarily driven by increase of position amount.

LIQUIDITY RISK AND CONTRACTUAL MATURITY ANALYSIS

Liquidity risk is a risk resulting from inability of the Group to meet in full its obligations when they fall due and without borrowing funds at rates higher than market rates. The Group's exposure to liquidity risk arises due to a mismatch of maturities of assets and liabilities.

Liquidity risk management within the Group is carried out at two main levels:

- Bank/company level: Each bank / company of the Group manages its liquidity on an individual basis to meet its obligations and to comply with the requirements of its national regulator and standards of the Group.
- Group level: Liquidity of the Group is managed on the basis of centralised control and management of key activities of the Group including:
    - universal policy and approaches to liquidity management;
    - integrated methodology of liquidity risk;
    - centralised system of on-going reporting and data warehousing.

The tools used by VTB for measurement, management and mitigation of liquidity risk include:

- Contractual maturity analysis (gap analysis) and cash flow forecasts including planned transactions; forecasted roll-over of clients' term funds (deposits and promissory notes); possible outflow of unstable "on-demand" funds (clients' current accounts and Nostro accounts).
- Analysis of deposit base concentration;
- Stress-test analysis;
- Setting of internal liquidity indicators/limits, including (1) the minimum amount of highly liquid assets to cover possible outflow of resources on demand/one day and other short-term liabilities (up to 30 days); (2) Liquidity of Treasury portfolio limits which are monitored on a daily basis;
- Allocation and utilisation of securities from Treasury portfolio, which provide financing from the CBR through reverse repo operations and help manage short-term liquidity; and
- Development of emergency plans (funding contingency plans).

44. FINANCIAL AND INSURANCE RISK MANAGEMENT (CONTINUED)

LIQUIDITY RISK AND CONTRACTUAL MATURITY ANALYSIS (CONTINUED)

VTB and other banks of the Group are also subject to liquidity requirements set by regulatory authorities, including those set by the CBR in the form of prudential ratios.

The Department of Integrated Risk Management analyses cash flow of the Group and prepares liquidity report for ALCO on a monthly basis. VTB's Treasury manages short-term liquidity on an ongoing basis through its cash position and portfolio of highly liquid securities and prepares information on short-term liquidity of the Bank and reports to the ALCO on a weekly basis.

The Inflow column in the tables below includes gross amounts to be received by the Group within a certain time band upon contractual maturities/redemptions of financial instruments (assets/claims). Outflow column includes gross amounts to be repaid by the Group in a certain time band upon contractual maturities/redemptions of financial instruments (liabilities/obligations except current and settlement accounts). Gap represents the difference between Inflow and Outflow columns. Gap Cumulative column represents the cumulative gap. FX Swap Cumulative column represents the cumulative gaps of notional amounts of foreign exchange transactions (FX Swaps, FX Spot and Forwards, NDFs). Dynamic Gap (total) Cumulative column represents the cumulative gap including FX Swap Cumulative. Opening balance represents highly liquid assets, which mostly consist of cash and correspondent accounts with other banks.
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The performed analysis confirms that in spite of a substantial portion of customer accounts being on demand or short-term, diversification of these deposits by number and type of depositors, and the past experience of the Group would indicate that these customer accounts and time deposits provide, in a substantial part, a long-term and stable source of funding for the Group. Also portfolios of Treasury Securities held for trading could be used for short-term liquidity management through reverse sale and repurchase operations.

VTB Group medium-term liquidity needs are managed through interbank and customer deposits (new borrowings and renewal of existing deposits), repurchase agreements and in the form of collateralised loans (against corporate loans or securities) which allow the Group to reduce the negative medium-term liquidity gaps.

VTB Group has a substantial volume of additional funding facilities made available by Bank of Russia to bridge negative medium term liquidity gaps.

Currency mismatches in the structure of liquidity gaps are managed with the use of foreign exchange transactions (FX Swaps).

Traditionally, at the end of the year, the state authorities place the funds in short term instruments, and as a result, a significant part of these resources has maturity up to 1 month. While the performed analysis confirms that, given the efforts of CBR to extend refinancing facilities to the banking system and the expected inflow of funds on customer accounts of budget organisations, the Group will be able to roll over the major part of these resources.

As at 31 December 2018, VTB Group had the following cash flow by remaining contractual maturities.

Time Band	Inflow	Outflow	Gap	Gap Cumulative	FX Swap Cumulative	Dynamic Gap (total) Cumulative
RUR positions						
Opening balance	–	–	372.1	372.1	–	372.1
Up to 1 month	440.1	(2,372.2)	(1,932.1)	(1,560.0)	(308.8)	(1,868.8)
From 1 to 3 months	589.9	(2,257.3)	(1,667.4)	(3,227.4)	(115.3)	(3,342.7)
From 3 months to 1 year	2,011.0	(1,626.1)	384.9	(2,842.5)	(51.1)	(2,893.6)
From 1 to 3 years	3,622.2	(412.4)	3,209.8	367.3	(2.7)	364.6
More than 3 years	5,470.9	(915.9)	4,555.0	4,922.3	(32.3)	4,890.0
Other currency positions						
Opening balance	–	–	483.2	483.2	–	483.2
Up to 1 month	345.3	(439.1)	(93.8)	389.4	274.8	664.2
From 1 to 3 months	387.0	(442.1)	(55.1)	334.3	119.0	453.3
From 3 months to 1 year	645.1	(1,271.8)	(626.7)	(292.4)	22.5	(269.9)
From 1 to 3 years	1,495.5	(1,418.0)	77.5	(214.9)	19.8	(195.1)
More than 3 years	2,201.1	(881.0)	1,320.1	1,105.2	30.0	1,135.2
Total						
Opening balance	–	–	855.3	855.3	–	855.3
Up to 1 month	785.4	(2,811.3)	(2,025.9)	(1,170.6)	(34.0)	(1,204.6)
From 1 to 3 months	976.9	(2,699.4)	(1,722.5)	(2,893.1)	3.7	(2,889.4)
From 3 months to 1 year	2,656.1	(2,897.9)	(241.8)	(3,134.9)	(28.6)	(3,163.5)
From 1 to 3 years	5,117.7	(1,830.4)	3,287.3	152.4	17.1	169.5
More than 3 years	7,672.0	(1,796.9)	5,875.1	6,027.5	(2.3)	6,025.2

44. FINANCIAL AND INSURANCE RISK MANAGEMENT (CONTINUED)

LIQUIDITY RISK AND CONTRACTUAL MATURITY ANALYSIS (CONTINUED)

As at 31 December 2017, VTB Group had the following cash flow by remaining contractual maturities.

Time Band	Inflow	Outflow	Gap	Gap Cumulative	FX Swap Cumulative	Dynamic Gap (total) Cumulative
RUR positions						
Opening balance	–	–	297.7	297.7	–	297.7
Up to 1 month	348.7	(2,026.5)	(1,677.8)	(1,380.1)	(284.8)	(1,664.9)
From 1 to 3 months	520.0	(1,623.7)	(1,103.7)	(2,483.8)	(165.3)	(2,649.1)
From 3 months to 1 year	1,987.2	(1,575.3)	411.9	(2,071.9)	(57.7)	(2,129.6)
From 1 to 3 years	2,939.3	(358.4)	2,580.9	509.0	(105.7)	403.3
More than 3 years	4,421.6	(1,008.2)	3,413.4	3,922.4	(112.2)	3,810.2
Other currency positions						
Opening balance	–	–	478.1	478.1	–	478.1
Up to 1 month	584.8	(311.4)	273.4	751.5	384.2	1,135.7
From 1 to 3 months	265.8	(287.5)	(21.7)	729.8	184.6	914.4
From 3 months to 1 year	1,060.3	(1,029.9)	30.4	760.2	92.1	852.3
From 1 to 3 years	1,578.4	(1,514.9)	63.5	823.7	147.7	971.4
More than 3 years	1,621.3	(1,056.3)	565.0	1,388.7	147.8	1,536.5
Total						
Opening balance	–	–	775.8	775.8	–	775.8
Up to 1 month	933.5	(2,337.9)	(1,404.4)	(628.6)	99.4	(529.2)
From 1 to 3 months	785.8	(1,911.2)	(1,125.4)	(1,754.0)	19.3	(1,734.7)
From 3 months to 1 year	3,047.5	(2,605.2)	442.3	(1,311.7)	34.4	(1,277.3)
From 1 to 3 years	4,517.7	(1,873.3)	2,644.4	1,332.7	42.0	1,374.7
More than 3 years	6,042.9	(2,064.5)	3,978.4	5,311.1	35.6	5,346.7

The table below shows undiscounted cash flows payable under financial liabilities and credit-related commitments at 31 December 2018 by their remaining contractual maturity.

	On demand and up to 1 month	From 1 month to 3 months	From 3 month to 6 months	From 6 months to 1 year	More than 1 year	Total
Non-derivative liabilities:						
Due to other banks	956.3	615.5	0.3	0.5	147.2	**1,719.8**
Customer deposits	4,940.4	1,826.9	912.5	1,403.1	1,542.2	**10,625.1**
Other borrowed funds	2.8	1.2	8.6	12.9	507.7	**533.2**
Debt securities issued	68.2	11.3	16.1	23.9	170.6	**290.1**
Other liabilities	69.0	12.3	3.2	3.0	5.7	**93.2**
Subordinated debt	–	3.6	3.3	7.8	416.7	**431.4**
Total cash flows payable under non-derivative liabilities	**6,036.7**	**2,470.8**	**944.0**	**1,451.2**	**2,790.1**	**13,692.8**
Derivative financial instruments – gross settled:						
Positive fair value of derivatives						
(Inflow)	(109.3)	(157.9)	(90.7)	(223.7)	(498.6)	**(1,080.2)**
Outflow	96.2	119.3	85.4	235.7	481.2	**1,017.8**
Negative fair value of derivatives:						
(Inflow)	(103.0)	(166.8)	(90.3)	(291.4)	(314.6)	**(966.1)**
Outflow	104.4	180.8	99.8	274.5	329.8	**989.3**
Derivative financial instruments – net settled:						
(Inflow)	(20.6)	(4.4)	(6.5)	(7.2)	(31.5)	**(70.2)**
Outflow	18.5	4.4	4.2	5.8	15.8	**48.7**
Credit related commitments	152.6	–	–	–	–	**152.6**

44. FINANCIAL AND INSURANCE RISK MANAGEMENT (CONTINUED)

LIQUIDITY RISK AND CONTRACTUAL MATURITY ANALYSIS (CONTINUED)

The table below shows undiscounted cash flows payable under financial liabilities and credit-related commitments at 31 December 2017 by their remaining contractual maturity.

	On demand and up to 1 month	From 1 month to 3 months	From 3 month to 6 months	From 6 months to 1 year	More than 1 year	Total
Non-derivative liabilities:						
Due to other banks	765.2	11.9	1.6	0.3	33.1	**812.1**
Customer deposits	4,155.8	1,622.4	1,061.3	685.5	1,778.0	**9,303.0**
Other borrowed funds	1.2	4.0	4.5	127.0	372.2	**508.9**
Debt securities issued	33.4	64.8	94.8	39.0	122.2	**354.2**
Other liabilities	87.9	5.4	1.1	2.0	2.4	**98.8**
Subordinated debt	–	6.0	2.7	9.6	536.5	**554.8**
Total cash flows payable under non-derivative liabilities	**5,043.5**	**1,714.5**	**1,166.0**	**863.4**	**2,844.4**	**11,631.8**
Derivative financial instruments – gross settled:						
Positive fair value of derivatives						
(Inflow)	(917.5)	(178.1)	(164.3)	(205.4)	(416.4)	**(1,881.7)**
Outflow	912.4	170.6	144.3	192.8	377.2	**1,797.3**
Negative fair value of derivatives:						
(Inflow)	(761.9)	(104.8)	(75.6)	(172.5)	(299.5)	**(1,414.3)**
Outflow	770.4	110.6	73.9	187.3	309.8	**1,452.0**
Derivative financial instruments – net settled:						
(Inflow)	(9.2)	(7.5)	(8.7)	(13.1)	(35.7)	**(74.2)**
Outflow	12.9	6.3	11.0	8.7	15.0	**53.9**
Credit related commitments	488.4	–	–	–	–	**488.4**

Included in amounts due to customers are term deposits of individuals. In accordance with the Russian legislation, the Group is obliged to repay such deposits upon demand of a depositor.

CURRENT AND NON-CURRENT ASSETS AND LIABILITIES

The table below shows assets and liabilities at 31 December 2018 by their remaining contractual maturity (expected maturity match the remaining contractual maturity) by which the Group has right to realise the assets and settle the liabilities. The Group considers assets and liabilities with remaining contractual maturity of “Less than 1 year” as current and assets and liabilities with remaining contractual maturity of “More than 1 year” and “Maturity undefined” as non-current.

	Less than 1 year	More than 1 year	Maturity undefined	Total
Assets				
Cash and short-term funds	935.8	–	–	**935.8**
Mandatory cash balances with central banks	99.3	11.8	–	**111.1**
Trading financial assets	298.7	–	–	**298.7**
Derivative financial assets	117.5	85.0	–	**202.5**
Due from other banks	581.9	111.2	–	**693.1**
Loans and advances to customers	1,995.8	8,699.4	–	**10,695.2**
Investment financial assets	102.2	219.2	31.2	**352.6**
Investments in associates and joint ventures	–	–	283.2	**283.2**
Assets of disposal group and non-current assets held for sale	22.0	–	–	**22.0**
Land, premises and equipment	–	–	402.3	**402.3**
Investment property	–	–	197.2	**197.2**
Goodwill and other intangible assets	–	–	160.0	**160.0**
Deferred income tax asset	–	–	119.6	**119.6**
Other assets	169.7	7.7	109.9	**287.3**
Total assets	**4,322.9**	**9,134.3**	**1,303.4**	**14,760.6**
Liabilities				
Due to other banks	1,390.9	34.8	–	**1,425.7**
Customer deposits	9,001.1	1,402.6	–	**10,403.7**
Derivative financial liabilities	81.8	58.4	–	**140.2**
Other borrowed funds	23.2	306.5	–	**329.7**
Debt securities issued	111.4	147.7	–	**259.1**
Liabilities of disposal group held for sale	–	–	–	**–**
Deferred income tax liability	–	–	12.4	**12.4**
Other liabilities	186.0	220.3	46.0	**452.3**
Subordinated debt	5.4	209.1	–	**214.5**
Total liabilities	**10,799.8**	**2,379.4**	**58.4**	**13,237.6**

44. FINANCIAL AND INSURANCE RISK MANAGEMENT (CONTINUED)

CURRENT AND NON-CURRENT ASSETS AND LIABILITIES (CONTINUED)

Management believes that although equity securities included in financial assets held for trading category have no contractual maturity these equity securities could be sold in less than one year and therefore they are included in respective contractual maturity category. Debt securities included in financial assets held for trading category are also classified as instruments with contractual maturity less than one year as Management believes that these debt securities could be sold in less than one year and it has no intentions to hold these debt securities until maturity.

The table below shows assets and liabilities at 31 December 2017 by their remaining contractual maturity (expected maturity match the remaining contractual maturity) by which the Group has right to realise the assets and settle the liabilities.

	Less than 1 year	More than 1 year	Maturity undefined	Total
Assets				
Cash and short-term funds	773.8	–	–	**773.8**
Mandatory cash balances with central banks	82.7	14.4	–	**97.1**
Trading financial assets	277.2	–	–	**277.2**
Derivative financial assets	73.1	102.5	–	**175.6**
Due from other banks	683.5	151.5	–	**835.0**
Loans and advances to customers	1,891.0	7,280.4	–	**9,171.4**
Investment financial assets	64.1	227.8	29.9	**321.8**
Investments in associates and joint ventures	–	–	117.1	**117.1**
Assets of disposal group and non-current assets held for sale	17.2	–	–	**17.2**
Land, premises and equipment	–	–	348.2	**348.2**
Investment property	–	–	210.4	**210.4**
Goodwill and other intangible assets	–	–	157.4	**157.4**
Deferred income tax asset	–	–	98.7	**98.7**
Other assets	269.6	8.7	130.1	**408.4**
Total assets	**4,132.2**	**7,785.3**	**1,091.8**	**13,009.3**
Liabilities				
Due to other banks	777.4	32.9	–	**810.3**
Customer deposits	7,419.9	1,724.8	–	**9,144.7**
Derivative financial liabilities	73.9	60.1	–	**134.0**
Other borrowed funds	129.3	175.2	–	**304.5**
Debt securities issued	222.8	99.7	0.2	**322.7**
Liabilities of disposal group held for sale	7.0	–	–	**7.0**
Deferred income tax liability	–	–	30.7	**30.7**
Other liabilities	269.4	273.3	39.8	**582.5**
Subordinated debt	3.1	190.1	–	**193.2**
Total liabilities	**8,902.8**	**2,556.1**	**70.7**	**11,529.6**

44. FINANCIAL AND INSURANCE RISK MANAGEMENT (CONTINUED)

GEOGRAPHICAL CONCENTRATION

Geographical concentration information is based on registraton of the Group's counterparts. As at 31 December 2018, the geographical concentration of the Group's assets and liabilities is set out below:

	Russia	OECD	Other countries	Total
Assets				
Cash and short-term funds	721.6	174.7	39.5	**935.8**
Mandatory cash balances with central banks	102.6	–	8.5	**111.1**
Trading financial assets	264.8	12.7	21.2	**298.7**
Derivative financial assets	104.8	84.7	13.0	**202.5**
Due from other banks	380.1	21.7	291.3	**693.1**
Loans and advances to customers	8,552.3	362.8	1,780.1	**10,695.2**
Investment financial assets	280.9	39.8	31.9	**352.6**
Investments in associates and joint ventures	186.3	60.2	36.7	**283.2**
Assets of disposal group and non-current assets held for sale	–	–	22.0	**22.0**
Land, premises and equipment	230.3	14.3	157.7	**402.3**
Investment property	195.6	0.1	1.5	**197.2**
Goodwill and other intangible assets	138.0	2.3	19.7	**160.0**
Deferred income tax asset	116.0	3.1	0.5	**119.6**
Other assets	256.3	25.9	5.1	**287.3**
Total assets	**11,529.6**	**802.3**	**2,428.7**	**14,760.6**
Liabilities				
Due to other banks	1,081.8	57.0	286.9	**1,425.7**
Customer deposits	9,800.1	367.9	235.7	**10,403.7**
Derivative financial liabilities	43.0	90.3	6.9	**140.2**
Other borrowed funds	156.6	16.9	156.2	**329.7**
Debt securities issued	174.1	77.5	7.5	**259.1**
Liabilities of disposal group held for sale	–	–	–	**–**
Deferred income tax liability	11.5	–	0.9	**12.4**
Other liabilities	396.1	35.8	20.4	**452.3**
Subordinated debt	104.2	110.3	-	**214.5**
Total liabilities	**11,767.4**	**755.7**	**714.5**	**13,237.6**
Net balance sheet position	**(237.8)**	**46.6**	**1,714.2**	**1,523.0**
Gross off-balance sheet position				
Credit Related Commitments	90.5	13.9	48.2	**152.6**
Performance guarantees	608.3	3.5	6.7	**618.5**

44. FINANCIAL AND INSURANCE RISK MANAGEMENT (CONTINUED)

GEOGRAPHICAL CONCENTRATION (CONTINUED)

Geographical concentration information is based on registration of the Group's counterparts. As at 31 December 2017, the geographical concentration of the Group's assets and liabilities is set out below:

	Russia	OECD	Other countries	Total
Assets				
Cash and short-term funds	530.0	208.8	35.0	**773.8**
Mandatory cash balances with central banks	90.1	–	7.0	**97.1**
Trading financial assets	239.5	19.5	18.2	**277.2**
Derivative financial assets	87.2	71.0	17.4	**175.6**
Due from other banks	353.8	75.4	405.8	**835.0**
Loans and advances to customers	7,311.0	432.5	1,427.9	**9,171.4**
Investment financial assets	222.5	67.1	32.2	**321.8**
Investments in associates and joint ventures	29.2	58.3	29.6	**117.1**
Assets of disposal group and non-current assets held for sale	2.6	–	14.6	**17.2**
Land, premises and equipment	232.7	7.5	108.0	**348.2**
Investment property	200.0	0.1	10.3	**210.4**
Goodwill and other intangible assets	136.7	2.9	17.8	**157.4**
Deferred income tax asset	95.6	2.6	0.5	**98.7**
Other assets	331.8	68.0	8.6	**408.4**
Total assets	**9,862.7**	**1,013.7**	**2,132.9**	**13,009.3**
Liabilities				
Due to other banks	349.6	63.3	397.4	**810.3**
Customer deposits	8,397.8	301.5	445.4	**9,144.7**
Derivative financial liabilities	30.2	98.2	5.6	**134.0**
Other borrowed funds	165.4	23.2	115.9	**304.5**
Debt securities issued	156.9	161.1	4.7	**322.7**
Liabilities of disposal group held for sale	0.3	0.1	6.6	**7.0**
Deferred income tax liability	29.7	–	1.0	**30.7**
Other liabilities	512.9	51.3	18.3	**582.5**
Subordinated debt	101.7	91.5	–	**193.2**
Total liabilities	**9,744.5**	**790.2**	**994.9**	**11,529.6**
Net balance sheet position	**118.2**	**223.5**	**1,138.0**	**1,479.7**
Gross off-balance sheet position				
Credit Related Commitments	458.8	11.7	17.9	**488.4**
Performance guarantees	568.7	–	–	**568.7**

INSURANCE RISK

The risk under any one insurance contract is the possibility that the insured event occurs and the uncertainty of the amount of the resulting claim. By the very nature of an insurance contract, this risk is random and therefore unpredictable.

For a portfolio of insurance contracts where the theory of probabilities is applied to pricing and reserving, the principal risk that the Group faces under its insurance contracts is that the actual claims and benefit payments exceed the carrying amount of the insurance liabilities. This could occur because the frequency or severity of claims and benefits are greater than estimated. Insurance events are random and the actual number and amount of claims and benefits will vary from year to year from the estimate established using actuarial techniques.

Experience shows that the larger the portfolio of similar insurance contracts, the smaller the relative variability of the expected outcome will be. In addition, a more diversified portfolio is less likely to be affected pervasively by a change in any subset of the portfolio.

The Group is working to diversify the gender, age and geography of insurance risks accepted and within each of these categories to achieve a sufficiently large population to reduce the variability of the expected outcome.

The Group conducts a liability adequacy test (LAT) to assess whether its recognised insurance liabilities are adequate, using current estimates of future cash flows under its insurance contracts. The test considers current estimates of all contractual cash flows, and of related cash flows. If a test shows that liabilities are insufficient, the total amount of deficit is charged to profit or loss.

The Group also discloses results of a sensitivity analysis that shows how its liabilities would have been affected if changes in the relevant risk variables that were reasonably possible at the end of the reporting period had occurred.

The Group is exposed to insurance risk which is analysed using actuarial techniques.

44. FINANCIAL AND INSURANCE RISK MANAGEMENT (CONTINUED)

INSURANCE RISK (CONTINUED)

The key reserving assumptions are expected loss ratio and development factors (that reflect the claim settlement pattern). Changes in those assumptions directly influence the loss provisions. The following analysis is performed for reasonably possible movements in the key assumptions with all other assumptions held constant, showing the impact on loss provision.

In October 2018, the Group disposed its insurance unit, VTB Insurance including all companies within VTB Insurance Group (Refer to Note 48). As at 31 December the Group is no longer exposed to substantial insurance risk.

The table below represents the sensitivity of values of loss provision to changes in actuarial assumptions as at 31 December 2017.

Lines of insurance business	Increase in loss provisions			
Increase in variable:				
- confident level	75%	75%	95%	95%
- loss ratio	5%	10%	5%	10%
Motor own damage insurance	–	–	–	–
Voluntary Medical insurance	0.1	0.3	0.1	0.3
Property insurance and Third party liability insurance	0.1	0.2	0.2	0.2
Personal Accident insurance	0.2	0.4	0.2	0.4
Obligatory Military State Insurance	–	0.1	–	0.1
Obligatory motor third party liability insurance	–	–	–	–
Other non-life insurance	0.1	0.2	0.1	0.3
Total	**0.5**	**1.2**	**0.6**	**1.3**

45. FAIR VALUE MEASUREMENT

Fair value of financial instruments measured at fair value

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

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

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

Fair value measurements are analysed by level in the fair value hierarchy as follows: (i) Level 1 are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities, (ii) Level 2 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 3 measurements are valuations not based on observable market data (that is, unobservable inputs). Management applies judgment in categorising financial instruments using the fair value hierarchy. If a fair value measurement uses observable inputs that require significant adjustment based on unobservable inputs, that measurement is a Level 3 measurement. The significance of a valuation input is assessed against the fair value measurement of a financial instrument in its entirety.

45. FAIR VALUE MEASUREMENT (CONTINUED)

Assets and liabilities measured at fair value

The following table shows an analysis of assets and liabilities recorded at fair value by level of the fair value hierarchy as at 31 December 2018:

	Quoted prices in active markets Level 1	Significant observable inputs Level 2	Significant unobservable inputs Level 3	Total
Financial assets measured at fair value				
Trading financial assets				
Trading financial assets				
• Debt securities	143.5	69.0	12.5	**225.0**
• Equity securities	24.6	14.9	0.1	**39.6**
Trading financial assets, pledged under repurchase agreements				
• Debt securities	30.8	3.1	–	**33.9**
• Equity securities	0.2	–	–	**0.2**
Derivative financial assets				
Derivative financial assets held for trading				
• Interest rate contracts	–	114.0	–	**114.0**
• Foreign exchange and precious metals contracts	–	55.0	–	**55.0**
• Other basic assets contracts	0.7	23.4	–	**24.1**
• Contracts with securities	–	7.7	1.6	**9.3**
Derivative financial liabilities designated as hedging instruments				
• Derivatives held as fair value hedges	–	0.1	–	**0.1**
Loans and advances to customers at fair value through profit or loss				
Loans and advances to legal entities	–	–	107.4	**107.4**
Loans and advances to customers at fair value through other comprehensive income				
Loans and advances to legal entities	74.2	–	–	**74.2**
Due from other banks at fair value through profit or loss	–	–	7.6	**7.6**
Investment financial assets				
Investment financial assets measured at fair value through other comprehensive income				
• Debt securities	250.4	45.9	0.8	**297.1**
• Equity securities	0.1	4.7	4.7	**9.5**
Investment financial assets measured at fair value through other comprehensive income, pledged under repurchase agreements				
• Debt securities	7.8	5.3	–	**13.1**
Investment financial assets mandatorily measured at fair value through profit or loss				
• Equity securities	7.1	3.4	11.2	**21.7**
• Debt securities	–	–	–	–
Investment financial assets mandatorily measured at fair value through profit or loss, pledged under repurchase agreements				
• Debt securities	–	–	–	–
Investment financial assets designated as at fair value through profit or loss including pledged under repurchase agreements				
• Reverse sale and repurchase agreements to maturity	–	7.0	–	**7.0**
• Equity securities	–	–	–	**–**
Investments in associates and joint ventures designated as at fair value through profit or loss	–	–	70.7	**70.7**
Other non-financial assets measured at fair value				
Investment property	–	–	197.2	**197.2**
Land and premises	–	–	134.8	**134.8**
Precious metals within Other Assets	–	41.8	–	**41.8**
Financial liabilities measured at fair value				
Derivative financial liabilities				
Derivative financial liabilities held for trading				
• Interest rate contracts	–	64.3	–	**64.3**
• Foreign exchange and precious metals contracts	–	47.1	0.2	**47.3**
• Other basic assets contracts	0.1	24.8	–	**24.9**
• Contracts with securities	–	0.8	2.6	**3.4**
Derivative financial liabilities designated as hedging instruments				
• Derivatives held as cash flow hedges	–	0.3	–	**0.3**
Other financial liabilities				
Obligation to deliver securities	22.1	–	–	**22.1**
Non-controlling interests in consolidated mutual funds	–	–	2.7	**2.7**
Other financial liabilities accounted at fair value	–	–	2.4	**2.4**

45. FAIR VALUE MEASUREMENT (CONTINUED)

Assets and liabilities measured at fair value (continued)

The following table shows an analysis of assets and liabilities recorded at fair value by level of the fair value hierarchy as at 31 December 2017:

	Quoted prices in active markets Level 1	Significant observable inputs Level 2	Significant unobservable inputs Level 3	Total
Financial assets measured at fair value				
Trading financial assets				
Trading financial assets				
• Debt securities	178.7	76.0	4.1	**258.8**
• Equity securities	13.2	–	0.1	**13.3**
• Trading credit products	–	–	4.8	**4.8**
Trading financial assets, pledged under repurchase agreements				
• Equity securities	0.2	–	–	**0.2**
• Debt securities	0.1	–	–	**0.1**
Derivative financial assets				
Derivative financial assets held for trading				
• Interest rate contracts	–	94.1	6.2	**100.3**
• Other basic assets contracts	0.4	28.1	1.3	**29.8**
• Foreign exchange and precious metals contracts	–	30.1	–	**30.1**
• Contracts with securities	–	5.4	2.7	**8.1**
• Embedded derivatives on structured instruments	–	1.1	5.5	**6.6**
Derivative financial liabilities designated as hedging instruments				
• Derivatives held as fair value hedges	–	0.7	–	**0.7**
Investment financial assets available-for-sale				
Investment financial assets available-for-sale				
• Debt securities	203.0	69.3	0.4	**272.7**
• Equity securities	7.8	–	4.7	**12.5**
Investment financial assets available-for-sale, pledged under repurchase agreements				
• Debt securities	–	0.4	–	**0.4**
Investment financial assets designated as at fair value through profit or loss				
• Reverse sale and repurchase agreements to maturity	–	18.5	–	**18.5**
• Equity securities	8.4	–	9.0	**17.4**
• Debt securities	–	–	0.3	**0.3**
Investments in associates and joint ventures designated as at fair value through profit or loss	–	–	66.7	**66.7**
Other financial assets				
Amounts in course of settlement related to regular way transactions with financial instruments	–	0.3	–	**0.3**
Other financial assets accounted at fair value	–	0.1	–	**0.1**
Non-financial assets measured at fair value				
Investment property	–	–	210.4	**210.4**
Land and premises	–	–	116.5	**116.5**
Precious metals within Other Assets	–	112.2	–	**112.2**
Financial liabilities measured at fair value				
Derivative financial liabilities				
Derivative financial liabilities held for trading				
• Interest rate contracts	–	78.5	–	**78.5**
• Other basic assets contracts	0.4	31.7	–	**32.1**
• Foreign exchange and precious metals contracts	–	15.3	0.3	**15.6**
• Contracts with securities	–	4.5	2.6	**7.1**
Derivative financial liabilities designated as hedging instruments				
• Derivatives held as cash flow hedges	–	0.4	–	**0.4**
• Derivatives held as fair value hedges	–	0.3	–	**0.3**
Other financial liabilities				
Obligation to deliver securities	34.3	1.1	–	**35.4**
Non-controlling interests in consolidated mutual funds	–	–	2.6	**2.6**
Other financial liabilities accounted at fair value	–	0.2	1.2	**1.4**

45. FAIR VALUE MEASUREMENT (CONTINUED)

Assets and liabilities measured at fair value (continued)

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

A significant portion of the available-for-sale financial assets in Level 3 is invested in shares of non-listed companies which are valued based on non-market observable information. Changes in assumptions can lead to adjustments in the fair value of these investments.

Movement in Level 3 financial instruments measured at fair value

The following table reconciles the opening balances for financial assets and liabilities of Level 3 of the fair value hierarchy under IAS 39 to opening balances under IFRS 9 on transition to IFRS 9 on 1 January 2018:

	Original classification under IAS 39	New classification under IFRS 9	Closing balance under IAS 39 (31 December 2017)	Reclassification in/ (out of) categories measured at fair value	Reclassification between categories measured at fair value	Opening balance under IFRS 9 (1 January 2018)
Trading financial assets including pledged under repurchase agreements	Fair value through profit or loss	Fair value through profit or loss (mandatorily)	9.0	(5.1)	–	3.9
Investment financial assets mandatorily measured at fair value through profit or loss, including pledged under repurchase agreements	Fair value through profit or loss (designated)	Fair value through profit or loss (mandatorily)	9.3	–	0.4	9.7
Investment financial assets measured at fair value through other comprehensive income, including pledged under repurchase agreements	Available-for-sale	Fair value through other comprehensive income	4.7	–	–	4.7
Investment financial assets measured at fair value through other comprehensive income, including pledged under repurchase agreements	Available-for-sale	Fair value through profit or loss (mandatorily)	0.4	–	(0.4)	–
Investments in associates and joint ventures at fair value through profit or loss	Fair value through profit or loss (designated)	Fair value through profit or loss (designated)	66.7	–	–	66.7
Derivative financial assets and liabilities held for trading (net)	Fair value through profit or loss	Fair value through profit or loss (mandatorily)	12.8	–	(5.4)	7.4
Due from other banks at fair value through profit or loss	Loans and receivables	Fair value through profit or loss (mandatorily)	–	2.8	–	2.8
Loans and advances to customers at fair value through profit or loss	Loans and receivables	Fair value through profit or loss (mandatorily)	–	433.7	5.4	439.1
Non-controlling interests in consolidated mutual funds	Fair value through profit or loss (designated)	Fair value through profit or loss (designated)	(2.6)	–	–	(2.6)
Other financial liabilities measured at fair value	Fair value through profit or loss (designated)	Fair value through profit or loss (designated)	(1.2)	–	–	(1.2)

45. FAIR VALUE MEASUREMENT (CONTINUED)

A reconciliation of movements in Level 3 of the fair value hierarchy by class of financial instruments for the year ended 31 December 2018 is as follows:

		Investment financial assets							Other financial liabilities	
	Trading financial assets including pledged under repurchase agreements	Investment financial assets mandatorily measured at fair value through profit or loss, including pledged under repurchase agreements	Investment financial assets measured at fair value through other comprehensive income, including pledged under repurchase agreements	Investments in associates and joint ventures at fair value through profit or loss	Derivative financial assets and liabilities held for trading (net)	Due from other banks at fair value through profit or loss	Loans and advances to customers at fair value through profit or loss	Loans and advances to customers at fair value through other comprehensive income	Non-controlling interests in consolidated mutual funds	Other financial liabilities measured at fair value
Fair value at 1 January 2018	**3.9**	**9.7**	**4.7**	**66.7**	**7.4**	**2.8**	**439.1**	**–**	**(2.6)**	**(1.2)**
Interest income and gains or (losses) recognised in income statement	1.0	0.2	0.1	6.1	0.7	(3.0)	49.3	0.2	(0.1)	(1.2)
• of which unrealised gains or (losses)	1.2	0.1	–	6.1	0.5	(0.2)	26.6	–	(0.1)	(1.2)
Gains recognised in other comprehensive income	–	–	0.8	–	–	–	–	–	–	–
Purchase	6.3	1.5	36.3	0.6	2.4	–	3.2	–	–	–
Sale	(5.6)	(0.5)	(1.2)	(1.5)	0.2	–	(3.9)	(2.8)	–	–
Issue	–	–	0.1	–	0.1	4.1	61.2	2.6	–	–
Settlement	(2.1)	–	(35.4)	(1.2)	(5.2)	–	(228.4)	–	–	–
Acquisition of subsidiaries	–	0.3	0.1	–	–	–	(15.1)	–	–	–
Transfers into Level 3	16.3	–	0.5	7.6	–	–	–	–	–	–
Transfers out of Level 3	(6.7)	–	(0.5)	(7.6)	(4.4)	–	–	–	–	–
Transfer into disposal group	(0.5)	–	–	–	(2.4)	–	–	–	–	–
Disposal of subsidiaries	–	–	–	–	–	3.7	–	–	–	–
Derecognition	–	–	–	–	–	–	(198.0)	–	–	–
Fair value at 31 December 2018	**12.6**	**11.2**	**5.5**	**70.7**	**(1.2)**	**7.6**	**107.4**	**–**	**(2.7)**	**(2.4)**

A reconciliation of movements in Level 3 of the fair value hierarchy by class of financial instruments for the year ended 31 December 2017 is as follows:

						Other financial liabilities		
	Trading financial assets including pledged under repurchase agreements	Investment financial assets designated as at fair value through profit or loss	Investment financial assets available-for-sale including pledged under repurchase agreements	Investments in associates and joint ventures at fair value through profit or loss	Derivative financial assets and liabilities held for trading (net)	Obligation to deliver securities	Non-controlling interests in consolidated mutual funds	Other financial liabilities accounted at fair value
Fair value at 1 January 2017	**8.2**	**11.8**	**27.2**	**61.8**	**33.0**	**–**	**(2.6)**	**(1.1)**
Gains or (losses) recognised in income statement	0.1	(2.5)	0.2	6.4	1.1	–	–	(0.1)
• of which unrealised gains or (losses)	0.1	(2.5)	(5.7)	6.4	(2.4)	–	–	(0.1)
Gains or (losses) recognised in other comprehensive income	–	–	(2.1)	0.2	(0.9)	–	–	–
Purchase	6.4	–	29.1	0.1	(1.5)	0.1	–	–
Sale	(1.3)	–	(12.5)	–	–	(0.1)	–	–
Settlement	(2.7)	–	(30.7)	(0.3)	(19.7)	–	–	2.7
Transfers into Level 3	9.0	–	0.3	6.1	0.7	–	–	(2.7)
Transfers out of Level 3	(7.2)	–	(6.5)	(3.0)	0.1	–	–	–
Transfer out of Level 3 into categories not measured at fair value	(3.5)	–	–	(4.6)	–	–	–	–
Transfers into Level 3 from categories not measured at fair value	–	–	0.1	–	–	–	–	–
Fair value at 31 December 2017	**9.0**	**9.3**	**5.1**	**66.7**	**12.8**	**–**	**(2.6)**	**(1.2)**

45. FAIR VALUE MEASUREMENT (CONTINUED)

Movement in Level 3 non-financial assets measured at fair value

A reconciliation of movements in Level 3 of the fair value hierarchy by class of non-financial assets measured at fair value for the year ended 31 December 2018 is as follows:

	Land and premises	Investment property
Fair value at 1 January 2018	**116.5**	**210.4**
Losses net of gains recognised in profit or loss	(15.3)	(14.4)
Gains recognised in other comprehensive income	7.6	1.4
Purchase	3.1	3.5
Capitalisation of expenses	–	4.9
Sale	(0.7)	(4.8)
Acquisition of subsidiaries	4.0	4.0
Disposal of subsidiaries	(2.6)	(6.1)
Transfers within Level 3	0.7	(0.7)
Net transfers into categories not measured at fair value	21.5	(1.0)
Fair value at 31 December 2018	**134.8**	**197.2**

A reconciliation of movements in Level 3 of the fair value hierarchy by class of non-financial assets measured at fair value for the year ended 31 December 2017 is as follows:

	Land and premises	Investment property
Fair value at 1 January 2017	**119.8**	**235.5**
Losses net of gains recognised in profit or loss	(16.3)	(23.1)
Losses recognised in other comprehensive income	(0.6)	(0.4)
Purchase	2.5	2.1
Capitalisation of expenses	–	9.2
Sale	(1.8)	(27.4)
Acquisition of subsidiaries	1.0	12.5
Disposal of subsidiaries	(2.8)	(1.6)
Transfers within Level 3	(0.6)	0.6
Net transfers into categories not measured at fair value	15.3	3.0
Fair value at 31 December 2017	**116.5**	**210.4**

Net transfers into categories not measured at fair value in the above table include amounts reclassified to property intended for sale in the ordinary course of business and to assets of disposal groups held for sale and reclassifications from other accounts.

There were no transfers out of Level 3 of the fair value hierarchy of non-financial assets.

Transfers between levels

For the year ended 31 December 2018	Reason for transfer (valuation at the reporting date)	Trading financial assets	Debt investment financial assets measured at fair value through other comprehensive income, including pledged under repurchase agreements	Investments in associates and joint ventures at fair value through profit or loss	Derivative financial assets and liabilities held for trading	Total
From Level 1:						
• to Level 2	valuation models with market observable inputs	48.6	2.1	–	–	**50.7**
• to Level 3	valuation models with non-market-observable inputs	1.5	–	–	–	**1.5**
From Level 2:						
• to Level 1	active market quotes	63.7	13.3	–	–	**77.0**
• to Level 3	valuation models with non-market-observable inputs	14.8	0.5	7.6	–	**22.9**
From Level 3:						
• to Level 1	active market quotes	3.2	–	–	–	**3.2**
• to Level 2	valuation models with market observable inputs	8.1	0.5	7.6	4.4	**20.6**
Total		**139.9**	**16.5**	**15.2**	**4.4**	**175.9**

For the year ended 31 December 2017	Reason for transfer (valuation at the reporting date)	Trading financial assets, including pledged under repurchase agreements	Investment financial assets designated as at fair value through profit or loss	Investments financial assets available-for-sale including pledged under repurchase agreements	Investments in associates and joint ventures at fair value through profit or loss	Other financial liabilities accounted at fair value	Total
From Level 1:							
• to Level 2	valuation models with market observable inputs	53.4	–	14.8	–	–	**68.2**
• to Level 3	valuation models with non-market-observable inputs	1.8	–	–	–	–	**1.8**
From Level 2:							
• to Level 1	active market quotes	61.0	–	24.4	–	–	**85.4**
• to Level 3	valuation models with non-market-observable inputs	7.2	–	0.3	6.1	2.7	**16.3**
From Level 3:							
• to Level 1	active market quotes	1.4	–	6.4	–	–	**7.8**
• to Level 2	valuation models with market observable inputs	5.8	–	0.1	3.0	–	**8.9**
Total		**130.6**	**–**	**46.0**	**9.1**	**2.7**	**188.4**

45. FAIR VALUE MEASUREMENT (CONTINUED)

Impact on fair value of Level 3 financial instruments of changes to key assumptions

The following table shows the quantitative information as at 31 December 2018 about significant unobservable inputs used in the fair value measurement categorised within Level 3 of the fair value hierarchy:

	Fair value	Valuation techniques	Unobservable input description	Reasonable range (values used)
Trading financial assets				
Debt securities				
Development real estate	4.7	Traders price	Traders price	103%-113% (108%)
Non-ferrous industry	2.0	Traders price	Traders price	79%-89% (84%)
Electric power industry	1.6	Traders price	Traders price	94.75%-104.75% (99.75%)
Finance companies, Banks	1.0	Other	n/a	n/a
Other economic sectors	3.2	Other	n/a	n/a
Equity securities				
Other economic sectors	0.1	Other	n/a	n/a
Trading derivative financial instruments				
Equity derivatives	(0.9)	Other	n/a	n/a
	(0.2)	Black model	Implied volatility	17.87%-23.16% (20.517%)
Investment financial assets mandatorily measured at fair value through profit or loss, including pledged under repurchase agreements				
Debt securities				
Other economic sectors	0.4	Other	n/a	n/a
Equity securities				
Retail	5.9	Discounted Cash flow; EV/EBITDA multiple	Weighted average cost of capital	10.83%-12.83% (11.83%)
			Weight of DCF and multiple valuations	0.0%-100.0% (50% & 50%)
			Terminal growth rate	3.0%-5.0% (4.0%)
			Average Gross margin (total sales) 2018-2021	30.0%-32.0% (31.0%)
Other economic sectors	4.9	Other	n/a	n/a
Investment financial assets measured at fair value through other comprehensive income, including pledged under repurchase agreements				
Debt securities				
Other economic sectors	0.7	Other	n/a	n/a
Equity securities				
Finance companies, Banks, Leasing	3.2	Gordon and Exit multiple	discount rate that can be changed based changes in macroecomic backdop	8.1%-12.1% (10.1%)
			exit multiple	0.4-0.8 (0.6)
Other economic sectors	1.5	Other	n/a	n/a
Loans and advances to customers at fair value through profit or loss				
Other economic sectors	97.6	Discounted Cash flow	Discount rate	(1.0)%-1.0% (various)
Communication	9.9	Fair value model	Fair value of collateral	43.0-53.5 (53.5)

45. FAIR VALUE MEASUREMENT (CONTINUED)

Impact on fair value of Level 3 financial instruments of changes to key assumptions (continued)

	Fair value	Valuation techniques	Unobservable input description	Reasonable range (values used)
Due from other banks at fair value through profit or loss				
Finance companies and banks	7.6	Fair value model	Discount rate	(1.0)%-1.0% (various)
Investments in associates and joint ventures designated as at fair value through profit or loss				
Services: Air transportation	4.1	Discounted Dividend flow	Base equity risk premium	7.0%-8.0% (7.5%)
			RUR inflation (CPI) from 2019	4.3%-5.3% (4.8%)
			Growth rate of duty free revenue (in euro) per international passenger	0.0%-3.6% (1.8%)
Telecommunication	53.5	Discounted Cash flow; EV/EBITDA, EV/Revenue multiple	CAGR 2019-2022 (ARPU)	(0.2)%-3.0% (0.4%)
			CAGR 2019-2022 (subscriber base)	2.0% - 6.0% (4%)
			Terminal growth	1.7% - 3.3% (2.5%)
			CAPEX (incl. Yarovaya)/Revenue	16.0% - 20.0% (18.0%)
			Multiple EV/Revenue 2020	1.57x и 1.97x (1.64x)
			Multiple EV/EBITDA 2020	2.46x и 5.34x (3.94x)
			Weight of core value	0.0% - 50.0% (33.3%)
			Premium of strategic valuation scenario to base scenario	44.2% - 51.4% (51.4%)
			WACC (in USD terms)	9.3% - 13.3% (11.3%)
			MVNO Revenue Growth	20.0%-80.0% (77.0%)
	4.8	Discounted Cash flow; EV/EBITDA multiple; Precedent Transaction	WACC	6.2%-8.2% (7.2%)
			Terminal Growth Rate	0.5%-1.5% (1%)
			Special situation discount	35.0%-15.0% (25.0%)
			Weight of DCF/Multiple valuations/Precedent Transactions	0.0%-100.0% (33.3% & 33.3% & 33.3%)
Fast Food		Discounted Cash flow; EV/EBITDA multiple	Liquidity discount	20.0%-30.0% (25%)
			Weight of multiples-based valuation	0.0%-100.0% (50.0% & 50.0%)
			LFL sales CAGR 2018-2023	3.9%-5.9% (4.9%)
			WACC	11.7%-15.7% (13.7%)
			Terminal Growth	2.0%-6.0% (4.0%)
Other	0.7	Other	n/a	n/a
Other financial liabilities accounted at fair value				
Non-controlling interests in consolidated mutual funds	(2.7)	Net asset value	n/a	n/a
Other financial liabilities accounted at fair value	(2.4)	Discounted Cash flow	Discount rate	22.5%-24.0% (23.2%)

45. FAIR VALUE MEASUREMENT (CONTINUED)

Impact on fair value of Level 3 financial instruments of changes to key assumptions (continued)

The following table shows the quantitative information as at 31 December 2017 (restated) about significant unobservable inputs used in the fair value measurement categorised within Level 3 of the fair value hierarchy:

	Fair value	Valuation techniques	Unobservable input description	Reasonable range (values used)
Trading financial assets, including pledged under repurchase agreements				
Equity securities				
Other economic sectors	0.1	Other	n/a	n/a
Other economic sectors				
Debt securities				
Finance companies servicing mortgage and real estate debts	1.4	Other	n/a	n/a
Other economic sectors	2.7	Other	n/a	n/a
Trading credit products				
Coal and mining industry	2.4	Discounted Cash flow	XIRR	24.2%-40.2% (32.2%)
	2.4	Discounted Cash flow	XIRR	24.2%-40.2% (32.2%)
Investment financial assets designated as at fair value through profit or loss				
Equity securities				
Retail	5.9	Gordon and Comparable method	Weighted average cost of capital	11.1%-13.1% (12.1%)
			Weight of DCF and multiple valuations	0%-100.0% (50.0%-50.0%)
			Terminal growth rate	3.0%-5.0% (4.0%)
			Average Gross margin (total sales) 2018-2021	29.8%-31.8% (30.8%)
Other economic sectors	3.1	Other	n/a	n/a
Debt securities				
Other economic sectors	0.3	Other	n/a	n/a
Derivative financial instruments held for trading				
Equity derivatives	2.0	Discounted Cash flow	Credit Spread	4.5%-6.5% (5.5%)
	(1.9)	Other	n/a	n/a
Foreign exchange derivatives	(0.3)	Black model	Implied volatility	9.3%-16.7% (13.0%)
Index derivatives	1.3	Other	n/a	n/a
Embedded derivatives on structured instruments	2.4	Discounted Cash flow	Credit spread	0.5%-2.5% (1.5%)
	3.1	Other	n/a	n/a
Interest rate derivatives	6.2	Discounted Cash flow	Credit spread	-0.1%-1.9% (0.9%)
Investment financial assets available-for-sale, including pledged under repurchase agreements				
Debt securities				
Other economic sectors	0.4	Other	n/a	n/a
Equity securities				
Finance companies and banks	2.4	Discounted Cash flow	Discount rate	8.6%-12.6% (10.6%)
			exit multiple	0.5-0.9 (0.7)
Other economic sectors	2.3	Other	n/a	n/a

45. FAIR VALUE MEASUREMENT (CONTINUED)

Impact on fair value of Level 3 financial instruments of changes to key assumptions (continued)

	Fair value	Valuation techniques	Unobservable input description	Reasonable range (values used)
Investments in associates and joint ventures designated as at fair value through profit or loss				
Services: Air transportation	3.1	Discounted Dividend flow	Base equity risk premium	7.0%-8.0% (7.5%)
Telecommunication	53.5	Discounted Cash flow	CAGR 2018-2022 of ARPU	0%-3.6% (1.4%)
			CAGR 2018-2022 of subscriber base	1.5%-4.0% (3.2%)
			Terminal growth	1%-2.5% (2.5%)
			CAPEX/Revenue	12.3%-17.7% (15.0%)
			Multiple EV/Revenue и EV/EBITDA	1.5x and 4.9x (2.0x and 5.9x)
			Weight of core and strategic value	75.0%/15.0%/15.0% (average 50.0%/25.0%/25.0% and 33.0%/33.0%/33.0%)
			Premium of strategic valuation scenario 1 to base scenario	50.0%-74.0% (74.0%)
			Premium of strategic valuation scenario 2 to base scenario	15.0%-22.0% (22.0%)
	2.8	Discounted Cash flow	WACC	7.2%-10.2% (8.2%)
			Terminal Growth Rate	1%-3% (2%)
			Special situation discount	50.0%-30.0% (40.0%)
			Weight of DCF and multiple valuations	0%-50%-50% (33%-33%-33%)
Food industry	5.6	Discounted Cash flow	Liquidity discount	10.0%-30.0% (25%)
			Weight of multiples-based valuation	0%-100.0% (50.0%-50.0%)
			LFL sales CAGR 2018-2023	7.2%-9.2% (8.2%)
Other economic sectors	1.5	Discounted Cash flow EV/EBITDA multiple	Change in Growth of Cards Sold (%)	-2% - +2% (0%)
			Change in PT Growth per Client (%)	1.5%-5.5% (3.5%)
			WACC	11.5%-15.5% (13.5%)
			Weight of DCF and multiple valuations	0%-100.0% (50.0%-50.0%)
	0.2	Other	n/a	n/a
Other financial liabilities accounted at fair value				
Non-controlling interests in consolidated mutual funds	(2.6)	Net asset value	n/a	n/a
Other financial liabilities accounted at fair value	(1.2)	Discounted Cash flow	Discount rate	22.5%-24.0% (23.2%)

45. FAIR VALUE MEASUREMENT (CONTINUED)

Impact on fair value of Level 3 financial instruments of changes to key assumptions (continued)

Fair value of investment in telecommunication industry as at 31 December 2018 and 2017 was determined by the Group with assistance of an independent appraiser. The model developed by the independent appraiser determined fair value as a combination of core value and strategic value. Core value was determined as an average between DCF valuation and market valuation based on 2019 projected EBITDA. Strategic value incorporated additional factors that, in the view of independent appraiser, the market participants would consider when determining the fair value of this investment, such as expansion of client base, value of available frequencies and ARPU synergies. Changes in the weights of core and strategic values, DCF assumptions, projected EBITDA, or strategic value components might have a significant effect on the valuation of the investment.

For financial instruments, which fair value is estimated using significant unobservable inputs, parameters and assumptions, the exact value of such inputs at the reporting date might be drawn from a range of reasonably possible alternatives. For each unobservable input to which the fair value is most sensitive, the Group calculates its impact on valuation by taking each individual input to the extreme point of its reasonably possible range, while keeping other inputs unchanged. The table below presents the range of fair value of the respective class of financial instruments calculated using the approach discussed above. Should all the parameters be changed simultaneously to the extreme points of their reasonable ranges, the impact on the fair value would be more significant than disclosed in the table, however, the Group considers that it is unlikely that all parameters and assumptions will be simultaneously at their extreme points.

This disclosure is intended to illustrate the magnitude of the relative uncertainty in the fair value of financial instruments for which valuation is dependent on unobservable parameters, however, the disclosure is not indicative of future movements in fair value.

The following table shows the quantitative information about sensitivity of the fair value measurement categorised within Level 3 of the fair value hierarchy to changes in significant unobservable inputs:

	2018		2017	
	Carrying amount	Effect of reasonably possible alternative assumptions	Carrying amount	Effect of reasonably possible alternative assumptions
Trading financial assets, including pledged under repurchase agreements	12.6	12.1-13.0	9.0	8.1-10.1
Derivative financial instruments held for trading	(1.2)	(1.2)-(1.2)	12.8	12.7-12.8
Investment financial assets mandatorily measured at fair value through profit or loss, including pledged under repurchase agreements	11.2	10.5-11.8	n/a	n/a
Investment financial assets measured at fair value through other comprehensive income, including pledged under repurchase agreements	5.5	4.7-6.3	n/a	n/a
Loans and advances to customers at fair value through profit or loss	107.4	106.2-108.3	n/a	n/a
Due from other banks at fair value through profit or loss	7.6	7.5-7.7	n/a	n/a
Investments in associates and joint ventures designated as at fair value through profit or loss	70.7	53.6-89.1	66.7	53.2-70.9
Financial assets designated as at fair value through profit or loss	n/a	n/a	9.3	8.7-10.4
Investment financial assets	n/a	n/a	5.1	4.5-5.6
Non-controlling interests in consolidated mutual funds	(2.7)	(2.4)-(3.0)	(2.6)	(2.3)-(2.9)
Other financial liabilities accounted at fair value	(2.4)	(2.3)-(2.4)	(1.2)	(1.1)-(1.2)

45. FAIR VALUE MEASUREMENT (CONTINUED)

Impact on fair value of Level 3 non-financial assets of changes to key assumptions

The following table shows the quantitative information as at 31 December 2018 about significant unobservable inputs used in the fair value measurement categorised within Level 3 of the fair value hierarchy:

			Inputs used		
Assets	Fair value	Valuation technique	Input	Min	Max
Land and premises					
Land and premises	134.8	Comparative method	trade discount	10.00%	29.00%
		Direct capitalization method	capitalization rate	9.00%	9.45%
Investment property					
Land	**102.7**				
Project 1	46.7	Comparative method	trade discount	15.40%	15.40%
Project 2	18.2	Comparative method	trade discount	16.00%	25.10%
Project 3	14.7	Comparative method	trade discount	15.70%	17.30%
		DCF method	discount rate	13.50%	20.79%
Project 4	7.4	Comparative method	trade discount	15.70%	17.30%
		DCF method	discount rate	13.50%	19.13%
Project 14	15.7	Comparative method	trade discount	15.70%	17.30%
		DCF method	discount rate	13.50%	19.13%
Commercial property	**68.8**				
Project 6	27.7	DCF method (completed investment property)	discount rate	14.00%	16.00%
	8.4	DCF method (investment property under construction)	discount rate	16.00%	16.00%
Project 7	13.5	DCF method (investment property under construction)	discount rate	13.00%	17.00%
			average annual rental indexation	3.20%	4.00%
			terminal capitalization rate	8.50%	8.50%
Project 8	3.0	DCF method (completed investment property)	discount rate	14.00%	14.00%
	1.8	DCF method (investment property under construction)	discount rate	22.10%	22.10%
Project 9	2.0	Direct capitalization method	trade discount	9.00%	10.00%
			vacancy rate	5.50%	5.50%
			capitalization rate	9.45%	9.45%
Project 11	1.4	DCF method (completed investment property)	discount rate	14.58%	14.58%
			average annual rental indexation	4.00%	4.30%
			terminal capitalization rate	11.36%	11.36%
Project 16	11.0	Comparative method	trade discount	15.00%	15.00%
		DCF method (investment property under construction)	discount rate	21.74%	22.7%
Other	**25.7**				
Other	25.7	Comparative method	trade discount	2.00%	17.40%

45. FAIR VALUE MEASUREMENT (CONTINUED)

Impact on fair value of Level 3 non-financial assets of changes to key assumptions (continued)

The following table shows the quantitative information as at 31 December 2017 about significant unobservable inputs used in the fair value measurement categorised within Level 3 of the fair value hierarchy:

Assets	Fair value	Valuation technique	Inputs used: Input	Min	Max
Land and premises					
Land and premises	116.5	Comparative method	trade discount	10.0%	20.0%
Investment property					
Land	**111.1**				
Project 1	49.9	Comparative method	trade discount	10.0%	30.0%
Project 2	21.4	Comparative method	trade discount	16.0%	25.1%
Project 14	17.0	Comparative method	trade discount	20.0%	20.0%
		DCF method	discount rate	14.4%	15.5%
Project 3	14.6	Comparative method	trade discount	20.0%	30.0%
		DCF method	discount rate	15.5%	22.5%
Project 4	8.2	Comparative method	trade discount	20.0%	20.0%
		DCF method	discount rate	14.4%	15.5%
Commercial property	**55.1**				
Project 6	25.6	DCF method (completed investment property)	discount rate	14.0%	15.5%
	5.0	DCF method (investment property under construction)	discount rate	14.0%	15.5%
Project 7	7.9	DCF method (investment property under construction)	discount rate	13.0%	15.0%
			average annual rental indexation	2.8%	4.8%
			terminal capitalization rate	7.5%	9.5%
Project 8	3.1	DCF method (completed investment property)	discount rate	15.0%	18.1%
	5.0	DCF method (investment property under construction)	discount rate	15.0%	18.1%
Project 9	2.2	Comparative method	trade discount	20.0%	20.0%
		DCF method (completed investment property)	terminal capitalization rate	10.6%	10.6%
Project 10	1.8	Comparative method	trade discount	10.0%	10.0%
		DCF method (completed investment property)	discount rate	14.9%	14.9%
			average annual rental indexation	4.2%	6.4%
			terminal capitalization rate	10.7%	10.7%
Project 11	1.3	Comparative method	trade discount	20.0%	20.0%
		DCF method (completed investment property)	discount rate	13.5%	13.5%
			average annual rental indexation	4.0%	4.3%
			terminal capitalization rate	11.3%	11.3%
Project 15	3.2	DCF method (investment property under construction)	discount rate	10.7%	10.7%
			average annual indexation	0.2%	4.5%
			terminal capitalization rate	5.0%	5.0%
Other	**44.2**				
Other	44.2	Comparative method	trade discount	10.0%	20.0%

45. FAIR VALUE MEASUREMENT (CONTINUED)

Impact on fair value of Level 3 non-financial assets of changes to key assumptions (continued)

The following table summarises the sensitivity of the fair value measurement categorised within Level 3 of the fair value hierarchy to changes in unobservable inputs as at 31 December 2018:

Input	Description of input	Description of sensitivity
Trade discount (difference between supply and demand)	The leading realtors were interviewed, and the resulted adjustment for offer was found to be between 2% and 29%.	Depending on change in the demand on the investment objects, the corrective adjustment for offer may vary from 0% up to 30%.The change of this input might lead to a substantial change in the fair value of the investment property of the Group.
Discount rate	Discounting rate-interest rate used to discounting future cash payments received or payed. The discounting rate reflects the relationship between risk and rate of return and also various types of risks associated with the investment property. The discounting rate is between 10% and 22.7%, depending on the individual characteristics of an object.	Depending on the market situation on the investment property market, the discounting rate may vary from 9% up to 25%.The change of this input might lead to a substantial change in the fair value of the investment property of the Group.
Capitalization rate	The capitalization rate – ratio of the net year income, received on investment, to its market value. The capitalization rate accounts for 9.0% to 9.45%, depending on the individual characteristics of an object.	Depending on the market situation on the investment property market, capitalization rate may vary from 8.75% up to 10.25%. The change of this input might lead to a substantial change in the fair value of the investment property of the Group.
Terminal capitalization rate	The terminal capitalization rate is the rate used to estimate the resale value of a property at the end of the holding period. The terminal capitalization rate accounts for 8.5% to 11.36%, depending on the individual characteristics of an object.	Depending on the market situation on the investment property market, terminal capitalization rate may vary from 5% up to 15%. The change of this input might lead to a substantial change in the fair value of the investment property of the Group.
Average annual rental indexation	Indexation of the current annual rental rate from 3.2% to 4.3% according to the market situation	Depending on the market situation on the investment property market, rental rate indexation may vary from 0% up to 10%. The change of this input might lead to a substantial change in the fair value of the investment property of the Group.
Vacancy rate	The vacancy rate is the percentage of all available units in a rental property that are vacant or unoccupied at a particular time. According to the market analysis the vacancy rate was found to be 5.5%.	Depending on the market situation on the investment property market, vacancy rate may vary from 5% up to 6%. The change of this input might lead to a substantial change in the fair value of the investment property of the Group.

45. FAIR VALUE MEASUREMENT (CONTINUED)

Impact on fair value of Level 3 non-financial assets of changes to key assumptions (continued)

The following table summarises the sensitivity of the fair value measurement categorised within Level 3 of the fair value hierarchy to changes in unobservable inputs as at 31 December 2017:

Input	Description of input	Description of sensitivity
Trade discount (difference between supply and demand)	The leading realtors were interviewed, and the resulted adjustment for offer was found to be between 13% and 30%.	Depending on change in the demand on the investment objects, the corrective adjustment for offer may vary from 5% up to 30%.The change of this input might lead to a substantial change in the fair value of the investment property of the Group.
Discount rate	Discounting rate-interest rate used to discounting future cash payments received or payed. The discounting rate reflects the relationship between risk and rate of return and also various types of risks associated with the investment property. The discounting rate is between 10.7% and 22.5%, depending on the individual characteristics of an object.	Depending on the market situation on the investment property market, the discounting rate may vary from 10% up to 30%.The change of this input might lead to a substantial change in the fair value of the investment property of the Group.
Terminal capitalisation rate	The capitalisation rate-ratio of the net year income, received on investment, to its market value. The capitalisation rate accounts for 5% to 12%, depending on the individual characteristics of an object.	Depending on the market situation on the investment property market, capitalisation rate may vary from 5% up to 15%. The change of this input might lead to a substantial change in the fair value of the investment property of the Group.
Average annual rental indexation	Indexation of the current annual rental rate from 0.2% to 6.4% according to the market situation	Depending on the market situation on the investment property market, rental rate indexation may vary from 0% up to 13%. The change of this input might lead to a substantial change in the fair value of the investment property of the Group.

45. FAIR VALUE MEASUREMENT (CONTINUED)

Impact on fair value of Level 3 non-financial assets of changes to key assumptions (continued)

As at 31 December 2018 and 31 December 2017 for a number of projects fair value was determined on the base of the highest and best use that differs from its current use:

- As at 31 December 2018 and 31 December 2017, the Group had agricultural land plots under Project 4 that it intends to use for commercial real estate development. Within the impairment test, the Group used for fair value measurement the highest and best use of the Project 4 land as land under commercial real estate development.
- As at 31 December 2018 and 31 December 2017, the Group had agricultural land plots under Project 3 that it intends to use for residential and commercial real estate development. Within the impairment test the Group used for fair value measurement the highest and best use of the Project 3 land as land under residential and commercial real estate development, under a special economic zone projects and wholesale and distribution centre.
- As at 31 December 2018 and 31 December 2017, the Group had agricultural land plots under Project 14 that it intends to use for residential and commercial real estate development. Within the impairment test the Group used for fair value measurement the highest and best use of the Project 14 land as land under residential development and residential, commercial and agricultural land plots for sale.

Methods and assumptions for Level 2 financial instruments

The fair value of trading financial assets, investment financial assets measured at fair value or designated at fair value through profit or loss and derivative financial instruments valued according to Level 2 models was estimated based on DCF (projected cash flows) method using the assumption of future coupon payment, recent transactions prices and the quotes of non-active markets if based on the Group's analysis such quotes represent the best estimate of the fair value of the financial instrument as at the reporting date. Probability models were calibrated using market indicators (currency forward, ITRAX Index).

Valuation methods for level 3 fair value measurements

In order to value Level 3 equity investments, the Group utilizes comparable trading multiples. Management (if deemed necessary based on external valuators' reports) determines comparable public companies (peers) based on industry, size, developmental stage and strategy. Management then calculates a trading multiple for each comparable company identified. The multiple is calculated by dividing the enterprise value of the comparable company by its earnings before interest, taxes, depreciation and amortization (EBITDA). The trading multiple is then discounted for considerations such as illiquidity and differences between the comparable companies based on company-specific facts and circumstances.

Internal valuation of the fair value of joint ventures and associates designated as at fair value is performed at the time of commencing the project. Internal valuations of the fair value are performed on the quarterly basis, which are reviewed by business owners of the portfolio on at least a quarterly basis to make decisions on the best timing to exit the investment according to the investment strategy.

The Level 3 debt instruments are valued at the net present value of estimated future cash flows. The Group also considers liquidity, credit and market risk factors, and adjusts the valuation model as deemed necessary.

Non-financial assets and liabilities measured at fair value

Investment property. Investment property is measured at fair value reflecting market conditions at the end of the reporting period (valuation date). The valuation was carried out by independent appraisers or management. Sales comparison, discounted cash flow methods or their combination was used for the revaluation. The following non-observable assumptions (Level 3) were applied in determining of the fair value of the investments properties: discount rates, terminal capitalization rates, price dynamics, vacancy allowance, discounts for asking prices, adjustments reflecting comparables and subjects differences in location, area (volume), class and other conditions.

Land and premises. Land and premises of the Group are subject to revaluation on a regular basis. The frequency of revaluation depends upon the change in the fair values. When the fair value of a revalued asset differs materially from its carrying amount further revaluation is performed. The basis used for valuation was market approach (sales comparison method). The following non-observable assumptions (Level 3) were applied in determining the fair value of land and premises: adjustments reflecting comparables and subjects differences in location, area (volume), class and other conditions.

45. FAIR VALUE MEASUREMENT (CONTINUED)

Non-financial assets and liabilities measured at fair value (continued)

Assets and liabilities of disposal group held for sale. Held for sale disposal groups as a whole are measured at the lower of their carrying amount and fair value less costs to sell. Reclassified financial instruments, deferred taxes and investment properties held at fair value shall be remeasured in accordance with applicable IFRSs before the fair value less cost to sell of the disposal group is remeasured.

Precious metals. Precious metals are measured at fair value using reference prices for refined precious metals. Reference prices are calculated based on London fixing prices translated into RUR using the closing rate of exchange USD to Russian roubles at the reporting date.

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

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

The following describes the methodologies and assumptions used to determine fair values for those financial instruments which are not already recorded at fair value in the financial statements.

Assets for which fair value approximates carrying value. For financial assets and financial liabilities that are liquid or having a short term maturity it is assumed that the carrying amounts approximate to their fair value. This assumption is also applied to customer current/settlement deposits without a specific maturity.

Fixed and variable rate financial instruments. For quoted debt instruments the fair values are determined based on quoted market prices. The fair values of unquoted debt instruments are estimated by discounting future cash flows using rates currently available for debt on similar terms, credit risk and remaining maturities.

As at 31 December 2018 fair values analysed by level in the fair value hierarchy and carrying value of financial assets and liabilities not measured at fair value are as follows:

	Quoted prices in active markets Level 1	Significant observable inputs Level 2	Significant unobservable inputs Level 3	Total fair value	Carrying amount
Financial assets for which fair values are disclosed					
Cash and short-term funds	328.6	607.2	–	935.8	935.8
Mandatory cash balances with central banks	–	111.1	–	111.1	111.1
Due from other banks at amortised cost	–	658.2	25.2	683.4	685.5
• Russia	–	344.8	25.2	370.0	372.4
• OECD	–	21.8	–	21.8	21.7
• Other countries	–	291.6	–	291.6	291.4
Loans and advances to customers at amortised cost	100.9	357.5	10,238.9	10,697.3	10,513.6
• Loans to legal entities	100.9	357.5	7,372.7	7,831.1	7,755.4
• Loans to individuals	–	–	2,866.2	2,866.2	2,758.2
Investment financial assets at amortised cost	–	2.7	1.5	4.2	4.2
Other financial assets at amortised cost	–	–	67.7	67.7	67.7
Financial liabilities for which fair values are disclosed					
Due to other banks	–	1,425.5	–	1,425.5	1,425.7
Customer deposits	–	10,293.7	–	10,293.7	10,403.7
• Deposits of legal entities	–	5,959.7	–	5,959.7	5,995.8
• Deposits of individuals	–	4,334.0	–	4,334.0	4,407.9
Other borrowed funds	–	368.8	–	368.8	329.7
Debt securities issued	69.0	108.9	82.8	260.7	259.1
Other financial liabilities	–	–	66.0	66.0	66.0
Subordinated debt	94.3	120.8	–	215.1	214.5

45. FAIR VALUE MEASUREMENT (CONTINUED)

Fair value of financial assets and liabilities not carried at fair value (continued)

As at 31 December 2017 fair values analysed by level in the fair value hierarchy and carrying value of financial assets and liabilities not measured at fair value are as follows:

	Quoted prices in active markets Level 1	Significant observable inputs Level 2	Significant unobservable inputs Level 3	Total fair value	Carrying amount
Financial assets for which fair values are disclosed					
Cash and short-term funds	289.9	483.9	–	773.8	773.8
Mandatory cash balances with central banks		97.1	–	97.1	97.1
Due from other banks	–	789.1	33.1	822.2	835.0
• Russia	–	308.9	31.7	340.6	353.8
• OECD	–	74.0	1.4	75.4	75.4
• Other countries	–	406.2	–	406.2	405.8
Loans and advances to customers	164.0	357.9	8,757.4	9,279.3	9,171.4
• Loans to legal entities	164.0	357.9	6,383.4	6,905.3	6,849.1
• Loans to individuals	–	–	2,374.0	2,374.0	2,322.3
Financial assets within assets of disposal groups held for sale	0.4	5.3	4.7	10.4	10.4
Other financial assets	–	–	65.6	65.6	65.6
Financial liabilities for which fair values are disclosed					
Due to other banks	–	810.3	–	810.3	810.3
Customer deposits	–	9,053.9	–	9,053.9	9,144.7
• Deposits of legal entities	–	5,479.0	–	5,479.0	5,523.1
• Deposits of individuals	–	3,574.9	–	3,574.9	3,621.6
Other borrowed funds	–	346.5	–	346.5	304.5
Debt securities issued	124.2	180.2	26.5	330.9	322.7
Financial liabilities within liabilities of disposal groups held for sale	–	6.4	–	6.4	6.4
Other financial liabilities, except of provisions for credit related commitments and financial guarantees	–	–	59.4	59.4	59.4
Subordinated debt	84.2	115.6	–	199.8	193.2

46. CAPITAL MANAGEMENT AND CAPITAL ADEQUACY

The Group's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of its business.

Capital adequacy ratio in accordance with CBR requirements

The CBR requires Russian banks to maintain a minimum capital adequacy ratios in percentage of risk-weighted assets, determined in accordance with CBR's requirements by following categories of capital: common equity adequacy ratio (N 1.1); core capital adequacy ratio (N 1.2) and total capital adequacy ratio (N 1.0). As at 31 December 2018 the minimum required was 4.5% for base capital adequacy ratio (N 1.1); 6.0% for core capital adequacy ratio (N 1.2) and 8.0% for total capital adequacy ratio (N 1.0) (31 December 2017: 4.5%, 6.0% and 8.0%, respectively). In other countries, the Group members comply with the regulatory capital requirements of the local central banks or other supervisory authorities.

Following legal merger of VTB Bank and VTB 24 in January 2018, and elimination of intercompany operations, direct deduction of investments and subordinated loans from VTB to VTB 24 from statutory Tier 1 and total capital was no longer required. As a result in the capital of VTB Bank on standalone basis, calculated in accordance with CBR requirements, increased significantly.

During 2018 and 2017 the Bank's capital adequacy ratios in accordance with CBR requirements exceeded the minimum level and as at 31 December 2018 and 31 December 2017 are as follows:

	2018	2017
Capital	1,583.7	1,069.4
Risk-weighted assets	13,961.1	9,413.1
Common equity adequacy ratio (N 1.1)	7.8%	10.1%
Core capital adequacy ratio (N 1.2)	8.9%	10.3%
Total capital adequacy ratio (N 1.0)	**11.3%**	**11.3%**

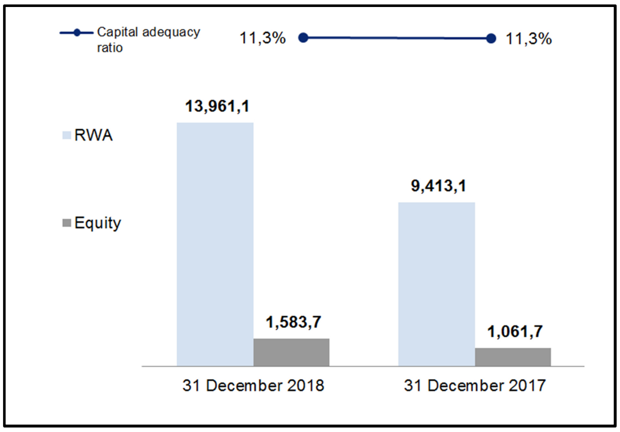
46. CAPITAL MANAGEMENT AND CAPITAL ADEQUACY (CONTINUED)

The Group's international risk based capital adequacy ratio is computed in accordance with the Basel Accord guidelines issued in 1988, with subsequent amendments including the amendment to incorporate market risks.

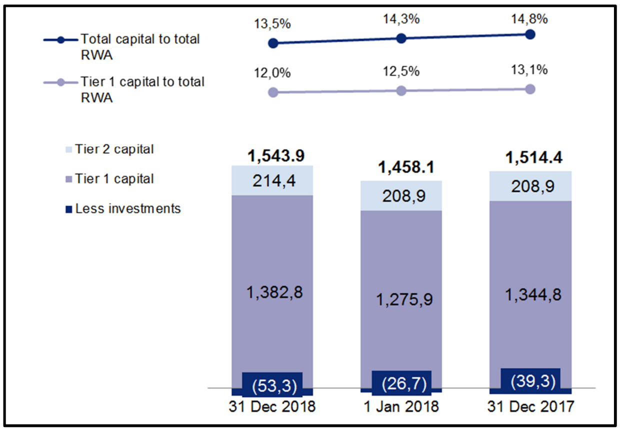
These ratios exceeded the minimum ratio of 8.0% recommended by the Basel Accord as disclosed below:

	2018	1 January 2018 (adjusted for IFRS 9 effect)	2017
Tier 1 capital			
Share capital	659.5	659.5	659.5
Share premium	433.8	433.8	433.8
Treasury shares	(0.8)	(2.5)	(2.5)
Perpetual loan participation notes excluding bought back	156.1	128.8	128.8
Retained earnings	197.0	126.6	200.4
Unrealised gain on investment financial assets measured at fair value through other comprehensive income, financial assets available-for-sale and cash flow hedge	(0.9)	14.5	6.5
Currency translation difference	58.7	20.7	20.7
Non-controlling interests	(5.0)	10.5	13.6
Deducted: goodwill	(115.6)	(116.0)	(116.0)
Total Tier 1 capital	**1,382.8**	**1,275.9**	**1,344.8**
Tier 2 capital			
Land and premises revaluation reserve	24.6	18.9	18.9
Subordinated debt	189.8	190.0	190.0
Total Tier 2 capital	**214.4**	**208.9**	**208.9**
Total capital before deductions	**1,597.2**	**1,484.8**	**1,553.7**
Deducted: equity investments in financial institutions and subordinated debt provided	(53.3)	(26.7)	(39.3)
Total capital after deductions	**1,543.9**	**1,458.1**	**1,514.4**
Risk-weighted assets			
Credit risk	10,941.8	9,648.2	9,755.4
Market risks	534.2	535.8	507.3
Total risk-weighted assets	**11,476.0**	**10,184.0**	**10,262.7**
Tier 1 capital ratio to total risk-weighted assets	**12.0%**	**12.5%**	**13.1%**
Total capital ratio to total risk-weighted assets	**13.5%**	**14.3%**	**14.8%**

Capital adequacy ratio in accordance with CBR requirements



Group equity, calculated in accordance with the Basel Accord



GROUP STRUCTURE

47. COMPOSITION OF THE GROUP

VTB bank is the direct or indirect holding company for the Group's subsidiaries. The principal subsidiaries included in these consolidated financial statements are presented in the table below:

Name	Activity	Country of registration	Percentage of ownership 2018	2017
Subsidiaries:				
"BM-Bank", JSC	Banking	Russia	100.00%	100.00%
"Vozrozhdenie Bank", PJSC (Note 48)	Banking	Russia	85.00%	n/a
"VTB Bank (Europe)" SE	Banking	Germany	99.39%	99.39%
"VTB Bank (Armenia)", CJSC	Banking	Armenia	100.00%	100.00%
"VTB Bank (Belarus)", CJSC	Banking	Belarus	100.00%	100.00%
"Bank VTB (Kazakhstan)", JSC	Banking	Kazakhstan	100.00%	100.00%
"VTB Bank (Georgia)", JSC	Banking	Georgia	97.38%	97.38%
"VTB Capital", Plc	Banking	Great Britain	95.40%	95.40%
"VTB Bank (Azerbaijan)", OJSC	Banking	Azerbaijan	100.00%	100.00%
"VTB-Capital", JSC	Finance	Russia	100.00%	100.00%
"Holding VTB Capital", CJSC	Finance	Russia	100.00%	100.00%
Non-state pension fund "VTB Pension Fund", JSC	Finance	Russia	100.00%	100.00%
"VTB Factoring", Ltd	Factoring	Russia	100.00%	100.00%
"VTB-Leasing", JSC	Leasing	Russia	100.00%	100.00%
"Hals-Development", OJSC	Real Estate	Russia	99.69%	98.11%
"Upravlyayuschaya kompaniya Dynamo", CJSC	Real Estate	Russia	75.00%	75.00%
"Insurance Company VTB-Insurance", Ltd (Note 48)	Insurance	Russia	n/a	100.00%
"Bank VTB 24", PJSC	Banking	Russia	n/a	99.97%
"Post Bank", PJSC (Note 48)	Banking	Russia	n/a	50% minus 1 share
"VTB Bank", PJSC (Ukraine) (Note 48)	Banking	Ukraine	n/a	100.00%

On 1 January 2018 the Group completed the merger of "Bank VTB 24", PJSC into VTB Bank (PJSC) under the unified VTB brand.

Further information about business combinations and disposal of subsidiaries for the year ended 31 December 2018 is presented in Note 48.

Restrictions to access or use the Group's assets

Statutory, contractual or regulatory requirements, corporate laws, as well as protective rights of non-controlling interests might restrict the ability of the Group to access and transfer assets freely to or from entities within the Group and to settle liabilities of the Group. At 31 December 2018 and 31 December 2017, the Group had no material non-controlling interests whose protective rights significantly restricted the Group's ability to access or use the assets and settle the liabilities of the Group (Note 50). Other types of restrictions included the following:

- The Group has pledged assets to collateralize its obligations under repurchase agreements, securities financing transactions, collateralized loan obligations and for margining purposes for over-the-counter derivative liabilities (Notes 23, 24, 25, 26, 44, 45, 58);
- The Group has financial assets, including loans and advances to customers and investment financial assets in the aggregate amount of RUR 316.5 billion (31 December 2017: RUR 380.2 billion), that cannot be disposed of without prior approval of the government authority. The amount includes RUR 242.3 billion worth of OFZ AD purchased in September 2011 by former "Bank of Moscow", OJSC (Note 25, 26) that cannot be sold more than RUR 2.0 billion a day without approval of the Ministry of Finance of the Russian Federation and the amount includes RUR 74.2 billion worth of OFZ that cannot be sold more than RUR 1.0 billion a day without approval of the Ministry of Finance of the Russian Federation (31 December 2017: RUR 273.4 billion of OFZ-AD and RUR 106.8 billion of OFZ).
- The assets of consolidated structured entities, such as securitizations, are held for the benefit of the parties that have bought the notes issued by these entities (Note 51).
- Assets held by pension funds subsidiaries are primarily held to satisfy the obligations to the subsidiaries' policy holders (Note 37).

Banking and insurance regulations, including solvency and liquidity requirements, may restrict the Group's ability to transfer assets to or from its regulated subsidiaries in certain jurisdictions, as well as the ability of such subsidiaries to transfer funds to the Group in the form of cash dividends or to repay intergroup loans and advances.

48. BUSINESS COMBINATIONS AND DISPOSAL OF SUBSIDIARIES

Business combinations

"Vozrozhdenie Bank", PJSC: In October 2018, the Group purchased 85.0% of ordinary shares and 9.6% of preference shares of "Vozrozhdenie Bank", PJSC. Fair value of consideration amounted to RUR 9.7 billion. The amounts of revenues and net profit of "Vozrozhdenie Bank", PJSC since the acquisition date included in the consolidated statement of comprehensive income of the Group are RUR 7.8 billion and RUR 0.5 billion, respectively. Revenues were calculated in accordance with methodology applied in analysis by segment disclosure.

The amounts of revenues of VTB Group for the year ended on 31 December 2018 as though the acquisition date for this business combination had been as of the 1 January 2018 would have increased by RUR 21.5 billion and the amount of net profit would have decreased by RUR 8.2 billion. The gross contractual amounts receivable from acquired loans and advances to customers as at the date of acquisition comprised RUR 188.4 billion of which the Group does not expect to collect the contractual cash flows of RUR 31.4 billion.

For the purpose of determining excess of fair value of acquired net assets over cost from the acquisition the fair values of identifiable assets and liabilities of "Vozrozhdenie Bank", PJSC based on results of both an independent external appraisal and management considerations, at the acquisition date were as follows:

	Fair value
Assets	
Cash and short-term funds	15.8
Mandatory reserve deposits with central banks	1.7
Trading financial assets	1.3
Due from other banks	9.0
Loans and advances to customers	157.0
Investment financial assets	28.7
Land, premises and equipment	4.9
Investment property	4.0
Intangible assets	0.3
Deferred tax asset	4.2
Other assets	1.3
Total assets	**228.2**
Liabilities	
Due to other banks	1.3
Customer deposits	205.9
Other borrowed funds	2.3
Debt securities issued	3.6
Other liabilities	4.4
Total liabilities before subordinated debt	**217.5**
Subordinated debt	3.0
Total liabilities	**220.5**
Fair value of identifiable net assets acquired	**7.7**
Total consideration:	**2.8**
- consideration transferred	*9.7*
- pre-existing relationship	*(6.9)*
Non-controlling interests (proportionate share of the acquiree's identifiable net assets)	2.2
Less: fair value of identifiable net assets acquired	(7.7)
Excess of fair value of acquired net assets over cost	**(2.7)**

In accordance with the Russian legislation in November 2018, the Group made the binding offer to repurchase the non-controlling interests of "Vozrozhdenie Bank", PJSC in the amount of RUR 1.7 billion. The Group made the relevant accrual in Other liabilities with corresponding entry in equity, as this transaction is defined as an equity transaction. The excess of fair value of acquired net assets over cost of RUR 2.7 billion was disclosed in a separate line item of the Consolidated Income Statement "Excess of fair value of acquired net assets over cost". As a result of this acquisition the Group expects to extend a branch network and activity in Moscow region.

48. BUSINESS COMBINATIONS AND DISPOSAL OF SUBSIDIARIES (CONTINUED)

Disposal of subsidiaries

“Post Bank”, PJSC: In September 2018, the Group and Russian Post signed the amended shareholder agreement with respect to “Post Bank”, PJSC which turned it into a joint venture. Loss of control over “Post Bank”, PJSC caused the simultaneous loss of control over “Multicarta”, LLC. As a result of loss of control over those subsidiaries the Group derecognized non-controlling interests in the amount of RUR 15.3 billion. The initial accounting for this acquisition is incomplete as at the date of these financial statements and the Group expects to complete its identification and measurement of the various components of the investment’s identified assets and liabilities as of the acquisition date by 31 December 2019.

The assets and liabilities disposed as of the date of disposal were as follows:

Assets	
Cash and short-term funds	20.9
Mandatory reserve deposits with central banks	1.9
Due from other banks	17.0
Loans and advances to customers	240.8
Land, premises and equipment	7.4
Intangible assets	1.7
Deferred tax asset	3.5
Other assets	4.2
Total assets	**297.4**
Liabilities	
Customer deposits	256.9
Other liabilities	6.9
Subordinated debt	3.7
Total liabilities	**267.5**
Non-controlling interest	15.3

VTB Insurance: In October 2018, the Group has closed the deal to sell 100.0% in its insurance unit, VTB Insurance, classified as disposal group held for sale at 30 September 2018, to SOGAZ Insurance Group. SK Sogaz and its subsidiaries operate in insurance business. The transaction includes all companies within VTB Insurance Group, including VTB Life Insurance and VTB Medical Insurance. The gain from disposal of subsidiary amounted to RUR 54.1 billion. VTB Insurance business is in the process of integration into SOGAZ Insurance Group.

As consideration for the sale of VTB Insurance the Group received a) 10% of ordinary shares of SK Sogaz with a provisional fair value of RUR 55.8 billion and b) RUR 14.6 billion which will be paid to the Group no later than 30 June 2019. Cash portion of the consideration can be decreased by up to RUR 3.6 billion depending on the results of appraisal of certain assets of SK Sogaz, which have not been included in the provisional valuation. As valuation of these assets has not been finalized, no adjustment to consideration receivable has been made in these financial statements. This adjustment is not expected to affect the value of total consideration received by the Group as upon completion of the valuation, the Group will accordingly adjust the provisional fair value of its investment in SK Sogaz.

Although the Group’s share in SK Sogaz is below 20%, the Group exercises significant influence over SK Sogaz due to its ability to appoint a member of the board of directors and participate in board decision making process. The initial accounting for this acquisition is incomplete as at the date of these financial statements and the Group expects to complete its identification and measurement of the various components of the investment’s identified assets and liabilities as of the acquisition date by 31 December 2019.

The assets and liabilities of the disposed company as of the date of disposal were as follows:

Assets	
Cash and short-term funds	1.2
Trading financial assets	15.9
Due from other banks	127.4
Investment financial assets	52.0
Land, premises and equipment	0.7
Investment property	1.3
Intangible assets	3.0
Deferred tax asset	0.2
Other assets	84.8
Total assets	**286.5**
Liabilities	
Deferred tax liability	8.4
Other liabilities	243.8
Total liabilities	**252.2**

48. BUSINESS COMBINATIONS AND DISPOSAL OF SUBSIDIARIES (CONTINUED)

VTB Bank, PJSC (Ukraine): In the current economic environment in Ukraine (Note 43), effective March 2017, the Group's Ukraine-based subsidiary banks VTB Bank, PJSC was subject to special targeted sanctions which prohibit capital transfers outside the territory of Ukraine for the benefit of any affiliated entities, including loans and deposits to and repayment of loans and deposits from affiliated entities, acquisition of securities, dividend and interest payments, profit distribution and return of capital.

In September 2018, as a part of the ongoing litigation between certain third parties and Russian Federation, Kiev appellation court arrested shares of VTB Bank, PJSC (Ukraine). The court also restricted liquidation or reorganization of the VTB Bank, PJSC (Ukraine), as well as sale of any assets. As a result of these restrictions, VTB Bank, PJSC (Ukraine) ability to conduct its day-to-day operations was significantly limited.

In November 2018, the National Bank of Ukraine declared VTB Bank, PJSC (Ukraine) insolvent. In December 2018, the National Bank of Ukraine revoked banking license of VTB Bank, PJSC (Ukraine). The events mentioned above caused loss of control over the bank for the Group.

The respective assets and liabilities above as of the date of derecognition were as follows:

Assets	
Cash and short-term funds	0.6
Loans and advances to customers	5.3
Land, premises and equipment	0.7
Investment property	6.0
Intangible assets	0.2
Other assets	0.3
Total assets	**13.1**
Liabilities	
Due to other banks	5.5
Customer deposits	8.6
Other liabilities	0.8
Total liabilities	**14.9**

Included in Due to other banks there are intercompany balances in the amount of RUR 5.2 billion, which were fully written off at the date of derecognition. The Group also derecognized net negative currency translation balances related to the operations of this bank and previously recorded in the Group's equity in the amount of RUR 16.6 billion. The loss from derecognition of subsidiary amounted to RUR 17.3 billion.

Other subsidiaries. During 2018, as part of the selling non-core assets strategy the Group disposed of a number of non-banking subsidiaries (excluding those disclosed in Note 29) with total net assets of RUR 2.1 billion for consideration of RUR 1.5 billion. The gain resulting of these transactions amounted to RUR 1.1 billion (due to realized currency translation difference).

49. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

	2018	2017
Investments designated as at fair value through profit or loss		
• Investments in joint ventures	53.5	53.5
• Investments in associates	17.2	13.2
Investments accounted under equity method		
• Investments in associates	188.9	46.6
• Investments in joint ventures	23.6	3.8
Total investments in associates and joint ventures	**283.2**	**117.1**

49. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES (CONTINUED)

The Group's interests in its principal associates and joint ventures designated as at fair value through profit or loss were as follows:

	Principal place of business / Country of registration	Activity	2018 Carrying amount	2018 Ownership percentage	2017 Carrying amount	2017 Ownership percentage
Investments in joint ventures						
T2 (Netherlands) B.V.	Russia/Netherlands	Telecom	53.5	50.00%	53.5	50.00%
Total investments in joint ventures designated as at fair value through profit or loss			**53.5**		**53.5**	
Investments in associates						
"Burger King Russia (Cyprus)", Ltd	Russia/Cyprus	Fast food	7.6	19.98%	5.6	19.98%
"Thalita Trading", Ltd	Russia/Cyprus	Transport	4.1	25.01%	3.1	25.01%
Lagartino Partners Inc.	Virgin Islands	Services	–	–	1.5	22.50%
Viva Telecom (Luxembourg) S.A	Bulgaria/Luxembourg	Telecom	4.8	19.99%	2.8	19.99%
Bashkirian concession company, LLC	Russia/Russia	Construction	0.4	49.90%	0.2	49.90%
Northern Capital Highway LLC	Russia/Russia	Construction	0.3	50.00%	–	50.00%
Total investments in associates designated as at fair value through profit or loss			**17.2**		**13.2**	

In November 2018 VTB Capital sold 22.5% investment in Lagartino Partners Inc., classified as investment in associate designated as at fair value through profit or loss, to a non-related party for the total consideration of RUR 1.7 billion with RUR 0.2 billion gain recognized.

Summarized financial information of material investments in associates and joint ventures designated as at fair value through profit or loss based on its consolidated IFRS financial statements is as follows:

T2 (Netherlands) B.V.	2018	2017
Current assets	10.3	9.9
• including cash and cash equivalents	0.4	1.2
Non-current assets	237.8	228.6
Current liabilities	64.8	59.0
• including interest-bearing loans and borrowings	34.0	33.8
Non-current liabilities	107.8	106.7
• including interest-bearing loans and borrowings	89.1	89.3
Net assets	75.5	72.8
Revenue	143.2	123.0
Cost of sales	(71.1)	(63.5)
Selling, general and administrative expenses	(28.4)	(29.5)
Depreciation and amortisation charge	(27.1)	(23.2)
Other operating income	0.8	1.0
Other operating expense	(1.0)	(0.6)
Interest income	0.2	0.1
Interest expense	(13.1)	(14.6)
Income tax benefit	(1.0)	1.7
Net profit/(loss) from continuing operations	2.7	(5.6)

"Burger King Russia (Cyprus)", Ltd	2018	2017
Current assets	4.6	2.3
• including cash and cash equivalents	0.7	0.5
Non-current assets	13.4	11.4
Current liabilities	7.8	3.0
• including interest-bearing loans and borrowings	3.5	1.4
Non-current liabilities	8.5	5.3
• including interest-bearing loans and borrowings	8.2	5.3
Net assets	1.7	5.4
Revenue	38.8	29.1
Cost of sales	(33.1)	(25.0)
Selling, general and administrative expenses	(1.2)	(1.2)
Depreciation and amortisation charge	(2.5)	(1.6)
Other operating income	0.1	0.6
Other operating expense	(0.2)	(0.2)
Interest expense	(0.7)	(0.7)
Income tax expense	(0.4)	(0.1)
Net profit from continuing operations	0.8	0.9

49. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES (CONTINUED)

The Group's interests in its principal associates and joint ventures accounted under equity method were as follows:

	Principal place of business / Country of registration	Activity	2018 Carrying amount	2018 Ownership percentage	2017 Carrying amount	2017 Ownership percentage
Investments in associates						
Magnit, PJSC	Russia	Retail trade	88.6	17.28%	n/a	n/a
"Moscovsky Metrostroy", JSC	Russia	Construction	13.1	49.00%	25.6	49.00%
RCB Bank Ltd.	Cyprus	Banking	20.5	46.29%	15.6	46.29%
Sogaz, JSC	Russia	Insurance	56.4	10.00%	n/a	n/a
"Novorossiysk Grain Plant", PJSC	Russia	Transhipment and resale of grain	4.9	29.90%	n/a	n/a
"Eurofinance Mosnarbank", OJSC	Russia	Banking	2.8	25.00%	2.9	25.00%
"Russ Out of Home", BV	Russia / Netherlands	Mass media	1.9	26.43%	2.0	26.43%
"Group Technoserv", LLC	Russia	Information technologies	-	40.00%	n/a	n/a
"United Electronic Market Place", OJSC	Russia	Information technologies	0.6	48.18%	0.5	48.18%
Branch Centre for Elaboration and Maintenance of Information Systems Ltd	Russia	Information technologies	0.1	25.00%	n/a	n/a
Total investments in associates accounted under equity method			**188.9**		**46.6**	
Investments in joint ventures						
"Post Bank", PJSC	Russia	Banking	17.4	50.00% minus 1 share	n/a	n/a
"Vietnam-Russia Joint Venture Bank"	Vietnam	Banking	4.4	50.00%	3.7	50.00%
National Logistics Technologies, JSC	Russia	Other services	1.1	49.99%	n/a	n/a
"Gelendzhik Airport", LLC	Russia	Transport	0.6	49.50%	n/a	n/a
"VTB Capital I2BF JVC (Cayman)", Ltd	Russia and Kazakhstan / Cayman Islands	Finance	0.1	50.00%	0.1	50.00%
Total investments in joint ventures accounted under equity method			**23.6**		**3.8**	

In February 2018, the Group acquired 29.10% of ordinary shares of "Magnit", PJSC for 138.2 billion RUR. In April 2018, the Group sold 11.82% of shares in "Magnit", PJSC to a non-related party. Although the Group's share in "Magnit", PJSC has decreased below 20%, the Group has retained significant influence over "Magnit", PJSC due to its ability to appoint members of the board of directors. "Magnit", PJSC and its subsidiaries operate in the retail and distribution of consumer goods, retail operations are performed through convenience stores, cosmetic stores, hypermarkets and other.

In June 2018, the Group acquired 40.0% ownership interest in "Group Technoserv", LLC. Technoserv Group is a Russian system integrator focusing on system integration, cloud services, information security, network technologies and multimedia solutions. The Group exercises significant influence over the investee and accounts for it as an investment in associate under the equity method.

In August 2018, as a result of loan settlement, the Group acquired a 29.9% ownership interest in "Novorossiysk Grain Plant", PJSC. Novorossiysk Grain Plant is a deep-sea terminal located on the Black Sea coast in Krasnodar region engaged in grain transhipment, resale of grain and other trading activities. The Group exercises significant influence over the investee and accounts for it as an investment in associate under the equity method.

In April 2018, the Group completed the acquisition of a share in "Gelendzhik Airport" LLC, as a result of which the Bank became the owner of 49.5% of the company's shares.

At 31 December 2018 the Group accounted for the investment in "Post Bank", PJSC as the investment into a joint venture accounted under the equity method (Note 48).

As at 31 December 2018 the Group identified signs of impairment for the investment in "Moscovsky Metrostroy", JSC. The Group recognised impairment loss in the amount of RUR 11.8 billion in the accompanying consolidated income statement. The recoverable value of the investment was determined based on DCF model provided by independent appraisal company.

In September 2018, under the joint control of the VTB Group and Russian Post the company National Logistics Technologies, JSC was established. In December 2018, the VTB Group made an investment in the company's capital equivalent to a 49.99% share in the amount of RUB 1.1 billion.

49. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES (CONTINUED)

Summarized financial information of material investments in associates and joint ventures accounted under equity method based on its consolidated IFRS financial statements is as follows:

Magnit, PJSC	2018
Current assets	228.1
• including cash and cash equivalents	26.7
Non-current assets	146.1
Current liabilities	234.9
• including interest-bearing loans and borrowings	
Non-current liabilities	156.8
• including interest-bearing loans and borrowings	93,8
Net assets	(17.7)
Revenue	948.5
Income tax benefit	(6.1)
Net loss from continuing operations	21.8
Share of the Group in change of net assets	4.9
Carrying value of investment in associate	88.6

"Post Bank", PJSC	2018
Total assets	360.0
Including:	
• cash and short-term funds	29.2
• due from other banks	47.1
• loans and advances to customers	264.0
Total liabilities	329.5
Including:	
• due to other banks	-
• customer deposits	315.3
Net assets	30.6
Interest income	14.4
Net interest income and net fee income	11.5
Depreciation and amortisation	(0.4)
Net profit from continuing operations	1.0
Other comprehensive income	-
Total comprehensive income	1.0
Dividends paid	-
Share of the Group in change of net assets	0.5
Carrying value of investment in associate and joint venture	17.4
Dividends received	-

"Moscovsky Metrostroy", JSC	2018	2017
Current assets	26.2	30.3
• including cash and cash equivalents	2.8	1.3
Non-current assets	13.5	15.6
Current liabilities	42.0	49.4
• including interest-bearing loans and borrowings	12.8	12.8
Non-current liabilities	3.9	1.5
• including interest-bearing loans and borrowings	–	–
Net assets	(6.3)	(5.0)
Revenue	33.3	24.3
Cost of sales	(9.3)	(23.6)
Selling, general and administrative expenses	(2.7)	(2.0)
Other operating income	0.1	2.9
Other operating expense	(4.3)	(3.3)
Interest expense	(0.7)	(1.3)
Income tax loss	(0.6)	0.5
Net loss from continuing operations	(2.0)	(2.5)
Share of the Group in change of net assets	(0.7)	(1.2)
Carrying value of investment in associate	13.1	25.6

49. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES (CONTINUED)

	2018		2017	
	RCB Bank Ltd.	"Eurofinance Mosnarbank", OJSC	RCB Bank Ltd.	"Eurofinance Mosnarbank", OJSC
Total assets	485.9	67.3	634.0	50.0
Including:				
• cash and short-term funds	80.4	7.6	137.6	6.3
• due from other banks	–	25.2	0.6	20.7
• loans and advances to customers	388.7	5.9	475.6	4.4
Total liabilities	441.7	56.0	600.4	38.5
Including:				
• due to other banks	252.7	31.0	368.6	16.3
• customer deposits	169.8	24.2	207.9	19.5
Net assets	44.2	11.4	33.6	11.5
Net interest income and net fee income	11.1	1.3	14.4	1.8
Net profit from continuing operations	4.9	0.5	5.8	(1.6)
Other comprehensive income	7.0	(0.6)	(1.7)	1.5
Total comprehensive income	11.9	(0.1)	4.1	(0.1)
Dividends paid	0.6	0.1	2.4	0.1
Share of the Group in change of net assets	5.5	-	1.9	-
Carrying value of investment in associate and joint venture	20.5	2.8	15.6	2.9

Summarized financial information of material investments in joint ventures accounted under equity method as at 31 December 2018 and 31 December 2017 is follows:

	2018	2017
	"Vietnam-Russia Joint Venture Bank"	"Vietnam-Russia Joint Venture Bank"
Total assets	52.4	46.3
Including:		
• cash and short-term funds	4.1	3.3
• due from other banks	8.0	9.7
• loans and advances to customers	28.9	21.9
Total liabilities	43.6	39.0
Including:		
• due to other banks	18.4	16.8
• customer deposits	25.0	22.0
Net assets	8.8	7.4
Interest income	2.6	2.1
Net interest income and net fee income	0.6	0.7
Depreciation and amortisation	(0.1)	(0.1)
Net profit from continuing operations	0.5	0.1
Other comprehensive income	1.1	(0.3)
Total comprehensive income	1.5	(0.2)
Share of the Group in change of net assets	0.7	(0.1)
Carrying value of investment in associate and joint venture	4.4	3.7

The unrecognised share of losses of associates for 2018 and cumulatively at 31 December 2018 was RUR nil and RUR 0.4 billion, respectively (2017 and cumulatively at 31 December 2017: RUR 0.5 billion and RUR 2.4 billion, respectively).

As at 31 December 2018, investment in associate in the amount of RUR 4.1 billion was pledged against the funds obtained by the subsidiary of that associate (31 December 2017: RUR 3.1 billion).

50. NON-CONTROLLING INTERESTS

The following table provides information about subsidiaries that has material to the Group non-controlling interest (the proportion of voting rights held by non-controlling interests is equal to the proportion of ownership interests held) as at 31 December 2018:

Name	Activity	Country of registration	Proportion of non-controlling interest	Accumulated non-controlling interest in the subsidiary	Profit/(loss) attributable to non-controlling interest	Dividends paid to non-controlling interest for the year
"Vozrozhdenie Bank", PJSC	Banking	Russia	15.00%	2.3	0.1	–
Banco VTB Africa S.A.	Banking	Angola	49.90%	1.8	0.9	(0.2)
CiTer Invest B.V.	Real Estate	Netherlands	49.50%	0.8	0.1	(3.3)
"Upravlyayuschaya kompaniya Dynamo", CJSC	Real Estate	Russia	25.00%	(11.6)	(3.6)	–

The Group has defined as material a non-controlling interest in subsidiaries in which it has less than 75% of the voting rights. Some subsidiaries, which net assets form the significant part of the Group's net assets, may also be included in the list even if the Group has more than 75% of voting rights.

The summarized financial information of these subsidiaries was as follows at 31 December 2018:

Name	Current assets	Non-current assets	Current liabilities	Non-current liabilities	Revenue	Net profit/ (loss)	Total compre-hensive income	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financial activities
"Vozrozhdenie Bank", PJSC	106.6	138.3	187.2	42.7	7.8	0.5	0.4	(1.7)	20.4	(1.0)
Banco VTB Africa S.A.	20.5	0.2	13.0	4.0	3.5	1.8	0.3	4.4	–	(0.4)
CiTer Invest B.V.	2.5	0.3	1.3	–	1.8	0.2	0.2	(10.7)	–	(4.9)
"Upravlyayuschaya kompaniya Dynamo", CJSC	40.0	51.0	23.4	113.9	4.9	(14.4)	(14.4)	19.0	(19.4)	–

In September 2018, resulting of loss of control over "Post Bank", PJSC and over "Multicarta", LLC the Group derecognized non-controlling interests in the amount of RUR 15.3 billion (Note 47).

The following table provides information about subsidiaries that has material to the Group non-controlling interest (the proportion of voting rights held by non-controlling interests is equal to the proportion of ownership interests held) as at 31 December 2017:

Name	Activity	Country of registration	Proportion of non-controlling interest	Accumulated non-controlling interest in the subsidiary	Impact of adopting IFRS 9 at 1 January 2018 (Note 3)	Profit/(loss) attributable to non-controlling interest	Dividends paid to non-controlling interest for the year
"Post Bank", PJSC	Banking	Russia	50% plus 1 share	13.7	(3.1)	0.7	–
Banco VTB Africa S.A.	Banking	Angola	49.90%	1.9	–	1.2	(0.8)
CiTer Invest B.V.	Real Estate	Netherlands	49.50%	4.0	–	2.5	–
"Upravlyayuschaya kompaniya Dynamo", CJSC	Real Estate	Russia	25.00%	(8.0)	–	(3.8)	–
"Hals-Development", OJSC	Real Estate	Russia	1.89%	(0.7)	–	–	–

The summarized financial information of these subsidiaries was as follows at 31 December 2017:

Name	Current assets	Non-current assets	Current liabilities	Non-current liabilities	Revenue	Net profit/ (loss)	Total compre-hensive income	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financial activities
"Post Bank", PJSC	80.6	166.9	172.6	47.5	34.1	1.5	1.5	(3.4)	–	6.7
Banco VTB Africa S.A.	18.2	0.3	10.8	3.9	2.6	2.3	2.0	7.5	–	–
CiTer Invest B.V.	21.2	1.9	15.1	–	15.4	5.0	5.0	(3.7)	19.3	(6.3)
"Upravlyayuschaya kompaniya Dynamo", CJSC	4.5	74.3	3.3	107.4	(6.7)	(15.3)	(15.3)	12.4	(13.6)	–
"Hals-Development", OJSC	34.2	66.5	58.2	77.1	(4.0)	4.7	4.7	(0.8)	30.2	(25.2)

50. NON-CONTROLLING INTERESTS (CONTINUED)

The impact of adopting IFRS 9 and IFRS 15 on summarized financial information of these subsidiaries was as follows at 1 January 2018 (Note 3):

Name	Current assets	Non-current assets	Current liabilities	Non-current liabilities
“Post Bank”, PJSC	(7.8)	1.6	–	–
“Upravlyayuschaya kompaniya Dynamo”, CJSC	–	2.8	–	2.8
“Hals-Development”, OJSC	–	(0.2)	–	(0.3)

51. INTERESTS IN STRUCTURED ENTITIES

The Group issues eurobonds and subordinated eurobonds through a number of consolidated structured entities incorporated in OECD countries.

As at 31 December 2018 interests in structured entities include:

Name	Country of registration
VTB Capital S.A	Luxembourg

As at 31 December 2018 the Group guarantees all external obligations of these entities represented by the eurobonds issued in the amount of RUR 59.6 billion and by the subordinated eurobonds issued in the amount of RUR 110.3 billion (31 December 2017: eurobonds issued in the amount of RUR 161.1 billion and subordinated Eurobonds issued in the amount of RUR 91.5 billion).

The Group also guarantees payments of the amounts under Perpetual Loan Participation Notes when due. (Note 39).

The Group issues mortgage-backed securities and purchases right of claims under mortgage through a consolidated structured entity performing its activity as mortgage agent.

During 2018 and 2017 the Group did not provide any other financial support to the consolidated structured entities. The Group has no current obligation or intention to provide financial or other support to consolidated structured entities, or to assist the structured entities in obtaining financial support.

OFF BALANCE-SHEET ITEMS

52. CONTINGENCIES AND COMMITMENTS

LEGAL PROCEEDINGS

From time to time and in the normal course of business, claims against the Group are received. As at the reporting date the Group had several unresolved legal claims. Management assessed probable outflow of resources and the respective provision has been made as at 31 December 2018 and 31 December 2017.

The movements in provisions for legal claims recorded in liabilities were as follows:

2016	**0.5**
Reversal of provision during the period	(0.5)
Effect of translation	0.1
2017	**0.1**
Provision during the period	0.8
Acquisition of subsidiaries	0.7
Write-offs	(0.4)
Effect of translation	(0.1)
2018	**1.1**

As at 31 December 2018, the Group was involved in several legal cases related to its borrowers which are currently undergoing bankruptcy procedures. In these cases, the bankruptcy trustees' claims against the Group aggregate RUR 4.2 billion (31 December 2017: RUR 3.9 billion). The Group intends to defend itself vigorously. Management views the risk of loss from these legal cases as possible but not probable, therefore, no provision for these legal claims is made in these consolidated financial statements

TAX CONTINGENCIES

Major part of the Group's business activity is carried out in the Russian Federation. Russian tax, currency and customs legislation as currently in effect is vaguely drafted and is subject to varying interpretations, selective and inconsistent application and changes, which can occur frequently, at short notice and may apply retrospectively. Management's interpretation of such legislation as applied to the transactions and activities of the Group may be challenged by the relevant state authorities.

The Russian transfer pricing legislation as currently in effect allows the Russian tax authorities to apply transfer pricing adjustments and impose additional profits tax and VAT liabilities in respect of all "controlled" transactions if the transaction price differs from the market level of prices unless the Group is able to demonstrate the use of market prices with respect to the "controlled" transactions supported by the appropriate transfer pricing documentation and proper reporting to the Russian tax authorities. For the years ended 31 December 2018 and 31 December 2017 the Group determined its tax liabilities arising from controlled transactions using actual transaction prices.

Apart from the Russian Federation, the Group also operates in a number of foreign jurisdictions. The Group includes companies incorporated outside of Russia that are taxed pursuant to the provisions of the tax legislation of the jurisdictions of tax residence of the respective companies. Tax liabilities of the foreign companies of the Group are determined on the basis that non-Russian companies of the Group do not qualify as Russian tax residents, do not have a permanent establishment in Russia and hence are not subject to Russian profits tax except for Russian tax withheld at source (i.e. dividend, interest, certain capital gains, etc.).

Effective 1 January 2015 the concepts of "tax residency" for foreign legal entities, "beneficial owner of income" and rules for taxation of undistributed profit of controlled foreign companies in Russia were introduced into the Russian tax legislation.

The practice for application of these concepts is currently being developed, and the respective provisions of the Russian Tax Code undergo frequent revisions and are subject to varying interpretations by the tax authorities. So far, since 2015, there has been a number of relevant changes and additions to the Russian Tax Code, including those that have been applied retrospectively.

The introduction and frequent revision of these concepts generally leads to an increase in the administrative (including tax) burden for the Russian entities that have subsidiary and affiliated structures incorporated outside of Russia.

Russian tax laws related to the rules for taxation of foreign companies are quite unclear. It is possible that with the evolution of these rules and changes in the approach of the Russian tax authorities and courts as to their interpretation and application, the non-taxable status of some or all of the foreign companies of the Group in Russia may be challenged, in which case the foreign companies may be taxed according to the rules similar to the rules applicable to the Russian entities.

The recent trends in law enforcement practice in taxation indicate that the tax authorities and courts are taking assertive positions in their interpretation of the tax legislation and, as a result, it is possible that transactions and activities that have not been challenged in the past may be challenged in the future. As such, taxpayers may be subject to significant additional taxes, fines and late payment interest.

Fiscal periods remain open and subject to review by the Russian tax authorities for a period of three calendar years immediately preceding the year in which the decision to conduct a tax review is taken. Under certain circumstances tax reviews may cover longer periods.

As at 31 December 2018 and 31 December 2017, management believes that its interpretation of the relevant legislation is appropriate and that the Group's tax, currency and customs positions should be sustained vis-a-vis tax authorities and courts.

52. CONTINGENCIES AND COMMITMENTS (CONTINUED)

CREDIT RELATED COMMITMENTS

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees, including performance guarantees, represent irrevocable assurances that the Group will make payments in the event that a customer cannot meet its obligations to third parties. Documentary and commercial letters of credit (L/Cs), which are written undertakings by the Group on behalf of a customer authorizing a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions, are collateralized by cash deposits and therefore carry less risk than direct borrowings.

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

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.

The total outstanding contractual amount of irrevocable undrawn credit lines, letters of credit and guarantees does not necessarily represent future cash requirements, as these financial instruments may expire or terminate without being funded.

Outstanding credit related commitments are as follows:

	2018	2017
Financial guarantees issued	71.5	416.6
Import letters of credit	46.2	46.6
Undrawn credit lines (irrevocable)	32.2	21.5
Commitments to extend credit (irrevocable)	2.7	3.7
Less: provision for credit related commitments	(2.0)	(4.1)
Total credit related commitments	**150.6**	**484.3**

According to the requirements of IFRS 9 the Group calculates ECL for all types of undrawn credit lines and commitments to extend credit – revocable and irrevocable (Note 44).

As at 31 December 2018 revocable commitments to extend credit and revocable undrawn credit lines amounted to RUR 2,423.7 and 480.2 billion with the loss allowance of RUR 9.5 and 3.5 billion respectively. The loss allowance is disclosed within provision for credit related commitments.

The Bank has received export letters of credit for further advising to its customers. The total amount of received letters of credit as at 31 December 2018 is RUR 160.6 billion (31 December 2017: RUR 165.0 billion).

Commitments under import letters of credit and guarantees are collateralized by customer deposits of RUR 39.7 billion (31 December 2017: RUR 386.5 billion) (Note 33).

As at 31 December 2018, the 10 largest groups of interrelated customers accounted for RUR 270.3 billion or 39.2 % of the guarantees issued (31 December 2017: RUR 579.3 billion or 58.8% of the guarantees issued).

52. CONTINGENCIES AND COMMITMENTS (CONTINUED)

The movements in loss allowance for loan commitments, financial guarantees and letters of credit were as follows (comparative amounts for 2017 reflect measurement basis under IAS 37):

	2018				2017
	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Total	Total
Financial guarantees					
Balance at 1 January	**0.2**	–	**2.6**	**2.8**	**3.8**
Transfer to 12-month ECL	0.2	(0.1)	(0.1)	**–**	**n/a**
Transfer to lifetime ECL not credit-impaired	–	–	–	**–**	**n/a**
Net remeasurement of loss allowance	–	0.2	(0.3)	**(0.1)**	**–**
Write-offs	–	–	(1.5)	**(1.5)**	**–**
Foreign exchange	(0.1)	0.1	0.1	**0.1**	**–**
Balance at 31 December	**0.3**	**0.2**	**0.8**	**1.3**	**3.8**
Loan commitments and letters of credit					
Balance at 1 January	**3.0**	**2.2**	**0.2**	**5.4**	**0.8**
Transfer to 12-month ECL	1.3	(1.2)	(0.1)	**–**	**n/a**
Transfer to lifetime ECL not credit-impaired	(0.8)	0.8	–	**–**	**n/a**
Transfer to lifetime ECL credit-impaired	(0.2)	–	0.2	**–**	**n/a**
Net remeasurement of loss allowance	0.6	7.5	(0.3)	**7.8**	**(0.5)**
Acquisition of subsidiary	0.3	–	–	**0.3**	**–**
Recoveries of amounts previously written off	0.1	–	–	**0.1**	**–**
Foreign exchange	0.2	–	0.3	**0.1**	**–**
Balance at 31 December	**4.1**	**9.3**	**0.3**	**13.7**	**0.3**

ECL for credit-related commitments and financial guarantees are recorded within other financial liabilities.

PERFORMANCE GUARANTEES

Performance guarantees are contracts that provide compensation if another party fails to perform a contractual obligation. Performance guarantees are initially recognised at their fair value, which is normally evidenced by the amount of fees received. This amount is amortised on a straight line basis over the life of the contract.

Performance guarantees do not transfer credit risk. The risk under performance guarantee contracts is the possibility that the failure to perform the contractual obligation by another party occurs.

As at 31 December the Group has provided performance guarantees in the gross amount of RUR 618.5 billion (31 December 2017: RUR 568.7 billion).

The movements in provision for performance guarantees were as follows:

	2018	2017
Balance at 1 January	**16.7**	**14.7**
Net remeasurement of loss allowance	(2.6)	2.8
Write-offs	(5.2)	(2.8)
Acquisition of subsidiary	1.3	–
Foreign exchange	0.1	0.1
Balance at 31 December	**10.3**	**14.8**

Provisions for performance guarantees are recorded within other non-financial liabilities.

As at 31 December 2018, the Group was involved in a number of legal cases with claims in the total amount of RUR 3.3 billion (31 December 2017: RUR 16.0 billion) related to issued performance guarantees. The Group contests the validity or amount of the claims made by the beneficiaries and has created the provision in the amount of RUR 2.6 billion (31 December 2017: RUR 10.9 billion), which is the Group's best estimate of the loss under these guarantees.

52. CONTINGENCIES AND COMMITMENTS (CONTINUED)

COMMITMENTS UNDER OPERATING LEASES

The Group's commitments under operating leases mainly of premises comprised the following:

	2018	2017
Remaining contractual maturity		
Within 1 year	9.7	10.8
From 1 to 5 years	34.5	31.0
More than 5 years	16.0	19.9
Total operating lease commitments	**60.2**	**61.7**

COMMITMENTS UNDER CONSTRUCTION CONTRACTS

The Group has entered into agreements with third parties for construction of investment property objects or properties intended for sale which will require capital outlays subsequent to 31 December 2018.

The Group's future minimum capital expenditures and respective expected periods of expenditures related to investment property or property intended for sale in the ordinary course of business under construction in progress or development:

	2018			2017		
	Premises and Equipment in operating lease	Investment property	Property intended for sale in the ordinary course of business	Premises and Equipment in operating lease	Investment property	Property intended for sale in the ordinary course of business
Expected period of expenditure						
Within 1 year	–	3.7	18.6	31.7	7.5	34.2
From 1 to 5 years	–	13.3	10.2	–	2.3	12.9
More than 5 years	–	–	–	–	–	0.1
Total future minimum capital expenditures	**–**	**17.0**	**28.8**	**31.7**	**9.8**	**47.2**

PURCHASE COMMITMENTS

As at 31 December 2018 the Group had RUR 116.8 billion of outstanding commitments for the purchase of precious metals (31 December 2017: RUR 63.3 billion). As the price of these contracts is linked to the fair value of precious metals at the date of delivery, no gain or loss is recognised on these contracts.

53. SUBSEQUENT EVENTS

"Sarovbusinessbank", PJSC: In January 2019 the Group purchased 81.1% of the ordinary shares of "Sarovbusinessbank", PJSC. The share capital acquired will be redefined as a result of the mandatory share purchase offer to the minority shareholders. The initial accounting for this acquisition is incomplete as at the date of these financial statements and the Group expects to complete its identification and measurement of the various components of the business combination as of the acquisition date by 31 December 2019.

"Zapsibcombank", PJSC: In January 2019 the Group purchased 71.8% of ordinary shares of the "Zapsibcombank PJSC, 20.0% of preference shares with the stated dividends of 30% per annum and 18.8% of preference shares with the stated dividends of 100% per annum. The share capital acquired will be redefined as a result of the mandatory share purchase offer to the minority shareholders. The initial accounting for this acquisition is incomplete as at the date of these financial statements and the Group expects to complete its identification and measurement of the various components of the business combination as of the acquisition date by 31 December 2019.

In January 2019, VTB Bank obtained legal title to 83 512 622 EN+ Group plc shares, which will ultimately be used to settle loan and other financial obligations of certain borrowers to the Group, and has transferred voting rights in respect of these shares to an independent third party.

In February 2019, as a result of loan settlement the Group acquired a 50.0% -1 share ownership interest in JSC "United Grain Company" with estimated fair value of RUR 9.7 billion. The Group exercises significant influence over the investee and accounts for it as an investment in associate under the equity method. JSC "United Grain Company" is an agri-food company with the state participatory interest that focuses on the development and operation of the grain market infrastructure facilities, sales of the Russian grain in the global market, trade and purchase activities in the domestic grain market.

In February 2019, the Group acquired 80% of the JSNPF "Magnit".

OTHER INFORMATION

54. RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions as defined by IAS 24, *Related Party Disclosures*. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form. A government-related entity is an entity that is controlled, jointly controlled or significantly influenced by a government.

Transactions and balances with related parties comprise transactions and balances with Russian government-related entities and associates and joint ventures and are stated in the tables below (summarized financial information of material investments in associates and joint ventures is provided in Note 49):

Statement of financial position

	2018			2017		
	Government-related entities	Associates	Joint ventures	Government-related entities	Associates	Joint ventures
Assets						
Cash and short-term funds	355.8	0.1	–	219.3	2.5	–
Mandatory cash balances with central banks	102.8	–	–	90.1	–	–
Trading financial assets	199.7	–	–	168.6	–	–
Derivative financial assets	87.2	–	–	67.5	0.6	–
Due from other banks	318.0	258.6	7.6	308.2	355.5	–
Less impairment loss allowance	(0.2)	(0.1)	–	(18.3)	–	–
Loans and advances to customers	2,137.4	170.6	90.6	1,869.9	166.8	84.7
Less impairment loss allowance	(20.0)	(7.7)	(0.3)	(13.9)	(6.2)	(0.8)
Investment financial assets	240.5	–	–	220.6	–	–
Other assets	16.5	0.2	0.4	19.2	0.2	–
Liabilities						
Due to other banks	826.0	255.1	22.4	257.1	350.1	0.1
Customer deposits	3,045.4	106.9	11.5	2,903.1	51.5	–
Derivatives financial liabilities	22.0	–	0.1	22.2	–	–
Other borrowed funds	156.2	–	–	165.3	0.1	–
Liabilities of disposal group held for sale	–	–	–	1.3	–	–
Subordinated debt	101.2	–	–	101.7	–	–
Other liabilities	12.3	0.9	0.1	31.2	0.5	–
Credit related commitments						
Financial guarantees issued	11.9	0.7	2.7	23.1	0.8	0.9
Performance guarantees issued	307.9	14.3	0.3	257.4	18.1	–
Import letters of credit	3.6	–	0.7	3.5	–	0.7
Undrawn credit lines (irrevocable)	–	–	–	–	0.7	–
Commitments to extend credit	1.2	–	–	1.8	–	–

54. RELATED PARTY TRANSACTIONS (CONTINUED)

Income statement

	2018			2017		
	Government-related entities	Associates	Joint ventures	Government-related entities	Associates	Joint ventures
Interest income calculated using the effective interest method						
Financial assets measured at amortised cost						
Loans and advances to customers	125.2	14.9	7.6	204.2	15.0	8.6
Due from other banks	22.2	5.9	–	25.8	4.9	–
Other financial assets, including securities	18.0	–	–	17.8	–	–
Other interest income						
Financial assets at fair value through profit or loss	12.8	–	–	7.9	–	–
Net investments in finance lease	3.9	–	–	3.1	–	–
Interest expense						
Due to other banks and other borrowed funds	(48.4)	(15.1)	(1.7)	(57.3)	(21.2)	–
Customer deposits	(155.4)	(1.8)	–	(175.6)	(1.8)	–
Subordinated debt	(5.1)	–	–	(8.3)	–	–
Provision for credit losses						
(Provision charge) / reversal of provision for credit losses on debt financial assets	0.2	0.2	–	(18.8)	(0.4)	–
(Provision charge) / reversal of provision for credit losses on credit related commitments	–	(0.5)	–	(1.0)	0.3	–

The key management personnel includes certain senior members (executive body) of the Group Management Committee, Heads of Global Business Lines, all members of the Management Board of VTB Bank, as well as all members of the Supervisory Council of VTB Bank and their aggregate remuneration for the year ended 31 December 2018 amounted to RUR 3.7 billion (for year ended 31 December 2017: RUR 3.8 billion). Compensation of key management personnel consists primarily of short-term employee benefits, including pension contributions.

Under the Group's updated policy of key management personnel remuneration, starting from 2017 the Management Board of VTB Bank receives 60% of the annual bonus in cash, and 40% is deferred for the period of 3 years. The deferred amount is paid in three equal instalments in one, two and three years after the grant date, subject to the certain non-vesting conditions. Half of the deferred amount is paid in cash and another half is paid under a cash-settled share based payment plan (Note 56). The share-based payment expense for 2018 was RUR 0.4 billion (2017: RUR 0.3 billion). As at 31 December 2018 the liability arising from cash-settled share-based payment transaction totalled RUR 0.6 billion (31 December 2017: RUR 0.3 billion) and was recognized in Other liabilities (Note 37).

55. OFFSETTING OF FINANCIAL INSTRUMENTS

The tables below show financial assets offset against financial liabilities and financial liabilities offset against financial assets in the statement of financial position, as well as the effect of enforceable master netting agreements and similar arrangements that does not result in an offset in the statement of financial position as at 31 December 2018:

Assets (gross before allowance for impairment)	Gross amount of recognised financial assets	Gross amount of recognised financial liabilities set off in the statement of financial position	Net amount of financial assets presented in the statement of financial position	Related amounts not set off in the statement of financial position		Net amount
				Financial instruments	Cash collateral received	
Reverse sale and repurchase agreements to maturity (Investment financial assets)	7.0	–	7.0	(7.0)	–	–
Investment financial assets, pledged under repurchase agreements	13.1	–	13.1	–	(2.2)	**10.9**
Derivative financial assets	202.5	–	202.5	(27.3)	–	**175.2**
Reverse sale and repurchase agreements with other banks	74.4	–	74.4	(55.0)	–	**19.4**
Reverse sale and repurchase agreements with legal entities and individuals	431.0	–	431.0	(126.4)	(0.6)	**304.0**
Total	**728.0**	**–**	**728.0**	**(215.7)**	**(2.8)**	**509.5**

Liabilities	Gross amount of recognised financial liabilities	Gross amount of recognised financial assets set off in the statement of financial position	Net amount of financial liabilities presented in the statement of financial position	Related amounts not set off in the statement of financial position		Net amount
				Financial instruments	Cash collateral pledged	
Sale and repurchase agreements with central banks	1.4	–	1.4	–	(1.4)	–
Sale and repurchase agreements with other banks (due to other banks)	315.6	–	315.6	(21.3)	(0.6)	**293.7**
Sale and repurchase agreements with customers (customer deposits)	37.4	–	37.4	(4.7)	(0.2)	**32.5**
Derivative financial liabilities	140.2	–	140.2	(27.3)	–	**112.9**
Total	**494.6**	**–**	**494.6**	**(53.3)**	**(2.2)**	**439.1**

55. OFFSETTING OF FINANCIAL INSTRUMENTS (CONTINUED)

The tables below show financial assets offset against financial liabilities and financial liabilities offset against financial assets in the statement of financial position, as well as the effect of enforceable master netting agreements and similar arrangements that does not result in an offset in the statement of financial position as at 31 December 2017:

Assets (gross before allowance for impairment)	Gross amount of recognised financial assets	Gross amount of recognised financial liabilities set off in the statement of financial position	Net amount of financial assets presented in the statement of financial position	Related amounts not set off in the statement of financial position: Financial instruments	Related amounts not set off in the statement of financial position: Cash collateral received	Net amount
Trading financial assets, pledged under repurchase agreements	0.3	–	0.3	(0.2)	–	**0.1**
Reverse sale and repurchase agreements to maturity (Investment financial assets)	18.5	–	18.5	(18.5)	–	**–**
Investment financial assets, pledged under repurchase agreements	0.4	–	0.4	(0.4)	–	**–**
Derivative financial assets	175.6	–	175.6	(0.6)	–	**175.0**
Reverse sale and repurchase agreements with other banks	33.4	–	33.4	(33.2)	–	**0.2**
Reverse sale and repurchase agreements with legal entities and individuals	378.0	–	378.0	(358.4)	–	**19.4**
Loans to legal entities and individuals, except reverse sale and repurchase agreements	9,394.8	–	9,394.8	(210.3)	–	**9,184.5**
Total	**10,001.0**	–	**10,001.0**	**(621.6)**	–	**9,379.2**

Liabilities	Gross amount of recognised financial liabilities	Gross amount of recognised financial assets set off in the statement of financial position	Net amount of financial liabilities presented in the statement of financial position	Related amounts not set off in the statement of financial position: Financial instruments	Related amounts not set off in the statement of financial position: Cash collateral pledged	Net amount
Sale and repurchase agreements with other banks (due to other banks)	0.9	–	0.9	(0.5)	–	**0.4**
Customer deposits, except sale and repurchase agreements	9,137.8	–	9,137.8	(210.3)	–	**8,927.5**
Sale and repurchase agreements with customers (customer deposits)	6.9	–	6.9	(0.1)	–	**6.8**
Derivative financial liabilities	134.0	–	134.0	(0.6)	–	**133.4**
Total	**9,279.6**	–	**9,279.6**	**(211.5)**	–	**9,068.1**

The Group has master netting arrangements with counterparty banks, which are enforceable in case of default. In addition, applicable legislation allows an entity to unilaterally set off trade receivables and payables that are due for payment, denominated in the same currency and outstanding with the same counterparty. These fall in the scope of the disclosure as they were set off in the statement of financial position.

56. SHARE-BASED PAYMENTS

In February 2012, several VTB Group members introduced for their selected employees a share-based remuneration plan. This plan has established a right of those employees to receive common shares ("Shares Plan") or GDR ("GDRs Plan") of VTB (depending on the employing entity's country of incorporation) contingent on their service over a specified period of time.

In February 2013, 2014, 2015, 2016 and 2017 several VTB Group members made additional awards to their selected employees under the same plan rules and vesting conditions.

Shares Plan. The vesting conditions envisage that an employee remains in service for a certain vesting period to receive the shares award. The awarded shares vest gradually in three equal instalments over the vesting periods of one, two and three years, subject to employee's continuous employment with the Group during the relevant vesting period. An award, or portion of it, may be forfeited or paid if the employee terminates employment before the end of the relevant vesting period voluntarily or subject to certain other conditions as described in the Plan rules.

In February 2016 and 2017 several VTB Group members communicated to their selected employees that part of reward can be granted in the perpetual loan participation notes issued ("PLPNs"). Vesting conditions are the same as for the Share Plan above.

GDRs Plan. Under GDRs Plan, the selected employees are granted zero strike price options to purchase GDRs exercisable over ten years from each respective vesting date. The vesting conditions envisage that an employee remains in service for a certain vesting period to receive the GDRs award. The awarded GDRs vest gradually in three equal instalments over the vesting periods of one, two and three years, subject to employee's continuous employment with the Group during the relevant vesting period. An award, or portion of it, may be forfeited or exercised if the employee terminates employment before the end of the relevant vesting period voluntarily or subject to certain other conditions as described in the Plan rules.

Cash-settled Plan. In December 2017, VTB introduced a new remuneration plan for key management (Note 54). Under the plan, participants are granted cash-settled awards linked to VTB shares, which are settled in three equal instalments in one, two and three years after the grant date, subject to the certain non-vesting conditions.

As at 31 December 2018 the total value of the award granted under the Shares Plan was RUR 0.3 billion (31 December 2017: RUR 1.2 billion) represented by 4.7 billion of common shares of VTB (31 December 2017: 18.6 billion).

As at 31 December 2018 the total value of the award granted under the GDRs Plan was RUR 0.4 billion (31 December 2017: RUR 0.9 billion) represented by 2.3 million of GDRs of VTB (31 December 2017: 7.5 million). Each GDR contains 2,000 VTB shares.

As at 31 December 2018 the total value of the award granted under the Cash-Settled Plan was RUR 0.6 billion (31 December 2017: RUR 0.3 billion) represented by 13.3 billion of common shares of VTB (31 December 2017: 5.5 billion of common shares of VTB).

As of 31 December 2018 the total value of award granted in perpetual loan participation notes is RUR 0.1 billion (31 December 2017: RUR 0.3 billion) represented by 2.2 million of loan participation notes (31 December 2017: 4.1 million).

For the year ended 31 December 2018 the Group recognised in Staff costs the amount of RUR 0.3 billion (31 December 2017: RUR 0.9 billion) as expenses related to the above equity-settled share-based payment transactions. For the year ended 31 December 2018 the Group recognised in Staff costs the amount of RUR 0.4 billion (31 December 2017: RUR 0.3 billion) as expenses related to the above cash-settled share-based payment transactions.

For the year ended 31 December 2018 and 31 December 2017 quantity of units under Share/GDRs Plan was determined as fixed monetary value communicated to employees on the grant date divided by a simple daily volume-weighted average price of shares/GDRs on the relevant stock exchange for the 30 days prior to the PSA execution/grant.

For the year ended 31 December 2018 several VTB Group members made a decision to offer Share Plan participants a one-time opportunity to convert unvested Awards in the form of Shares/GDRs/PLPNs to cash equivalent awards.

The quantity of converted instruments comprised 1.9 million of GDRs and 4.3 billion of common shares of VTB.

As at 31 December 2018 under the GDRs Plan 23.7 million GDRs were vested (31 December 2017: 20.2 million). As at 31 December 2018 the quantity of vested unexercised options comprised 2.0 million (31 December 2017: 1.7 million).

57. BASIC AND DILUTED EARNINGS PER SHARE

Basic earnings per share are calculated by dividing the net profit or loss attributable to ordinary shareholders of the parent by the weighted average number of ordinary shares in issue during the period, excluding the average number of ordinary shares purchased by the Group and held as treasury shares.

The Group has no dilutive potential ordinary shares; therefore, the diluted earnings per share are equal to basic earnings per share.

	2018	2017
Weighted average number of ordinary shares in issue	12,945,001,926,143	12,924,965,244,238
Net profit attributable to shareholders of the parent	179.2	120.3
Amounts paid on perpetual loan participation notes, net of tax	(11.0)	(9.8)
Total net profit attributable to shareholders of the parent	168.2	110.5
Basic and diluted earnings per share (expressed in Russian roubles per share)	**0.01299**	**0.00855**
Profit after tax from subsidiaries acquired exclusively with a view to resale	–	0.1
Basic and diluted earnings per share based on profit after tax from subsidiaries acquired exclusively with a view to resale (expressed in Russian roubles per share)	**–**	**0.00001**
Total net profit attributable to shareholders of the parent net of profit after tax from subsidiaries acquired exclusively with a view to resale	168.2	110.4
Basic and diluted earnings per share before profit after tax from subsidiaries acquired exclusively with a view to resale (expressed in Russian roubles per share)	**0.01299**	**0.00854**

58. TRANSFERS OF FINANCIAL ASSETS AND ASSETS HELD OR PLEDGED AS COLLATERAL

The Group transferred financial assets in transactions that did not qualify for derecognition. The following note provides a summary of financial assets which have been transferred in such a way that part or all of the transferred financial assets do not qualify for derecognition.

(a) Transfers that did not qualify for derecognition of the financial asset in its entirety

The table below shows the amount of assets pledged under sale and repurchases agreements which the Group entered into in the normal course of business as at 31 December 2018 and 31 December 2017. (Notes 22, 24, 25, 26, 32, 33 and 34.)

	2018			2017		
	Carrying amount of the assets	Carrying amount of the associated liabilities	Net position	Carrying amount of the assets	Carrying amount of the associated liabilities	Net position
Trading financial assets	31.3	29.4	**1.9**	0.3	0.5	**(0.2)**
Investment financial assets	13.2	12.4	**0.8**	0.4	0.4	**–**
Loans and advances to customers	25.9	22.3	**3.6**	–	–	**–**
Due from other banks	–	–	**–**	–	–	**–**
Total	**70.4**	**64.1**	**3.6**	**0.7**	**0.9**	**(0.2)**

In addition the Group has loans and advances with customers that did not qualify for derecognition with carrying amount of RUR 251.9 billion (31 December 2017: RUR 344.1 billion) and associated financial liabilities with carrying amount of RUR 251.9 billion (31 December 2017: RUR 344.1 billion).

58. TRANSFER OF FINANCIAL ASSETS AND ASSETS HELD OR PLEDGED AS COLLATERAL (CONTINUED)

(a) Transfers that did not qualify for derecognition of the financial asset in its entirety (continued)

The table below shows the amount of securitization operations as at 31 December 2018 and 31 December 2017 which the Group enters into in the normal course of business.

		2018			2017		
	Note	Carrying amount of the assets	Carrying amount of the associated liabilities	Net position	Carrying amount of the assets	Carrying amount of the associated liabilities	Net position
Due from Central Bank [(A)]	24	1.1	0.8	**0.3**	1.0	1.0	**–**
Mortgage loans [(A)]	25	24.6	11.2	**13.4**	16.9	12.6	**4.3**
Car loans [(B)]	25	–	–	**–**	3.9	2.6	**1.3**
Total		**25.7**	**12.0**	**13.7**	**21.8**	**16.2**	**5.6**

(A) Starting from 2010, VTB (former "Bank VTB 24", PJSC) participates in VEB Programme to support affordable housing projects using the mortgage. Under this Programme VTB issues mortgage-backed securities which are all bought by VEB. As at 31 December 2018 carrying amount of pledged assets under this Programme was RUR 12.9 billion, including RUR 11.8 billion of mortgage loans and RUR 1.1 billion on due from Central Bank of Russian Federation, amortized cost of issued mortgage-backed securities to RUR 9.3 billion.

As at 31 December 2018 carrying amount of pledged assets under securitization programme of the Vozrozhdenie Bank, PJSC was RUR 12.8 billion, amortized cost of issued mortgage-backed securities was RUR 2.7 billion.

(B) In January 2014, VTB (former "Bank VTB 24", PJSC) arranged a structured transaction related to its car loan portfolio through a sale to a special purpose entity, which further attracted funds through secured loan deal in the amount of USD 200 million with the expected maturity in June 2018.

In October, 2018 the Group transferred a portfolio of mortgage loans in the amount of RUR 74.3 billion to LLC "Mortgage agent "DOM.RF" ("Factory MBS"), subsidiary of JSC "DOM.RF", in exchange for the bonds with the same nominal value. As a part of securitization transaction, the Group entered into an interest rate swap with JSC "DOM.RF" and committed to repurchase defaulted loans until the cumulative losses on the portfolio reach 15% of its nominal value. The Group continues to recognize the loans until these bonds are sold to third parties. As at 31 December 2018, the remaining loans with a carrying value of RUR 53.6 billion were included in loans to individuals. In December 2018, the Group sold bonds with a nominal value of RUR 21.1 billion, derecognized the corresponding loans and recognized a gain on sale of RUR 0.4 billion in gains less losses arising from sale of debt securities from loans portfolios of consolidated income statement.

In October, 2017 the Group transferred a portfolio of mortgage loans in the amount of RUR 48.8 billion to LLC "Mortgage agent "Factory MBS" ("Factory MBS"), subsidiary of JSC "DOM.RF" (former "The Agency for Housing Mortgage Lending" ("AHML")), in exchange for the bonds with the same nominal value. As a part of securitization transaction, the Group entered into an interest rate swap with JSC "DOM.RF" and committed to repurchase defaulted loans until the cumulative losses on the portfolio reach 15% of its nominal value. The Group continues to recognize the loans until these bonds are sold to third parties. In December 2017, the Group sold bonds with a nominal value of RUR 44.1 billion, derecognized the corresponding loans and recognized a gain on sale of RUR 2.3 billion in gains less losses arising from sale of debt securities from loans portfolios of consolidated income statement. As at 31 December 2018, the remaining loans with a carrying value of RUR 2.5 billion (as at 31 December 2017: RUR 4.0 billion) were included in loans to individuals.

58. TRANSFER OF FINANCIAL ASSETS AND ASSETS HELD OR PLEDGED AS COLLATERAL (CONTINUED)

(b) Transfers that qualified for derecognition of the financial asset in its entirety

The Group has certain transferred financial assets which have been derecognised in their entirety, but for which there is continuing involvement at the reporting date due to the representation on the board of directors and/or due to effectively holding collateral under transferred assets to secure remaining payments from third parties related to the transfer. The collateral fair value under transferred assets comprised 3.1 RUR billion as at 31 December 2018 (31 December 2017: RUR 3.1 billion). Proceeds from the transfer were fully received in several instalments with RUR 0.01 billion and RUR 1.5 billion received in 2014 and 2013 respectively. The gain recognised at the date of transfer comprised RUR 0.5 billion.

Assets pledged as collateral

The Group pledges assets that are on its statement of financial position in various day-to-day transactions that are conducted under the usual terms and conditions applying to such agreements. As at 31 December 2018 the Group pledged securities as collateral in repurchase agreements for RUR 44.6 billion (31 December 2017: RUR 0.7 billion). Refer to the section "(a) Transfers that did not qualify for derecognition of the financial asset in its entirety" above.

Assets held as collateral

The Group holds certain assets as collateral, which it is permitted to sell or repledge in the absence of default by the owner of the collateral, under the usual terms and conditions applying to such agreements. The Group received securities as collateral in reverse repurchase agreements with banks and customers (Notes 24, 25) and reverse sale and repurchase agreements to maturity accounted at fair value with a fair value of RUR 552.4 billion and RUR 8.9 billion (31 December 2017: RUR 466.1 billion and RUR 24.1 billion respectively). Of these, the Group sold securities with a fair value of RUR 22.1 billion (31 December 2017: RUR 35.4 billion) in short sale transactions and securities with a fair value of RUR 296.3 billion (31 December 2017: RUR 7.2 billion) under repurchase agreements.

In addition, the Group held RUR 39.7 billion of Customer deposits (31 December 2017: RUR 386.5 billion) as collateral for irrevocable commitments under import letters of credit (Note 33). The Group is obliged to return the collateral at maturity of the import letters of credit.

59. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES

Subsidiaries

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. Subsidiaries are consolidated from the date, on which control is transferred to the Group (acquisition date) and are no longer consolidated from the date when control ceases. All intragroup balances and transactions, including income, expenses, dividends and unrealised gains on transactions between the Group members are eliminated in full; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Where necessary, accounting policies for subsidiaries have been changed to ensure consistency with the accounting policies adopted by the Group.

Acquisition of subsidiaries

The acquisition method of accounting is used to account for the acquisition of subsidiaries by the Group. Identifiable assets acquired and liabilities assumed, including contingent liabilities, which are a present obligation and can be measured reliably, are measured initially at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest.

The excess of the aggregate of: i) purchase consideration paid, ii) the amount of any non-controlling interest in the acquiree and iii) acquisition-date fair value of the acquirer's previously held equity interest in the acquiree (in case of the business combination achieved in stages), over the fair value of the acquiree's identifiable net assets is recorded as goodwill. If the result of the above calculation is negative, the difference is recognised directly in the income statement.

Non-controlling interest is the interest in subsidiaries not attributable, directly or indirectly to the Group. 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. This choice is made by the acquirer for each business combination. Non-controlling interests that are not present ownership interests are measured at fair value. Non-controlling interest at the subsequent reporting date represents the initially recognised amount of non-controlling interest at the acquisition date and the non-controlling interest's portion of movements in comprehensive income and equity since the date of the combination. Non-controlling interest is presented as a separate component within the Group's equity except for the non-controlling interests in mutual funds under the Group's control, which are accounted for within Group's liabilities.

In a business combination achieved in stages, the acquirer shall remeasure its previously held equity interest in the acquiree at its acquisition-date fair value and recognise the resulting gain or loss, if any, in profit or loss. Acquisition-related costs should be accounted for separately from the business combination and therefore recognised as expenses rather than included in goodwill. An acquirer should recognise at the acquisition date a liability for any contingent purchase consideration.

Increases in ownership interests in subsidiaries

The differences between the carrying values of net assets attributable to interests in subsidiaries acquired and the consideration given for such increases are charged or credited directly to retained earnings as a capital transaction.

Investments in associates and joint arrangements

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 impairment 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.

A joint venture exists where the Group has a joint arrangement with one or more parties to have rights to the net assets of the arrangement. The Group recognises interests in a joint venture using the equity method and applies the same accounting policies as those for investments in associates.

59. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

Investments in associates and joint arrangements (continued)

Venture Capital Investments

Investments in companies that are managed by a dedicated team within VTB Group, primarily involved in venture capital activities, as part of the Group's investment portfolio of securities at fair value through profit and loss and over which the Group may have significant influence are carried at fair value as permitted by IAS 28 which allows investments in associates and joint ventures that are held by venture capital organizations to be excluded from the scope of IAS 28 if these investments are upon initial recognition designated as at fair value through profit or loss or are classified as held for trading and accounted in accordance with IFRS 9. These venture capital investments of the Group are classified as investments in associates and joint ventures designated as at fair value through profit or loss and the changes in the fair value of such investments are accounted for similar to the changes in the fair value of financial assets designated as at fair value through profit or loss as described below, and is included in the gains less losses arising from financial instruments at fair value through profit or loss.

Structured entities

Structured entities are designed so that voting or similar rights are not the dominant factor in deciding who controls the entity. Judgement is also required to determine whether the substance of the relationship between the Group and a structured entity indicates that the structured entity is controlled by the Group.

The Group does not consolidate structured entities that it does not control. As it can sometimes be difficult to determine whether the Group does control a structured entity, management makes judgements about its exposure to the risks and rewards, as well as about its ability to make operational decisions for the structured entity in question. In many instances, elements are present that, considered in isolation, indicate control or lack of control over a structured entity, but when considered together make it difficult to reach a clear conclusion. Refer to Note 51 for further information about the Group's exposure to structured entities.

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. Therefore, if a gain or loss previously recognised in other comprehensive income would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group shall reclassify the gain or loss from equity to profit or loss (as a reclassification adjustment) when it loses control of the subsidiary. If a revaluation surplus previously recognised in other comprehensive income would be transferred directly to retained earnings on the disposal of the asset, the Group shall transfer the revaluation surplus directly to retained earnings when it loses control of the subsidiary.

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 assets

Valuation of financial instruments

All financial instruments are recognised initially at fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs are directly attributable to the acquisition or issue of the financial asset. In the normal course of business, the fair value of a financial instrument on initial recognition is the transaction price (that is, the fair value of the consideration given or received).

Subsequent to initial recognition, the fair values of financial instruments measured at fair value are measured in accordance with the Group's valuation methodologies, which are described in Notes 42, 45.

'Day 1' profit

Where the transaction price in a non-active market is different to the fair value from other observable current market transactions in the same instrument or based on a valuation technique with all material inputs observable, the Group immediately recognises the difference between the transaction price and fair value (a 'Day 1' profit) in the consolidated income statement. Any other differences are not recognised as "day 1" gain or loss but rather are amortized on a straight line basis over the term of the relevant financial asset or recognised in the consolidated income statement when the inputs become observable, or when the instrument is derecognised.

Classification of financial assets

Policy applicable from 1 January 2018

On initial recognition, a financial asset is classified as measured at: amortised cost, fair value through other comprehensive income or fair value through profit or loss.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at fair value through profit or loss:

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

59. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

Financial assets (continued)

Classification of financial assets (continued)

A debt instrument is measured at fair value through other comprehensive income only if it meets both of the following conditions and is not designated as at fair value through profit or loss:

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

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

All other financial assets are classified as measured at fair value through profit or loss.

In addition, on initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at fair value through other comprehensive income as at fair value through profit or loss if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Business model assessment

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

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

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

Assessment whether contractual cash flows are solely payments of principal and interest

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

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

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

Reclassification of financial assets

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Group changes its business model for managing financial assets.

59. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

Financial assets (continued)

Policy applicable before 1 January 2018

Classification of financial assets

Financial assets in the scope of IAS 39 are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale financial assets, as appropriate.

Reclassification of financial assets

Non-derivative financial assets (other than those designated at fair value through profit or loss upon initial recognition) may be reclassified out of the fair value through profit or loss category in the following circumstances:

- financial assets that would have met the definition of loans and receivables at the date of reclassification (if the financial asset had not been required to be classified as held for trading) may be reclassified out of the fair value through profit or loss category if there is the intention and ability to hold the financial asset for the foreseeable future or until maturity; and
- financial assets (except financial assets that would have met the definition of loans and receivables at initial recognition) may be reclassified out of the fair value through profit or loss category and into another category in rare circumstances.

When a financial asset is reclassified as described in the above circumstances, the financial asset is reclassified at its fair value on the date of reclassification. Any gain or loss already recognised in the income statement is not reversed. The fair value of the financial asset on the date of reclassification becomes its new cost or amortized cost, as applicable.

Where financial assets have been reclassified out of the fair value through profit or loss category to the loans and receivables category, the effective interest rate determined at the date of reclassification is used to calculate any impairment losses.

Where financial assets have been reclassified out of the available-for-sale investment financial assets category to the loans and receivables category, the previous gain or loss that has been recognised in other comprehensive income shall be amortized through income statement within gains less losses from available-for-sale financial assets over the remaining life of the financial asset using the effective interest method.

Financial assets at fair value through profit or loss

(a) Financial assets held for trading

Financial assets classified as held for trading are included in the category 'financial assets at fair value through profit or loss'. Financial assets are classified as held for trading if they are acquired or generated for the purpose of selling in the near term. Derivatives are also classified as held for trading unless they are designated as and are effective hedging instruments. Gains or losses on financial assets held for trading are recognised in the income statement.

Financial assets held for trading, are either acquired for generating a profit from short-term fluctuations in price or trader's margin, or are securities included in a portfolio, in which a pattern of short-term trading exists. The Group may choose to reclassify a non-derivative financial asset held for trading out of the fair value through profit or loss category if the asset is no longer held for the purpose of selling it in the near term.

Non-derivative financial assets held for trading are carried at fair value. Interest earned on non-derivative debt financial assets held for trading is calculated using the coupon (contractual) interest rate, which approximates the effective interest rate, and is presented in the income statement as interest income. All elements of the changes in the fair value are recorded in the income statement as gains less losses from financial assets at fair value through profit or loss in the period, in which they arise.

(b) Financial assets designated as at fair value through profit or loss

Other financial assets at fair value through profit or loss are those designated irrevocably, at initial recognition, into this category. Management designates financial assets 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 recognizing 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 as defined in IAS 24. Recognition and measurement of this category of financial assets is consistent with the above policy for securities held for trading and is in accordance with IAS 39.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and not classified or designated as at fair value through profit or loss upon initial recognition. Such assets are carried at amortized cost using the effective interest method. This cost is computed as the amount initially recognised minus principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between the initially recognised amount and the maturity amount. This calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums and discounts. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired, as well as through the amortization process.

59. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

Financial assets (continued)

Loans and receivables (continued)

Loans and receivables of acquired subsidiaries are initially recorded in the statement of financial position at their estimated fair value at the date of acquisition.

The Group may change the intention of holding certain loans and receivables for foreseeable future and intend to sell these items. In the above case the Group reclassifies these specific items from loans and receivables to available-for-sale financial assets. These reclassified assets are measured at fair value through other comprehensive income.

Held-to-maturity investments

Quoted on an active market non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Group has the positive intention and ability to hold to maturity. Investments intended to be held for an undefined period are not included in this category. Held-to-maturity investments are subsequently measured at amortized cost. For investments carried at amortized cost, gains and losses are recognised in the income statement when the investments are disposed or impaired, as well as through the amortization process.

Held-to-maturity investments of acquired subsidiaries are initially recorded in the statement of financial position at their estimated fair value at the date of acquisition.

Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified in any of the three preceding categories. After initial recognition available-for-sale financial assets are measured at fair value with gains or losses being recognised in other comprehensive income in a separate component of equity until the investment is derecognised or until the investment is determined to be impaired. However, interest calculated using the effective interest rate is recognised in the income statement.

When the Group derecognises available-for-sale financial assets, the Group reclassifies the cumulative gain or loss previously recognised in other comprehensive income in a separate component of equity to a separate line in the income statement.

If there is objective evidence that an available-for-sale financial asset is impaired the cumulative loss previously recognised in other comprehensive income being the difference between the acquisition cost and the current fair value (less any impairment loss on that asset previously recognised in income statement) – is reclassified from separate component of equity to the income statement.

Financial assets classified as available-for-sale that would have met the definition of loans and receivables may be reclassified if the Group has the intention and ability to hold these financial assets for the foreseeable future.

Derecognition of financial assets

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

- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset, or retained the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement and has no obligation to pay amounts to eventual recipients unless it collects equivalent amounts from the original assets and the Group either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

From 1 January 2018 any cumulative gain/loss recognised in other comprehensive income in respect of equity investment securities designated as at fair value through other comprehensive income is not recognised in profit or loss on derecognition of such securities. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Group is recognised as a separate asset or liability.

59. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

Financial assets (continued)

Securitization of financial assets

As part of its operational activities, the Group securitizes financial assets, generally through the transfer of these assets to special purpose entities that issue debt securities to investors or through the arrangement of funded participation agreements. The transferred securitized assets may qualify for derecognition in full or in part. Interests in the securitized financial assets may be retained by the Group and are primarily classified as loans to customers. Gains or losses on securitizations are based on the carrying amount of the financial assets derecognised and the retained interest, based on their relative fair values at the date of transfer.

Restructuring of financial assets

The Group from time to time may restructure some of its financial assets. This mostly relates to loans and receivables. The accounting treatment of such restructuring is conducted in the following basic scenarios.

Derecognition of loans and receivables as a result of restructuring

<u>Policy applicable after 1 January 2018</u>

If the terms of a financial asset are modified, the Group evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised and a new financial asset is recognised at fair value.

In determining the financial assets that are subject to derecognition the Group analogizes its approach to the guidance on the derecognition of financial liabilities.

Qualitative Assessment

A qualitative assessment is performed to determine whether the terms of the instrument are substantially different.

Indicators that qualitative modifications may be considered significant irrespective of any signs of quantitative modification may include:

- change of the borrower, while changing a borrower within one group of interrelated legal entities, provided that credit risk level remained unchanged, does not lead to derecognition of the original financial asset and the recognition of a new one;
- change of currency;
- change of floating interest rate to fixed interest rate and vice versa;
- change of contractual terms which leads to the reassessment of SPPI criterion, including cancellation (or introduction) of contractual right to convert debt instrument into a number of ordinary shares.

Quantitative Assessment

Quantitative assessment of modification is usually applied when modification of contractual terms is not connected with the deterioration of the borrower`s creditworthiness (for Stage 1 and Stage 2 financial assets).

Terms are considered to have been substantially modified when the net 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 - substantially differs (similar to quantitative assessment of modification for financial liabilities) from the present value of the remaining cash flows under the original terms.

The following thresholds are used for quantitative assessment of modification:

- less than 10% – modification is not substantial;
- 10-20% – combined test: quantitative modification within the specified thresholds is considered substantial provided there are other changes that are secondary in terms of a separate qualitative assessment, such as, for example, amendments in restrictive terms (covenants), change of loan purpose, etc.;
- More than 20% – modification is substantial.

<u>Policy applicable before 1 January 2018</u>

The Group accounts for a restructure of a loan or a receivable as derecognition of the existing loan or a receivable and the recognition of a new loan or a receivable in the following circumstances:

- renegotiation of the loan currency;
- renegotiation of type of interest (i.e. fix to floating and vice a versa or change in base rate);
- recognition of embedded derivative that is separated from the host contract (loan or receivable).

All net unamortized loan premiums, discounts and other deferred components of the effective interest rate related to the derecognised loan or receivable are included in interest income in the accompanying consolidated income statement on the date of derecognition.

The newly recognised loan or receivable is recorded at its estimated fair value. If the estimated fair value is different than the contractual amount, any difference is included in ‘Gains net of losses on initial recognition of financial instruments and other gains on loans and advances to customers’ in the accompanying consolidated income statement.

Subsequent interest recognition on the newly recognised loan or receivable is performed using the effective interest rate determined based on the terms of such loan or receivable.

59. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

Financial assets (continued)

Restructuring of loans and receivables without derecognition

Policy applicable after 1 January 2018

If the cash flows of the modified asset carried at amortised cost are not substantially different, then the modification does not result in derecognition of the financial asset. In this case, the Group recalculates the gross carrying amount of the financial asset and recognises the amount arising from adjusting the gross carrying amount as a modification gain or loss in profit or loss.

Policy applicable before 1 January 2018

In all other circumstances restructuring of loans and receivables does not lead to derecognition and accounted for as follows:

(1) Commercial restructuring

If the loan restructuring is not caused by financial difficulties of the borrower the new effective interest rate is calculated based on estimated future cash flows. The new effective interest rate is determined so that renegotiated discounted cash flows equal to the current carrying amount of the loan before deducting allowance for impairment.

(2) Restructuring owing to financial difficulties of the borrower

If the loan restructuring is caused by financial difficulties of the borrower additional allowance for debt financial assets impairment is recognised.

Additional allowance for impairment is determined based on renegotiated cash flows discounted using the original effective interest rate.

In case of restructuring owing to financial difficulties of the borrower immediately after recognition of additional allowance the partial write-off of loan gross amount for the amount of additional allowance should be recorded. Write-off is made in the absence of reasonable expectations of return in whole or partially.

Derecognition of financial assets and liabilities carried at amortized cost

If financial assets and liabilities carried at amortized cost are derecognised before maturity (for example, as a result of restructuring), unamortized part of commission and transaction costs is recognised in the same line of the current year income statement, that was used for financial asset/liability amortization prior derecognition.

Financial liabilities

Financial liabilities in the scope of IAS 32 and IAS 39 are classified as either financial liabilities at fair value through profit or loss, or other financial liabilities, as appropriate. The Group determines the classification of its financial liabilities at initial recognition. When financial liabilities are recognised initially, they are measured at fair value, minus, in the case of financial liabilities not at fair value through profit or loss, directly attributable transaction costs. Other financial liabilities are carried at amortized cost using the effective interest rate method.

Financial liabilities of acquired subsidiaries are initially recorded in the statement of financial position at their estimated fair value at the date of acquisition.

Financial liabilities are classified as financial liabilities at fair value through profit or loss if they are issued for the purpose of repurchasing them in the near term. They normally contain trade financial liabilities or "short" positions in securities. Derivatives with negative fair value are also classified as financial liabilities at fair value through profit or loss. Gains or losses on financial liabilities at fair value through profit or loss are recognised in the income statement.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. Where an existing financial liability is replaced by another from the same creditor on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the income statement.

When a financial liability is repurchased (bought-back) by a certain Group member, it is derecognised. The difference between the carrying value (amortized cost) of a financial liability as of the date of buy-back and the consideration paid is recognised in the income statement as the gain or loss arising from extinguishment of liability.

59. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

Offsetting

Financial assets and liabilities are offset and the net amount is reported in the statement of financial position when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or to realize 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. This is not generally the case with master netting agreements, and the related assets and liabilities are presented gross in the consolidated statement of financial position.

Cash and cash equivalents

Cash and cash equivalents are items, which can be converted into cash within a day. All short-term interbank placements, including overnight placements, are included in due from other banks. Amounts which relate to funds that are of a restricted nature, and correspondent accounts in precious metals are excluded from cash and cash equivalents. Cash and cash equivalents are carried at amortized cost, which approximates fair value.

Mandatory cash balances with central banks

Mandatory reserve deposits with the CBR and other central banks are carried at amortized cost and represent non-interest bearing 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 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 receivable, which is due on fixed or determinable dates. Amounts due from other banks are carried at amortized cost less allowance for impairment.

Repurchase and reverse repurchase agreements and lending of financial instruments

Sale and repurchase agreements ("repo agreements") are treated as secured financing transactions. Securities or other financial assets sold under sale and repurchase agreements are not derecognised. The financial assets are not reclassified in the statement of financial position unless the transferee has the right by contract or custom to sell or repledge the financial assets, in which case they are reclassified as financial assets pledged under sale and repurchase agreements (repurchase receivables). The corresponding liability is presented within customer deposits, amounts due to other banks or other borrowed funds.

Financial assets purchased under agreements to resell ("reverse repo agreements") are recorded as due from other banks or loans and advances to customers, as appropriate.

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

Financial assets lent to counterparties are retained in the financial statements in their original statement of financial position category unless the counterparty has the right by contract or custom to sell or repledge the financial assets, in which case they are reclassified and presented separately as loaned financial assets.

Financial assets borrowed are not recorded in the financial statements, unless these are sold to the third parties, in which case an obligation to return the financial assets ("short position") is recorded in Other liabilities at fair value through profit or loss in the statement of financial position. The revaluation of this obligation is recorded in the income statement within gains less losses arising from financial instruments at fair value through profit or loss.

Derivative financial instruments

Derivatives are recognised initially, and are subsequently remeasured, at fair value. Fair values of exchange traded derivatives are obtained from quoted market prices. Fair values of over-the-counter derivatives are obtained using valuation techniques, including discounted cash flow models and option pricing models.

Derivatives may be embedded in other financial instruments. Embedded derivatives are treated as separate derivatives when their economic characteristics and risks are not clearly and closely related to those of the host contract; the terms of the embedded derivative would meet the definition of a stand-alone derivative if they were contained in a separate contract; and the combined contract is not held for trading or designated at fair value. These embedded derivatives are measured at fair value with changes therein recognised in the income statement.

Derivatives are classified as assets when their fair value is positive or as liabilities when their fair value is negative. Derivative assets and liabilities arising from different transactions are only offset if the transactions are with the same counterparty, a legal right of offset exists, and the parties intend to settle the cash flows on a net basis.

The method of recognizing fair value gains and losses depends on whether derivatives are held for trading or are designated as hedging instruments, and if the latter, the nature of the risks being hedged. All gains and losses from changes in the fair value of derivatives held for trading are recognised in the income statement.

Hedge accounting

The Group uses derivative instruments to manage exposures to fluctuations both of cash flows from interest received and paid, and of fair values for specifically determined items. As a result, the Group applies hedge accounting for transactions, which meet the specified criteria.

59. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

Derivative financial instruments (continued)

At inception of the hedge relationship, the Group formally documents the relationship between the hedged item and the hedging instrument, including the nature of the risk, the objective and strategy for undertaking the hedge and the method that will be used to assess the effectiveness of the hedging relationship.

Also at the inception of the hedge relationship, a formal assessment is undertaken to ensure the hedging instrument is expected to be highly effective in offsetting the designated risk in the hedged item. Hedges are formally assessed each quarter. A hedge is regarded as highly effective if the changes in fair value or cash flows attributable to the hedged risk during the period, for which the hedge is designated, are expected to offset in a range of 80% to 125%.

For situations where that hedged item is a forecast transaction, the Group assesses whether the transaction is highly probable and presents an exposure to variations in cash flows that could ultimately affect the income statement.

Fair value hedges

For designated and qualifying fair value hedges, the change in the fair value of a hedging derivative is recognised in the income statement within “Gains less losses arising from financial instruments at fair value through profit or loss” caption. Meanwhile, the change in the fair value of the hedged item attributable to the risk being hedged is recorded as part of the carrying value of the hedged item and is also recognised in the income statement in ‘Gains less losses arising from financial instruments at fair value through profit or loss’ caption.

If the hedging instrument expires or is sold, terminated or exercised, or where the hedge no longer meets the criteria for hedge accounting, the hedge relationship is terminated. For hedged items recorded at amortized cost, using the effective interest rate method, the difference between the carrying value of the hedged item on termination and the face value is amortized over the remaining term of the original hedge. If the hedged item is derecognised, the unamortized fair value adjustment is recognised immediately in the income statement.

Cash flow hedges

For designated and qualifying cash flow hedges, the effective portion of the gain or loss on the hedging instrument is initially recognised through other comprehensive income directly in equity in the cash flow hedge reserve within ‘Unrealised gain on financial assets available-for-sale and cash flow hedge’ caption. The ineffective portion of the gain or loss on the hedging instrument is recognised immediately in the income statement in ‘Gains less losses arising from financial instruments at fair value through profit or loss’.

When the hedged cash flow affects the income statement, the gain or loss on the hedging instrument is “recycled” in the corresponding income or expense line of the income statement. When a hedging instrument expires, or is sold, terminated, exercised, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains separately in equity until the forecast transaction occurs. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement in “Gains less losses arising from financial instruments at fair value through profit or loss”.

Regular way transactions

Regular way transactions are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace. All regular way purchases and sales of financial assets are recognised or derecognised on the contractual settlement date which is the date when the asset is to be delivered to or by the Group. Regular way transactions are not recognised as derivatives because of the short duration of the commitment to deliver financial assets between the trade and settlement date.

Any change in the fair value of the financial assets at fair value through profit or loss to be received during the period between the trade date and the settlement date is recognised in the income statement and for financial assets available for sale is recognised in other comprehensive income for financial assets purchased. For financial assets sold on a regular way basis no changes in fair value are recognised in the income statement or in other comprehensive income between the trade and settlement date. Assets carried at cost or amortized cost are not affected by the change in fair value during the period between the trade and settlement date.

Promissory notes purchased

Promissory notes purchased are included in financial assets at fair value through profit or loss or in due from other banks or in loans and advances to customers or in investment securities held-to-maturity, depending on their substance and are recorded, subsequently remeasured and accounted for in accordance with the accounting policies for these categories of assets.

Finance and operating leases

Agreements which transfer to counterparties substantially all the risks and rewards incidental to the ownership of assets, but not necessarily legal title, are classified as finance leases. When the Group is a lessor under finance leases the amounts due under the leases, after deduction of unearned charges, are included ‘Loans and advances to customers’. The finance income receivable is recognised in ‘Interest income’ over the periods of the leases so as to give a constant rate of return on the net investment in the leases.

59. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

Finance and operating leases (continued)

When the Group is a lessee under finance leases, the leased assets are capitalized and included in ‘Land, property and equipment’ and the corresponding liability to the lessor is included in Other borrowed funds. A finance lease and its corresponding liability are recognised initially at the fair value of the asset or, if lower, the present value of the minimum lease payments. Finance charges payable are recognised in ‘Interest expense’ over the period of the lease based on the interest rate implicit in the lease so as to give a constant rate of interest on the remaining balance of the liability.

All other leases are classified as operating leases. When acting as lessor, the Group includes the assets subject to operating leases in ‘Land, property and equipment’ and accounts for them accordingly. Impairment losses are recognised to the extent that residual values are not fully recoverable and the carrying value of the assets is thereby impaired. When the Group is the lessee, leased assets are not recognised on the balance sheet. Rentals payable and receivable under operating leases are accounted for on a straight-line basis over the periods of the leases and are included in ‘General and administrative expenses’ and ‘Other operating income’, respectively.

Impairment of financial assets

Policy applicable from 1 January 2018

The Group recognises loss allowances for ECL on the following financial instruments that are not measured at fair value through profit or loss:

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

No impairment loss is recognised on equity investments.

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

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

Loss allowances for lease receivables are always measured at an amount equal to lifetime ECL.

The Group considers a debt security to have low credit risk when their credit risk rating is equivalent to the globally understood definition of ‘investment grade’. 12-month ECL are the portion of ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

Presentation of allowance for ECL in the statement of financial position

Loss allowances for ECL are presented in the statement of financial position as follows:

- financial assets measured at amortised cost: as a deduction from the gross carrying amount of the assets;
- loan commitments and financial guarantee contracts: generally, as a provision;
- where a financial instrument includes both a drawn and an undrawn component, and the Group cannot identify the ECL on the loan commitment component separately from those on the drawn component: the Group presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision; and
- debt instruments measured at fair value through other comprehensive income: no loss allowance is recognised in the statement of financial position because the carrying amount of these assets is their fair value. However, the loss allowance is disclosed and is recognised in the fair value reserve.

Policy applicable before 1 January 2018

Impairment of financial assets carried at amortized cost

Impairment losses are recognised in profit or loss when incurred as a result of one or more events (“loss events”) that occurred after the initial recognition of 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 include its overdue status and realizability of related collateral, if any.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics within classification categories. 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.

59. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

Impairment of financial assets (continued)

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.

Loans with signs of credit deterioration acquired from third parties are recorded initially in the statement of financial position at their estimated fair value at the date of acquisition. Management considers significant purchase discounts when the loan’s contractual amount exceeds its purchase price or estimated fair value as one of the signs of credit deterioration. In subsequent periods, the impairment is assessed and the loan is classified as non-performing based on changes in expected undiscounted cash flows as compared to those determined by management at initial recognition of the loan.

Impairment losses are recognised through an allowance account to reduce 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 effective interest rate of the asset. The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

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, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

Uncollectible assets are written-off against the related allowance for impairment after all the necessary procedures to recover the asset have been completed and the amount of the loss has been determined.

Impairment of available-for-sale financial assets

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortization) and its current fair value, less any impairment loss previously recognised in the income statement, is transferred from equity to the income statement. Reversals in respect of equity instruments classified as available-for-sale are not recognised in the income statement, but are rather retained in other comprehensive income in a separate component of equity. Impairment losses on debt instruments are reversed through the income statement if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss were recognised in profit or loss. A significant or prolonged decline in the fair value of an equity instrument classified as available-for-sale below its cost is also objective evidence of impairment of this instrument.

Insurance

Insurance operations

Insurance contracts are those contracts when the Group (the insurer) has accepted significant insurance risk from another party (the policyholders) by agreeing to compensate the policyholders if a specified uncertain future event (the insured event) adversely affects the policyholders. Insurance risk exists when the Group has uncertainty in respect of the following matters at inception of the contract: the occurrence of insurance event, the date of occurrence of insurance event and claim value in respect of it. As a general guideline, the Group determines whether it has significant insurance risk, by comparing benefits paid with benefits payable if the insured event did not occur. Insurance contracts can also transfer financial risk.

Gross insurance premiums written

Upon inception of a contract, premiums are recorded as written and are earned on a pro-rata basis over the term of the related policy coverage. Decreasing insurance premiums in subsequent periods (for example, when signing additional agreements to the original signed contracts) are recognised as a reduction in insurance premiums in the reporting period. In the consolidated income statement of the Group gross insurance premiums written are included in ‘Net insurance premiums earned’.

59. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

Insurance (continued)

Provision for unearned premiums

Provision for unearned premiums represents the proportion of premiums written that relate to unexpired term of policies in force as at the reporting date, calculated on a time apportionment basis. Provision for unearned premiums is calculated by ‘pro rata temporis’ method for each policy and defined as insurance premium multiplied by ratio of unexpired portion of policy to the entire term of the policy. Movement in provision for unearned premiums is recognised within ‘Net insurance premiums earned’ in the consolidated income statement of the Group.

Claims paid

Claims are charged to the consolidated income statement as incurred based on evaluated liability for compensation payable to policyholders or third parties suffered from occurrence of the insured event. Claims also include claims handling expenses related to cost of experts, appraisers, surveyors and emergency commissioners. Claims paid are recognised within ‘Net insurance claims incurred, movement in liabilities to policyholders and acquisition costs’ in the consolidated income statement of the Group.

Loss provisions

Loss provisions represent an estimate of liabilities to pay claims in future and include outstanding claims provision (‘OCP’) and provision for claims incurred but not reported (‘IBNR’). 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 investigation of insurance cases as at and 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. Movement in loss provisions is recognised within ‘Net insurance claims incurred, movement in liabilities to policyholders and acquisition costs’ in the consolidated income statement of the Group.

Liability adequacy test

At each reporting date, liability adequacy test is performed to ensure the adequacy of the contract liabilities net of related deferred acquisition costs. In performing these tests, the current best estimates of the future contractual cash flows and claims handling expenses are used. Any deficiency is immediately charged to the consolidated income statement, initially by writing off deferred acquisition costs and by subsequently establishing a provision for losses arising from the liability adequacy test.

Pension liabilities

Pension liabilities are accounted under IFRS 4 *Insurance Contracts*. IFRS 4 *Insurance Contracts* permits an insurer to apply existing national GAAP for insurance contracts and financial instruments with discretionary participation feature (‘DPF’). Thus, pension liabilities under insurance contracts and financial instruments with DPF are determined by the Group in accordance with Russian legislation and pension and insurance rules also.

Pension liabilities are recognised at the earlier of the following dates:

(a) the beginning of insurance coverage;

(b) the date when the Group shall receive the first payment according to non-state pension contract or obligatory pension insurance contract with third parties.

The Group uses retrospective method to evaluate non-state pension liabilities if benefits under these contracts has not been granted yet, and prospective method if benefits has been already granted. The estimation is made on the basis of mortality rates and investment return. Assumptions also include adjustments for unfavourable events in order to provide the best estimate of possible future claims. Investment return assumptions are determined and fixed when non-state pension contract is signed, and may differ depending on the year of contract commencement.

Obligatory pension insurance liabilities are determined as cumulative contributions reduced by benefits and adjusted by investment return.

At each reporting date, liability adequacy test is performed to ensure the adequacy of the contract liabilities. The carrying amount of pension liabilities may be increased if the test shows that the carrying amount of pension liabilities is inadequate in the light of the estimated future cash flows.

The adequacy test considers current estimates of all contractual cash flows (including future cash flows such as contributions, benefits paid, lump sum payments and payments to successors), and of related cash flows such as contracts handling costs, cash flows resulting from embedded options and guarantees, as well as investment return on related assets. The Group uses current best estimates of future cash flows, taking into account expected improvements in life interval of participants in the future. Certain estimation techniques are applied by the Group, including discounting of cash flows and stochastic simulation.

For financial instruments with DPF the Group applies the same accounting policy as for insurance contracts liabilities.

Pension liabilities are derecognised when the term of the contract expires, the contract is repaid or cancelled.

Movement in pension liabilities is recognised within ‘Net insurance claims incurred, movement in liabilities to policyholders and acquisition costs’ in the consolidated income statement of the Group.

59. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

Pension liabilities (continued)

Pension contributions and benefits paid

Contributions are recognised in full amount as income when paid by a sponsor. In the consolidated income statement of the Group pension contributions are included in 'Net insurance premiums earned'. Benefits paid are charged to the consolidated income statement as incurred. Pension benefits paid are recognised within 'Net insurance claims incurred, movement in liabilities to policyholders and acquisition costs' in the consolidated income statement of the Group.

Non-current assets and disposal group held for sale

Non-current assets (or disposal groups, which may include both non-current and current assets and liabilities), are classified in the statement of financial position as 'non-current assets held for sale' (or as 'assets of disposal group held for sale' and 'liabilities of disposal group held for sale') if their carrying amount will be recovered principally through a sale transaction, including deconsolidation of a subsidiary holding the assets, within twelve months after the end of the reporting period. Assets (or disposal groups) are eligible to be classified or reclassified when all of the following conditions are met:

(a) the assets are available for immediate sale in their present condition;

(b) the Group's management approved and initiated an active programme to locate a buyer;

(c) the assets are actively marketed for a sale at a reasonable price;

(d) the sale is expected to occur within one year from the date of classification and

(e) it is unlikely that significant change to the plan to sell will be made or that the plan will be withdrawn.

Non-current assets or disposal groups classified as held for sale in the current period's statement of financial position are not reclassified or re-presented in the comparative statement of financial position to reflect the classification at the end of the current period.

A disposal group represents assets current and/or non-current assets to be disposed of, by sale or otherwise, together as a group in a single transaction, and liabilities directly associated with those assets that will also be transferred in the transaction. Goodwill is also included if the disposal group includes an operation within a cash-generating unit to which goodwill has been allocated on acquisition. Non-current assets are assets that include amounts expected to be recovered or collected more than twelve months after the end of the reporting period. If reclassification is required, both the current and non-current portions of an asset are reclassified.

Held for sale disposal groups as a whole are measured at the lower of their carrying amount and fair value less costs to sell. Held for sale premises and equipment and intangible assets are not depreciated or amortized. Reclassified financial instruments, deferred taxes and investment properties held at fair value are not subject to the write down to the lower of their carrying amount and fair value less costs to sell. Reclassified financial instruments, deferred taxes and investment properties held at fair value shall be remeasured in accordance with applicable IFRSs before the fair value less cost to sell of the disposal group is remeasured.

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

Gains or losses of the subsidiary classified as disposal group held for sale are included in the relevant caption of the consolidated income statement and other comprehensive income.

Investment property

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

Investment property is initially recognised at cost, including transaction costs, and subsequently remeasured at fair value reflecting market conditions at the end of the reporting period. Fair value of the Group's investment property is determined on the base of various sources including reports of independent appraisers, who hold a recognised and relevant professional qualification and who have recent experience in valuation of property of similar location and category.

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

Subsequent expenditure is capitalized only when it is probable that future economic benefits associated with it will flow to the Group and the cost can be measured reliably. All other repairs and maintenance costs are expensed when incurred. If an investment property becomes owner-occupied, it is reclassified to premises and equipment, and its carrying amount at the date of reclassification becomes its deemed cost to be subsequently depreciated.

59. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

Land, premises and equipment

Premises and equipment are stated at revalued amounts and cost, respectively, less accumulated depreciation and allowance for impairment where required. Land is stated at revalued amounts. Land has indefinite term of usage and, therefore, is not depreciable. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down to its recoverable amount and the difference is recognised in the income statement. The estimated recoverable amount is the higher of an asset's fair value less costs to sell and its value in use.

Land, premises and equipment of acquired subsidiaries are initially recorded in the statement of financial position at their estimated fair value at the date of acquisition. No accumulated depreciation on the premises and equipment acquired in the business combinations is presented in the financial statements on the date of acquisition.

Land and premises of the Group are subject to revaluation on a regular basis, approximately every three to five years. The frequency of revaluation depends upon the change in the fair values. When the fair value of a revalued asset differs materially from its carrying amount further revaluation is performed. The revaluation is applied simultaneously to the whole class of property to avoid selective revaluation.

Any revaluation surplus is credited to the other comprehensive income and increases land and premises revaluation reserve which is a separate equity section of the statement of financial position, except to the extent that it reverses an impairment of the same asset previously recognised in the income statement, in which case the increase is recognised in the income statement. A revaluation deficit is recognised in the income statement except for the deficit directly offsetting a previous surplus on the same asset is directly offset against the surplus in the asset revaluation reserve for land and premises.

The land and premises revaluation reserve included in equity is transferred directly to retained earnings when the surplus is realised, i.e. on the retirement or disposal of the asset or as the asset is used by the Group; in the latter case, the amount of the surplus realised is the difference between depreciation based on the revalued carrying amount of the asset and depreciation based on the asset's original cost.

Construction in progress is carried at cost less allowance for impairment, if any. Upon completion, assets are transferred to premises and equipment at their carrying value. Construction in progress is not depreciated until the asset is available for use.

If impaired, land, premises and equipment are written down to the higher of their value in use and fair value less costs to sell.

The decrease in carrying amount is charged to income statement to the extent it exceeds the previous revaluation surplus in equity. An impairment loss recognised for an asset in prior years is reversed if there has been a change in the estimates used to determine the asset's value in use or fair value less costs to sell.

Gains and losses on disposal of land, premises and equipment are determined by reference to their carrying amount and are taken into account in determining profit or loss. Repairs and maintenance are charged to the income statement when the expense is incurred.

Depreciation

Depreciation is recognised on a straight-line basis over the estimated useful lives of the assets using the following basic annual rates:

	Useful life	Depreciation rates
Premises	Maximum 150 years	Minimum 0.7% per annum
Equipment	4-20 years	5%-25% per annum

Estimated useful lives and residual values are reassessed annually.

Goodwill

Goodwill recognised in a business combination represents the future economic benefits arising from other assets acquired in a business combination that are not individually identified and separately recognised and is calculated as the excess of (a) over (b) below:

(a) the aggregate of:
- the consideration transferred, which generally requires acquisition-date fair value;
- the amount of any non-controlling interest in the acquiree; and
- in a business combination achieved in stages, the acquisition-date fair value of the acquirer's previously held equity interest in the acquiree.

(b) the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed.

If the above resulting amount is negative, the acquirer has made a gain from a bargain purchase, that gain is recognised in profit or loss.

59. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

Goodwill (continued)

The revised IFRS 3 allows the acquirer to measure any non-controlling interests, which are present ownership interests in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's identifiable net assets for each business combination. This results in different amount of goodwill or gain from bargain purchase to be recognised in financial statements depending on the choice of the acquirer.

Goodwill on an acquisition of a subsidiary is disclosed in the caption 'Goodwill and other intangible assets' of the statement of financial position. Goodwill on an acquisition of an associate or joint venture is included in the carrying amount of investments in associates and joint ventures. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses, if any.

Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying amount may be impaired. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units. Each unit or group of units, to which the goodwill is so allocated:

- represents the lowest level within the Group, at which the goodwill is monitored for internal management purposes; and
- is not larger than an operating segment in accordance with IFRS 8, *Operating Segments*, before aggregation.

Impairment of goodwill is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units), to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. Where goodwill forms a part of a cash-generating unit (group of cash-generating units) and a part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation.

Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Intangible assets other than goodwill

Intangible assets other than goodwill include licenses, computer software, and other identifiable intangible assets, including those acquired in business combinations.

Intangible assets acquired or recognised separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortized using straight-line method over the useful economic lives, which normally do not exceed 5 years, and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Amortization periods and amortization methods for intangible assets with finite useful lives are reviewed at least at each financial year-end.

Intangible assets with indefinite useful lives are not amortized, but are tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying amount may be impaired either individually or at the cash-generating unit level. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether indefinite life assessment continues to be supportable.

Core deposit, loan to customer and relation with the major lessee intangibles

Core deposit, loan to customer and relations with the major lessee intangibles relate to the acquisition of the Group's subsidiaries and are attributable to the customer demand deposits, loans to customers, leasing contracts, stable client base identified as intangible assets. The identification is based on examination of the subsidiaries' customer base.

The core deposit intangible is recognised if it was concluded that the acquired subsidiaries has a well-established and long-dated relationship with its major customers and that demand deposits actual maturity was significantly longer than contract maturity. The loan to customer intangible is determined by applying income approach and calculated as discounted cash-flow from new loans to existing borrowers. The relations with the major lessee intangible is determined by applying income approach and calculated as discounted cash-flow from new contracts to existing lessee.

The useful life of the core deposit, loan to customer and relation with the major lessee intangibles was estimated from five to eight years and is amortized over its useful life using the straight-line method.

Due to other banks

Amounts due to other banks are recorded when money or other financial assets are advanced to the Group by counterparty banks. The liability is carried at amortized cost using the effective interest method.

59. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

Customer deposits

Customer deposits are liabilities to individuals, state or corporate customers and are carried at amortized cost using the effective interest method. Customer deposits include both demand and term deposits. Interest expense is recognised in the income statement over the period of deposits using effective interest method.

Debt securities issued

Debt securities issued include promissory notes, certificates of deposit, eurobonds and debentures issued by the Group. Debt securities are stated at amortized cost using the effective interest method. If the Group purchases its own debt securities in issue, they are removed from the statement of financial position and the difference between the carrying amount of the liability the consideration paid is included in gains less losses arising from extinguishment of liability in the income statement.

Other borrowed funds

Other borrowed funds include some specific borrowings, which differ from the above items of liabilities and include funds from local central banks, syndicated loans, revolving, other credit lines and other specific items. Other borrowed funds are carried at amortized cost using the effective interest method. Interest expense is recognised in the income statement over the period of other borrowed funds using effective interest method.

Operations with precious metals

The Group enters into different types of transactions with precious metals including sale and purchase agreements, metal-currency swap transactions, lending and borrowing in precious metals. Correspondent accounts in precious metals (assets) are recorded within Cash and short-term funds; however, they are excluded from Cash and cash equivalents as the precious metals are considered to be a commodity rather than a financial instrument. Precious metals inventory in vault is included in Other assets.

When the Group borrows precious metals or accepts deposits in precious metals with a subsequent metal-currency swap or economically similar transaction, the Group accounts for such transactions as borrowings within the appropriate liability caption in the statement of financial position and recognises interest expense at the effective interest rate over the term of the borrowing. Related derivatives, including bifurcated precious metals derivatives, are accounted for in the statement of financial position as assets or liabilities at fair value through profit or loss with any changes in fair value recorded in the income statement.

Income tax

Income tax comprises current tax and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised in other comprehensive income or directly in equity, in which case it is recognised in the same statement in which the related item appears.

Current tax is the tax expected to be payable on the taxable profit for the year, calculated using tax rates enacted or substantively enacted by the balance sheet date, and any adjustment to tax payable in respect of previous years. Current tax assets and liabilities are offset when the Group intends to settle on a net basis and the legal right to offset exists. 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 financial statements are authorized prior to filing relevant tax returns. Taxes, other than on income, are recorded within administrative expenses.

Deferred income tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the balance sheet and the amounts attributed to such assets and liabilities for tax purposes. Deferred income tax liabilities are generally recognised for all taxable temporary differences and deferred income tax assets are recognised to the extent that it is probable that future taxable profits will be available against which deductible temporary differences can be utilized.

Deferred income tax is calculated using the tax rates expected to apply in the periods in which the assets will be realised or the liabilities settled, based on tax rates and laws enacted, or substantively enacted, by the balance sheet date. Deferred income tax assets and liabilities are offset when they arise in the same tax reporting group and relate to income taxes levied by the same taxation authority, and when the Group has a legal right to offset.

Deferred income tax relating to actuarial gains and losses on post-employment benefits is recognised in other comprehensive income. Deferred income tax relating to share-based payment transactions is recognised directly in equity to the extent that the amount of the estimated future tax deduction exceeds the amount of the related cumulative remuneration expense. Deferred income tax relating to fair value re-measurements of available-for-sale investments and cash flow hedging instruments which are charged or credited directly to other comprehensive income, is also charged or credited to other comprehensive income and is subsequently recognised in the income statement when the deferred fair value gain or loss is recognised in the income statement.

Provisions for liabilities and charges

Provisions for liabilities and charges are non-financial liabilities of uncertain timing or amount. They are recorded 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.

59. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

Credit related commitments

Financial guarantees issued or commitments to provide a loan at a below-market interest rate are initially measured at fair value and the initial fair value is amortised over the life of the guarantee or the commitment. Subsequently, they are measured as follows:

- from 1 January 2018: at the higher of this amortised amount and the amount of loss allowance; and
- before 1 January 2018: at the higher of this amortised amount and the present value of any expected payment to settle the liability when a payment under the contract has become probable.

The Group has issued no loan commitment that are measured at FVTPL.

For other loan commitments:

- from 1 January 2018: the Group recognises loss allowance;
- before 1 January 2018: the Group recognises a provision in accordance with IAS 37 if the contract was considered to be onerous.

Liabilities arising from financial guarantees and loan commitments are included within provisions.

Performance guarantees

Performance guarantees are contracts that provide compensation if another party fails to perform a contractual obligation. Performance guarantees are initially recognised at their fair value, which is normally evidenced by the amount of fees received. This amount is amortized on a straight line basis over the life of the contract. At the end of each reporting period, the performance guarantee contracts are measured at the higher of the unamortized balance of the amount at initial recognition and the best estimate of expenditure required to settle the contract at the end of each reporting period, discounted to present value. Where the Group has the contractual right to revert to its customer for recovering amounts paid to settle the performance guarantee contracts, such amounts will be recognised as loans and receivables upon transfer of the loss compensation to the guarantee's beneficiary.

Perpetual Loan Participation Notes

Due to the undefined maturity and an option for non-cumulative cancellation of coupon payments, the Group accounts for the Perpetual Loan Participation Notes as an equity instrument and as a Tier I eligible instrument for the purpose of Capital Adequacy Ratio calculation. The CBR approved the inclusion of the subordinated loan in the statutory capital ratio calculation of the Bank.

The Group accounts for the Perpetual Loan Participation Notes (PLPN) denominated in the foreign currency in the amount of RUR equivalent amount using the foreign exchange rate at the reporting date with foreign exchange translation effects recorded in Retained earnings. Issuance costs were also recorded in Retained earnings.

While coupon payments are optional at the discretion of VTB, certain terms in the PLPN may cause such payments to become mandatory. At the moment the coupon under PLPN becomes mandatory, it is recorded as a dividend declaration described below.

Treasury perpetual loan participation notes are included in Treasury shares and PLPN in the consolidated statement of changes in shareholder's equity.

Share premium

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

Dividends

Dividends are recorded as a separate debit caption in equity in the period in which they are declared. Dividends declared after the reporting date and before the financial statements are authorized for issue are disclosed in the subsequent events note. The statutory accounting reports of the Bank are the basis for profit distribution and other appropriations. Russian legislation identifies the basis of distribution as the current year net profit.

Recognition of income and expenses

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured.

Interest and similar revenue and expense

Policy applicable from 1 January 2018

Effective interest rate

Interest income and expense are recognised in profit or loss using the effective interest method.

The 'effective interest rate' is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to:

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

When calculating the effective interest rate for financial instruments other than credit-impaired assets, the Group estimates future cash flows considering all contractual terms of the financial instrument, but not expected credit losses. For credit-impaired financial assets, a credit-adjusted effective interest rate is calculated using estimated future cash flows including expected credit losses.

The calculation of the effective interest rate includes transaction costs and fees and points paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or financial liability.

59. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

Interest and similar revenue and expense (continued)

Amortised cost and gross carrying amount

The ‘amortised cost’ of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured on initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any expected credit loss allowance (or impairment allowance before 1 January 2018).

The ‘gross carrying amount of a financial asset’ is the amortised cost of a financial asset before adjusting for any expected credit loss allowance.

Calculation of interest income and expense

In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired) or to the amortised cost of the liability.

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

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

Presentation

Interest income and expense presented in the statement of profit or loss and other comprehensive income include:

- interest on financial assets and financial liabilities measured at amortised cost calculated on an effective interest basis;
- interest on debt instruments measured at fair value through other comprehensive income calculated on an effective interest basis.

Policy applicable before 1 January 2018

Interest income and expense for all financial instruments are recognised on accrual basis in ‘Interest income’ and ‘Interest expense’ in the income statement using the effective interest method and the coupon (contractual) interest rate for non-derivative debt financial assets held for trading, which approximates the effective interest rate. The effective interest method is a way of calculating the amortized cost of a financial asset or a financial liability (or groups of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period.

The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial instrument or, where appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument but excluding future credit losses. The calculation includes all amounts paid or received by the Group that are an integral part of the effective interest rate of a financial instrument, including transaction costs and all other premiums or discounts.

Interest on impaired financial assets is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Fee and commission income

Fee income is earned from a diverse range of services provided by the Group to its customers. Fee income is accounted for as follows:

- income earned on the execution of a significant act is recognised as revenue when the act is completed (for example, fees arising from negotiating, or participating in the negotiation of, a transaction for a third party such as an arrangement for the acquisition of shares or other securities);
- income earned from the provision of services is recognised as revenue as the services are provided (for example, asset management, portfolio and other management advisory and service fees); and
- income which forms an integral part of the effective interest rate of a financial instrument is recognised as an adjustment to the effective interest rate (for example, certain loan commitment fees) and recorded in ‘Interest income’.

Gains on initial recognition of financial instruments

When resources are attracted at off-market interest rates the difference between the nominal amount received and present value of cash flows discounted at the market interest rate is recognized as gains or losses on initial recognition of due from other banks or customer deposits in the income statement. The Group shall recognize a gain on initial recognition of resources attracted at interest rates below market only when the contract makes no provision for early termination upon a depositor’s demand.

Dividend income

Dividend income is recognised when the right to receive payment is established. This is the ex-dividend date for listed equity securities, and usually the date when shareholders have approved the dividend for unlisted equity securities.

59. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

Dividend income (continued)

Policy applicable from 1 January 2018

Dividends from equity securities are presented within ‘Gains net of losses arising from other financial instruments at fair value through profit or loss’, ‘Other operating income’ lines of the income statement.

Policy applicable before 1 January 2018

Dividends from equity securities classified as financial instruments at fair value through profit or loss are recognised within ‘Gains less losses arising from financial instruments at fair value through profit or loss’ line of the income statement. Dividends from equity securities classified as available-for-sale financial assets are recognised within ‘Gains less losses from investment financial assets available-for-sale’ line of the income statement. Dividends received from associates measured at fair value through profit or loss are recognised within ‘Gains less losses arising from financial instruments at fair value through profit or loss’ line of the income statement.

Revenues and expenses from other non-banking activities

Income and expenses of the Group members which principal activities are other than banking and insurance operations are recognized generally on the aggregated basis in the consolidated income statement as non-banking income and non-banking expenses except for revenues and expenses recognized in other lines of the income statement (for example, interest income or expense or gains less losses arising from financial instruments at fair value through profit or loss).

Non-banking income and expenses also include income/ expenses from construction, development and other real estate operations.

Revenue is recognised when the goods or services are transferred to the customer, at the transaction price. Any bundled goods or services that are distinct are separately recognised, and any discounts or rebates on the contract price are generally allocated to the separate elements. When the consideration varies for any reason, minimum amounts are recognised if they are not at significant risk of reversal. Costs incurred to secure contracts with customers have to be capitalized and amortized over the period when the benefits of the contract are consumed.

Staff costs and related contributions

The Group’s contributions to the State and Group’s social insurance and obligatory medical insurance funds in respect of its employees are expensed as incurred and included in staff costs within staff costs and administrative expenses. The Group’s contributions to the State and Group pension schemes are included in defined contribution pension expense within staff costs and administrative expenses. Unused vacations accrued amounts are also included in staff costs within staff costs and administrative expenses. The Group recognises all actuarial gains and losses related to the defined benefit plan directly in other comprehensive income.

Share-based payment

Equity-settled share-based payment transactions are transactions, in which the entity receives goods or services as consideration for equity instruments of the entity.

For equity-settled share-based payment transactions, the goods or services received, and the corresponding increase in equity, are measured directly, at the fair value of the goods or services received, unless that fair value cannot be estimated reliably. If the entity cannot estimate reliably the fair value of the goods or services received, the entity shall measure their value, and the corresponding increase in equity, indirectly, by reference to the fair value of the equity instruments granted.

For share-based payment transactions among Group’s entities, in its separate or individual financial statements, the entity receiving the goods or services shall measure the goods or services received as either an equity-settled or a cash-settled share-based payment transaction by assessing:

(a) the nature of the awards granted, and

(b) its own rights and obligations.

The entity receiving the goods or services shall measure the goods or services received as an equity-settled share-based payment transaction when:

(a) the awards granted are its own equity instruments, or

(b) the entity has no obligation to settle the share-based payment transaction.

In all other circumstances, the entity receiving the goods or services shall measure the goods or services received as a cash-settled share-based payment transaction.

The entity settling a share-based payment transaction when another entity in the Group receives the goods or services shall recognise the transaction as an equity-settled share-based payment transaction only if it is settled in the entity’s own equity instruments. Otherwise, the transaction shall be recognised as a cash-settled share-based payment transaction.

Inflation accounting

If an economy in which a Group’s subsidiary operates is considered to be hyperinflationary as defined by IAS 29, *Financial Reporting in Hyperinflationary Economies*, than this subsidiary applies IAS 29. The standard requires that the financial statements prepared in the currency of a hyperinflationary economy shall be stated in terms of the measuring unit current at the reporting date.

59. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

Foreign currency translation

Each Group member determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Transactions in foreign currencies are initially recorded in the functional currency equivalent, translated at the rate of exchange at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the reporting date. Gains and losses resulting from the translation of foreign currency transactions are recognised in the income statement as foreign exchange translation gains less losses. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

These financial statements are presented in Russian roubles (RUR), the national currency of the Russian Federation, where the Bank is domiciled. As at the reporting date, the assets and liabilities of the entities whose functional currency is different from the presentation currency of the Group and is not a currency of hyperinflationary economy, are translated into RUR at the closing rate of exchange at the reporting date and their income statements are translated into RUR at the average exchange rates for the reporting period.

The exchange differences arising on the translation are recognised in other comprehensive income in a separate component of equity (‘Currency translation difference’).

Exchange differences arising on monetary items due from the foreign subsidiaries that form part of the Bank’s net investment in a foreign operation are recognised initially in other comprehensive income and reclassified from equity to profit or loss on disposal of the net investment.

If the entity’s functional currency is a currency of hyperinflationary economy, all amounts (assets, liabilities, equity items, income and expenses) of these entities are translated into RUR at the closing rate of exchange at the reporting date; and, before applying this translation method, the entity restates its financial statements in accordance with IAS 29 (see above ‘Inflation accounting’), except for comparative amounts that are translated into RUR. Differences which arise each period between the closing equity items of the previous year and the opening equity items of the current year presented in RUR are recognised as an ‘Effect of translation, net of tax’ in other comprehensive income, as to the related equity items. The remaining exchange differences arising on the consolidation are recognised in other comprehensive income as a separate component of equity (‘Currency translation difference’).

On disposal of a subsidiary, an associate or a joint venture, whose functional currency is different from the presentation currency of the Group, the deferred cumulative amount recognised in equity relating to that particular entity is reclassified to the income statement.

As at 31 December 2018, the principal closing rate of exchange used for translating balances in USD to Russian roubles was USD 1 to RUR 69.4706 (at 31 December 2017: USD 1 to RUR 57.6002), and the principal closing rate of exchange used for translating balances in euro was EUR 1 to RUR 79.4605 (at 31 December 2017: EUR 1 to RUR 68.8668).

Fiduciary assets

Assets held by the Group in its own name, but for the account of third parties, are not reported in the consolidated statement of financial position. Commissions received from such operations are shown within fee and commission income in the consolidated income statement.

Segment reporting

An operating segment is a distinguishable component of the Group that is engaged in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity), whose operating results are regularly reviewed by the Group’s chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available. Segments with a majority of revenue earned from sales to external customers and whose revenue, net profit (loss) or combined assets are ten percent or more of all the segments are reported separately (reportable segments). The segments, that are below the above materiality thresholds, but can be aggregated on the basis of their activities, production processes, products or services, should be tested for the meeting the criteria of reportable segments on these aggregated amounts.

In accordance with IFRS 8, *Operating Segments*, the Group defined as the operating segments its global business lines. Segment disclosure is presented on the basis of IFRS compliant data of the global business lines and entities adjusted, where necessary, for intersegment reallocation.

Presentation of statement of financial position in order of liquidity

The Group does not have a clearly identifiable operating cycle and therefore does not present current and non-current assets and liabilities separately in the statement of financial position. Instead, assets and liabilities are presented in order of their liquidity in accordance with common banking practice.

60. NEW ACCOUNTING PRONOUNCEMENTS

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

IFRS 16 Leases issued in January 2016 with an effective date of annual periods beginning on or after 1 January 2019.

The objective of IFRS 16 is to report information that faithfully represents lease transactions and provides a basis for users of financial statements to assess the amount, timing and uncertainty of cash flows arising from leases. To meet that objective, a lessee should recognise assets and liabilities arising from a lease.

IFRS 16 introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments.

A lessee measures right-of-use assets similarly to other non-financial assets (such as property, plant and equipment or investment property) and lease liabilities similarly to other financial liabilities. A lessee applies the fair value model to right-of-use assets that meet the definition of investment property in accordance with IAS 40.
A lessee may elect to apply the revaluation model to right-of-use assets that relate to property, plant and equipment or to apply the cost model and recognise depreciation on a straight-line basis in respect of these assets. Interest expense on the lease liability are recognised in the statement of profit or loss. In the statement of cash flows, a lessee separates the total amount of cash paid into principal (presented within financing activities) and interest (presented within either operating or financing activities) in accordance with IAS 7.

Assets and liabilities arising from a lease are initially measured on a present value basis. The measurement includes non-cancellable lease payments (including inflation-linked payments) and payments to be made in optional periods if the lessee is reasonably certain to exercise an option to extend the lease, or not to exercise an option to terminate the lease. In most cases, the initial lease asset equals the lease liability. The lease asset is the right to use the underlying asset presented in the statement of financial position as part of Investment property or Land, premises and equipment.

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.

IFRS 16 replaces IAS 17 and has the following transition provisions:

- Existing finance leases continue to be treated as finance leases.
- Existing operating leases: option for full or limited retrospective restatement to reflect the requirements of IFRS 16.

The Group applies IFRS 16 using limited retrospective approach starting the effective date of 1 January 2019 without recalculation of comparatives.

IFRS 16 initial application effect

Based on the available data and current implementation status, Group management estimates the adoption of IFRS 16 will lead to recognition of right-to-use assets in the approximate amount of RUR 45.0 billion and respective lease liability in the equal amount starting 1 January 2019.

The Group applies "recognition exemption" with respect to accounting for short-term leases (with a lease term of 12 months or less) and leases for which the underlying asset is of low-value. Lease payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss.

IFRS 17 Insurance Contracts issued in May 2017 is mandatorily effective for annual reporting periods beginning on or after 1 January 2021.

IFRS 17 will replace IFRS 4 *Insurance Contracts.*

The IFRS 17 model combines a current balance sheet measurement of insurance contract liabilities with the recognition of profit over the period that services are provided. Certain changes in the estimates of future cash flows and the risk adjustment are also recognised over the period that services are provided. Entities will have an option to present the effect of changes in discount rates either in profit and loss or in OCI.
The standard includes specific guidance on measurement and presentation for insurance contracts with participation features. The Group is currently assessing the impact of IFRS 17 on its financial statements.

Amendments to IFRS 4 Insurance contracts issued on 12 September 2016 provide two optional solutions to reduce the impact of the deferring effective dates between IFRS 9 and forthcoming insurance contracts standard – temporary exemption from IFRS 9 or overlay approach. The new insurance contracts Standard is currently being drafted and will have an effective date no earlier than 2020. The Group is currently assessing the potential impact of these options on its financial statements.

Unless otherwise described above, the new standards and interpretations are not expected to affect significantly the Group's consolidated financial statement.

61. CHANGES IN PRESENTATION AND CORRECTION

Before the adoption of IFRS 9 the Group decided to present Trading financial assets, previously presented in Non-derivative financial assets at fair value through profit or loss, in a separate line of the consolidated statement of financial position. Financial assets designated as at fair value through profit or loss, previously presented in Non-derivative financial assets at fair value through profit or loss, were reclassified to Investment financial assets. The effects of the change in presentation on the consolidated statement of financial position as at 31 December 2017 were as follows:

	As previously reported	Reclassification	As reclassified
Non-derivative financial assets at fair value through profit or loss	313.4	(313.4)	–
• Non-derivative financial assets at fair value through profit or loss	313.1	(313.1)	–
• Non-derivative financial assets at fair value through profit or loss, pledged under repurchase agreements	0.3	(0.3)	–
Trading financial assets	–	277.2	277.2
• Trading financial assets	–	276.9	276.9
• Trading financial assets, pledged under repurchase agreements	–	0.3	0.3
Investment financial assets	285.6	36.2	321.8
• Investment financial assets	285.2	36.2	321.4

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

	As previously reported	Reclassification	As reclassified
Cash flows from/(used in) operating activities			
Net increase in financial assets at fair value through profit or loss	(46.9)	46.9	–
Net increase in trading financial assets	–	(47.8)	(47.8)
Net cash from in operating activities	**1,433.7**	**(0.9)**	**1,432.8**
Cash flows from/(used in) investing activities			
Proceeds from redemption and sales of investment financial assets designated as at fair value through profit or loss	–	0.9	0.9
Net cash from investing activities	**1.5**	**0.9**	**2.4**

The effect of corresponding reclassifications on Note 54 Related Party Transactions is presented below:

Statement of financial position	As previously reported	Reclassification	As reclassified
Government-related entities			
Non-derivative financial assets at fair value through profit or loss	172.7	(172.7)	–
Trading financial assets	–	168.9	168.9
Investment financial assets	216.8	3.8	220.6

Starting the adoption of IFRS 9 the Group adjusted the presentation of the comparative amounts in the consolidated income statement for the year ended 31 December 2017 to be consistent with the new presentation.

	As previously reported	Reclassification	As reclassified
Interest income	1,056.2	(1,056.2)	–
Interest income calculated using the effective interest method	–	1,016.6	1,016.6
Other interest income	–	39.6	39.6
Provision charge for impairment of other assets, credit related commitments and legal claims	(2.7)	2.7	–
Provision charge for credit losses on credit related commitments and other financial assets	–	(3.3)	(3.3)
Provision charge for legal claims and other commitments	–	0.6	0.6

Starting 3rd quarter 2018, the Group presents interest income on net investments in finance lease as separate line within Other interest income. The Group reclassified interest income on net investments in financial lease and certain other items from Interest income calculated using the effective interest method to Other interest income.

The effect of corresponding reclassifications on Note 5 Interest Income and Expense for the year ended 31 December 2017 is presented below:

	As previously reported	Reclassification	As reclassified
Loans and advances to customers	973.4	(24.0)	949.4
Net investment in finance lease	–	24.0	24.0

61. CHANGES IN PRESENTATION AND CORRECTION (CONTINUED)

The effect of corresponding reclassifications on Note 54 Related Party Transactions is presented below:

Income Statement	As previously reported	Reclassification	As reclassified
Interest Income arising from operations with Government-related entities			
Loans and advances to customers	207.3	(3.1)	204.2
Securities	25.7	(25.7)	–
Other financial assets, including securities	–	17.8	17.8
Financial assets at fair value through profit or loss	–	7.9	7.9
Net investment in finance lease	–	3.1	3.1

In the course of preparing its annual financial statements for the year ended 31 December 2018, the Group adjusted the effect of transition to IFRS 9 which was previously reported in the interim condensed consolidated financial statements for the periods ended 31 March 2018, 30 June 2018 and 30 September 2018.

The correction was driven by changes in the staging of certain corporate borrowers for which information about credit risk at origination date became available and by recalculation of the certain parameters of the expected credit loss model for retail borrowers following review of model's input data accuracy. As a result of the adjustment, the expected credit losses allowance as of the date of transition increased by 9.3 billion RUR, equity decreased by 7.4 billion RUR, and deferred tax asset increased by 1.9 billion RUR.

Effect on consolidated statement of changes in shareholders' equity previously reported in the interim condensed financial statements is as follows:

Retained earnings	As previously reported	Adjustment	As Adjusted
Closing balance (31 December 2017)	**200.4**	–	**200.4**
Recognition of expected credit losses under IFRS 9 (including lease receivables, loan commitments and financial guarantee contracts) and other remeasurement effects	(67.5)	(7.4)	(74.9)
Recognition of revenue under IFRS 15	1.1	–	1.1
Opening balance (1 January 2018)	**134.0**	**(7.4)**	**126.6**
Total equity			
Closing balance (31 December 2017)	1,479.7	–	1,479.7
Recognition of expected credit losses under IFRS 9 (including lease receivables, loan commitments and financial guarantee contracts) and other remeasurement effects	(62.6)	(7.4)	(74.9)
Recognition of revenue under IFRS 15	1.1	–	1.1
Opening balance (1 January 2018)	**1,418.2**	**(7.4)**	**1,410.8**

Effect on reconciliation from the opening to the closing balance of the loss allowance of loans and advances to customers previously reported in the interim condensed consolidated financial statements is as follows:

	As previously reported	Adjustment	As adjusted
Loans and advances to customers under IAS 39 / financial assets at amortised cost under IFRS 9	(601.4)	–	(601.4)
Net reclassification	32.5	–	32.5
Remeasurement	(164.9)	(9.3)	(174.2)
Opening balance (1 January 2018)	**(733.8)**	**(9.3)**	**(743.1)**

61. CHANGES IN PRESENTATION AND CORRECTION (CONTINUED)

Also, as at transition date the Group reassessed modifications of certain problematic loans to individuals and concluded that modifications were not substantial and did not result in derecognition of those loans. As a result, the Group reclassified such loans to individuals out of purchased credit-impaired to other ECL stages to as at 1 January 2018.

Effect of the adjustments above on reconciliation from the opening to the closing balance of the loss allowance of loans and advances to customers previously reported in the interim condensed financial statements is as follows:

	Opening balance (1 January 2018)			
	As previously reported	Remeasurement	Reclassification	As reclassified
Loans to legal entities at amortised cost				
12-month ECL	37.2	0.2	–	37.4
Lifetime ECL not credit-impaired	20.5	(4.3)	–	16.2
Lifetime ECL credit-impaired	413.0	(0.2)	–	412.8
Purchased credit-impaired	23.8	–	–	23.8
Loans and advances to customers at fair value through other comprehensive income	0.1	–	–	0.1
Total	**494.6**	**(4.3)**	**–**	**490.3**
Loans to individuals at amortised cost				
12-month ECL	26.4	5.8	–	32.2
Lifetime ECL not credit-impaired	8.0	1.9	0.1	10.0
Lifetime ECL credit-impaired	190.0	9.4	11.1	210.5
Purchased credit-impaired	14.8	(3.5)	(11.2)	0.1
Total	**239.2**	**13.6**	**–**	**252.8**