Report on Review of Interim Financial Information of
CentroCredit Bank
for the six months ended 30 June 2019

August 2019

Translation from the original Russian version

Translation from the original Russian version

Contents

Report on Review of Interim Financial Information

Translation from the original Russian version

To the shareholders and Board of Directors of
CentroCredit Bank

Introduction

We have reviewed the accompanying interim financial statements of CentroCredit Bank, which comprise the interim statement of financial position as at 30 June 2019, the interim statement of profit or loss, the interim statement of comprehensive income, the interim statement of changes in equity and the interim statement of cash flows for the six months then ended and selected explanatory notes (the "interim financial information"). Management of CentroCredit Bank is responsible for the preparation and presentation of this interim financial information in accordance with International Accounting Standard (IAS) 34 *Interim Financial Reporting*. Our responsibility is to express a conclusion on this interim financial information based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Translation from the original Russian version

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim financial information is not prepared, in all material respects, in accordance with IAS 34 *Interim Financial Reporting*.

MARIJA IGNATJEVA
Partner
Ernst & Young LLC

29 August 2019

Details of the audited entity

Name: CentroCredit Bank
Record made in the State Register of Legal Entities on 16 September 2002, State Registration Number 1027739198387.
Address: Russia 119017, Moscow, Pyatnitskaya ulitsa, 31/2, building 1.

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.

Interim statement of financial position

as at 30 June 2019

(thousands of Russian rubles)

	Notes	30 June 2019 (unaudited)	31 December 2018
Assets			
Cash and accounts with the CBR	3	2,990,482	2,462,311
Financial assets at fair value through profit or loss	4	25,327,852	11,764,172
Financial assets at fair value through profit or loss pledged under repurchase agreements	4	49,278,225	51,429,488
Amounts due from credit institutions	5	7,810,259	8,189,562
Loans to customers	6	18,566,537	17,685,858
Property and equipment and right-of-use assets		295,193	78,091
Other assets		1,791,139	936,947
Total assets		**106,059,687**	**92,546,429**
Liabilities			
Amounts due to credit institutions	9	49,672,700	50,557,291
Amounts due to customers	10	20,841,433	13,419,965
Debt securities issued	11	778,830	708,055
Other provisions	13	466,392	896,212
Current income tax liabilities		32,597	60,584
Deferred income tax liabilities	7	510,467	–
Other liabilities		1,319,319	499,651
Total liabilities		**73,621,738**	**66,141,758**
Equity			
Share capital	12	6,946,140	6,946,140
Revaluation reserve for securities at fair value through other comprehensive income	12	(9)	–
Retained earnings		25,491,818	19,458,531
Total equity		**32,437,949**	**26,404,671**
Total equity and liabilities		**106,059,687**	**92,546,429**

Signed and authorized for release on behalf of the Management Board of the Bank.

L.V. Zimina — Chairman of the Management Board

O.Yu. Pavlova — Chief Accountant – Head of the Accounting and Reporting Department

29 August 2019

The accompanying notes 1-19 are an integral part of these interim condensed financial statements.

Interim statement of profit or loss

for the six months ended 30 June 2019

(thousands of Russian rubles)

	Notes	*For the six months ended 30 June (unaudited)* 2019	2018
Interest income		3,631,548	2,509,723
Interest expense		(2,084,383)	(1,304,927)
Net interest income		**1,547,165**	**1,204,796**
Credit loss expense	8	(3,388,798)	(1,036,505)
Net interest (expense) after credit loss expense		**(1,841,633)**	**168,291**
Fee and commission income		281,674	253,774
Fee and commission expense		(33,202)	(32,134)
Net gains from financial instruments at fair value through profit or loss	14	9,758,900	761,284
Net (losses)/gains from precious metals		(26,214)	99,350
Net gains/(losses) from foreign currencies:		161,772	(234,998)
- Dealing		(96,716)	(2,848)
- Translation differences		258,488	(232,150)
Dividends received		1,337,047	524,963
Other income		52,609	74,329
Non-interest income		**11,532,586**	**1,446,568**
Personnel expenses		(369,720)	(366,825)
Depreciation and amortization		(48,960)	(28,402)
Other operating expenses		(295,243)	(171,092)
Non-interest (expense)		**(713,923)**	**(566,319)**
Profit before income tax expense		**8,977,030**	**1,048,540**
Income tax expense	7	(860,801)	(82,768)
Profit for the reporting period		**8,116,229**	**965,772**

The accompanying notes 1-19 are an integral part of these interim condensed financial statements.

Interim statement of comprehensive income
for the six months ended 30 June 2019

(thousands of Russian rubles)

		For the six months ended 30 June (unaudited)	
	Notes	***2019***	***2018***
Profit for the reporting period		**8,116,229**	**965,772**
Other comprehensive (loss)			
Change in revaluation reserve for securities at fair value through other comprehensive income	12	(9)	–
Other comprehensive (loss), net of tax		**(9)**	**–**
Total comprehensive income for the reporting period		**8,116,220**	**965,772**

The accompanying notes 1-19 are an integral part of these interim condensed financial statements.

Interim statement of changes in equity
for the six months ended 30 June 2019

(thousands of Russian rubles)

	Share capital	*Revaluation reserve for securities at fair value through other comprehensive income*	*Retained earnings*	*Total equity*
1 January 2018	**6,946,140**	**(12,096)**	**21,419,879**	**28,353,923**
Effect of applying IFRS 9	–	12,096	(603,401)	**(591,305)**
1 January 2018 restated under IFRS 9	**6,946,140**	**–**	**20,816,478**	**27,762,618**
Profit for the reporting period	–	–	965,772	**965,772**
Total comprehensive income for the reporting period	**–**	**–**	**965,772**	**965,772**
Dividends to shareholders of the Bank (Note 12)	–	–	(442,273)	**(442,273)**
30 June 2018 (unaudited)	**6,946,140**	**–**	**21,339,977**	**28,286,117**
1 January 2019	**6,946,140**	**–**	**19,458,531**	**26,404,671**
Profit for the reporting period	–	–	8,116,229	**8,116,229**
Other comprehensive income for the reporting period (Note 12)	–	(9)	–	**(9)**
Total comprehensive income for the reporting period	**–**	**(9)**	**8,116,229**	**8,116,220**
Dividends to shareholders of the Bank (Note 12)	–	–	(2,082,942)	**(2,082,942)**
30 June 2019 (unaudited)	**6,946,140**	**(9)**	**25,491,818**	**32,437,949**

The accompanying notes 1-19 are an integral part of these interim condensed financial statements.

Interim statement of cash flows

for the six months ended 30 June 2019

(thousands of Russian rubles)

	Notes	*For the six months ended 30 June (unaudited)* 2019	2018
Cash flows from operating activities			
Interest received		2,995,665	2,453,840
Interest paid		(1,693,932)	(1,457,439)
Fees and commissions received		281,674	253,774
Fees and commissions paid		(33,202)	(32,134)
Gains less losses from financial assets at fair value through profit or loss		1,329,601	711,669
Gains less losses from precious metals		7,170	329,267
Realized gains less losses from dealing in foreign currencies		(96,716)	(2,848)
Dividends received		584,581	171,208
Other income received		37,000	73,833
Personnel expenses paid		(352,850)	(351,640)
Other operating expenses paid		(173,771)	(168,148)
Cash flows from operating activities before changes in operating assets and liabilities		**2,885,220**	**1,981,382**
Net (increase)/decrease in operating assets			
Obligatory reserve with the CBR		(61,729)	31,608
Financial assets at fair value through profit or loss		(3,768,592)	(7,631,488)
Amounts due from credit institutions		1,084	(11,601)
Loans to customers		(3,757,237)	(4,176,251)
Other assets		(226,938)	(215,961)
Net increase/(decrease) in operating liabilities			
Amounts due to credit institutions		(852,409)	15,128,787
Amounts due to customers		7,999,414	(3,108,151)
Debt securities issued		54,804	(3,068,931)
Other liabilities		581,180	34,033
Net cash from / (used in) operating activities before income tax		**2,854,797**	**(1,036,573)**
Income tax paid		(291,152)	(170,556)
Net cash from / (used in) operating activities		**2,563,645**	**(1,207,129)**
Cash flows from investing activities			
Purchase of property and equipment		(11,079)	(14,568)
Proceeds from sale of property and equipment		11,564	496
Purchase of investment property		(32,502)	–
Proceeds from sale of investment property		–	11,475
Net cash (used in) / from investing activities		**(32,017)**	**(2,597)**
Cash flows from financing activities			
Dividends paid to shareholders of the Bank		(2,083,050)	–
Total cash outflow from lease liabilities		(22,185)	–
Net cash (used in) financing activities		**(2,105,235)**	**–**
Effect of exchange rates changes on cash and cash equivalents		(331,434)	174,982
Effect of changes in expected credit losses on cash and cash equivalents		(5,394)	–
Net increase/(decrease) in cash and cash equivalents		**89,565**	**(1,034,744)**
Cash and cash equivalents, beginning	3	10,482,956	7,204,333
Cash and cash equivalents, ending	3	**10,572,521**	**6,169,589**

(thousands of Russian rubles)

1. Principal activities

CentroCredit joint-stock commercial bank (the "Bank") was formed in 1989. In 2015, the Bank changed its legal form from closed joint-stock company to joint-stock company in order to bring its incorporation documents in line with Chapter 4 of the Civil Code of the Russian Federation as required by Federal Law No. 99-FZ *On Amending Chapter 4 of Part 1 of the Civil Code of the Russian Federation, and on Recognizing Some Provisions of Russian Legislative Acts to be Void* dated 5 May 2014.

The Bank operates under a general banking license issued by the Central Bank of Russia (the "CBR") on 17 December 2014, as well as the CBR license for operations with precious metals (issued on 17 December 2014). The Bank also holds the following licenses related to its principal activity:

- License of a professional participant of the securities market for dealer activities No. 177-06344-010000 dated 19 September 2003;
- License of a professional participant of the securities market for broker activities No. 177-06333-100000 dated 19 September 2003;
- License of a professional participant of the securities market for custody services No. 177-06413-000100 dated 26 September 2003.

The Bank accepts deposits from legal entities and individuals and extends credit, transfers payments in Russia and abroad, exchanges currencies and provides other banking services to its commercial and retail customers. The Bank's main office is in Moscow. The Bank has 4 additional offices, 8 internal structural divisions and a representative office in London (United Kingdom). The Bank's registered legal address is Russia 119017, Moscow, Pyatnitskaya ulitsa, 31/2, building 1.

Starting 11 November 2004, the Bank is a member of the deposit insurance system. The system operates under federal laws and regulations and is governed by State Corporation "Agency for Deposits Insurance." Insurance covers the Bank's liabilities to individual depositors for the amount of up to 1,400 thousand of Russian rubles for each individual in case of business failure or revocation of the CBR banking license.

As at 30 June 2019 and 31 December 2018, the Bank employed 465 and 469 people, respectively.

As at 30 June 2019 and 31 December 2018, the Bank's shareholders were as follows:

Shareholder	***30 June 2019, % (unaudited)***	***31 December 2018, %***
CENTRORIVER HOLDINGS LTD	64.23	64.23
Trial LLC	13.81	13.81
Andrey Igorevich Tarasov	11.96	11.96
Ilya Yuryevich Korbashov	9.96	9.96
Other	0.04	0.04
Total	**100.00**	**100.00**

As at 30 June 2019 and 31 December 2018, the Bank's ultimate controlling party is Andrey Igorevich Tarasov.

Andrey Igorevich Tarasov, the Bank's shareholder, is Chairman of the Board of Directors. Ilya Yuryevich Korbashov, the Bank's shareholder, is a member of the Board of Directors.

2. Basis of preparation

General

These interim condensed financial statements for the six months ended 30 June 2019 were prepared in accordance with International Accounting Standard (IAS) 34 *Interim Financial Reporting* based on the assumption that the Bank will operate as a going concern in the foreseeable future. The Bank's management does not intend to liquidate the Bank or cease its operations. Under the going concern assumption, assets and liabilities are recorded on the basis that the Bank will be able to realize its assets and discharge its liabilities in the normal course of business.

The interim condensed financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Bank's annual financial statements as at 31 December 2018.

(thousands of Russian rubles)

2. Basis of preparation (continued)

General (continued)

The Bank is required to maintain accounting records and prepare financial statements for regulatory purposes in accordance with Russian accounting and banking legislation and related instructions ("RAL"). These financial statements are based on RAL, as adjusted and reclassified in order to comply with IFRS. These financial statements are presented in thousands of Russian rubles ("RUB thousand"), unless otherwise indicated.

These financial statements will be disclosed at the Bank's web site (www.ccb.ru) not later than 30 days from the deadline for its presentation to the participants (shareholders, founders) or owners of the entity's assets in accordance with Part 7 of Article 4 of Federal Law No. 208-FZ *On Consolidated Financial Statements*.

Changes in accounting policies

The accounting policies adopted in the preparation of these interim condensed financial statements are consistent with those followed in the preparation of the Bank's annual financial statements for the year ended 31 December 2018, except for the adoption of new standards effective as at 1 January 2019, noted below. The nature and effect of these changes are disclosed below. The Bank has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective.

Several other amendments and interpretations apply for the first time in 2019, but do not have an impact on the interim condensed financial statements of the Bank.

IFRS 16 Leases

IFRS 16 replaces IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement Contains a Lease*, SIC-15 *Operating Leases – Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for most leases under a single on-balance sheet model.

Lessor accounting under IFRS 16 is substantially unchanged from IAS 17. Lessors will continue to classify all leases using the same classification principles as in IAS 17 and distinguish between two types of leases: operating and finance leases. Therefore, IFRS 16 did not have an impact on leases where the Bank is the lessor.

The Bank adopted IFRS 16 using the modified retrospective method of adoption with the date of initial application on 1 January 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initially applying the standard recognized at the date of initial application. The Bank elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 at the date of initial application. The Bank also elected to apply a recognition exemption for leases with a lease term of 12 months or less at the commencement date which do not contain a purchase option (short-term leases), as well as for leases in which the underlying asset is of low value (leases of 'low-value' assets).

(a) Nature of the effect of adopting IFRS 16

The Bank has lease contracts for various items of property and equipment. Before the adoption of IFRS 16, the Bank classified each of its leases (as lessee) at the inception date as either a finance lease or an operating lease. A lease was classified as a finance lease if it transferred substantially all of the risks and rewards incidental to ownership of the leased asset to the Bank; otherwise it was classified as an operating lease. Finance leases were capitalized at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments were apportioned between interest and reduction of the lease liability. In an operating lease, the leased property was not capitalized and the lease payments were recognized as lease expenses in profit or loss on a straight-line basis over the lease term. Any prepaid and accrued lease payments were recognized in other assets and other liabilities, respectively.

Upon adoption of IFRS 16, the Bank applied a single recognition and measurement approach to all leases, except for short-term leases and leases of low-value assets. The standard provides specific transition requirements and practical expedients which have been applied by the Bank.

(thousands of Russian rubles)

2. Basis of preparation (continued)

Changes in accounting policies (continued)

Leases previously classified as operating leases

The Bank recognized right-of-use assets and lease liabilities for those leases previously classified as operating leases, except for short-term leases and leases of low-value assets. The right-of-use assets for most leases were recognized based on the carrying amount as if the standard had always been applied, apart from the use of the incremental borrowing rate at the date of initial application. In some leases, the right-of-use assets were recognized based on the amount equal to the lease liabilities, adjusted for any related prepaid and accrued lease payments previously recognized. Lease liabilities were recognized based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application.

The Bank also applied the available practical expedients wherein it:

- Applied the short-term leases exemption to leases with a lease term that ends within 12 months from the date of initial application;
- Excluded the initial direct costs from the measurement of the right-of-use asset at the date of initial application;
- Used hindsight in determining the lease term where the contract contained options to extend or terminate the lease.

Starting 1 January 2019, after the initial application of IFRS 16, the Bank recognized right-of-use assets of RUB 216,083 thousand in the property and equipment and right-of-use assets line of the statement of financial position; the associated lease liability in the same amount was recorded in other liabilities.

Lease liabilities as at 1 January 2019 can be reconciled to operating lease commitments as at 31 December 2018 as follows:

	1 January 2019 (unaudited)
Operating lease payable	**283,441**
Adjustments to lease payments	
Future lease payments over the life of the lease extension option, if the option is reasonably certain to be exercised	21,187
Practical expedient: short-term leases	(23)
Practical expedient: underlying assets of low value	(296)
Future lease payments under IFRS 16	**304,309**
Effect of discounting	(88,226)
Lease liabilities at 1 January 2019	**216,083**

(b) Summary of new accounting policies

Summarized below are the new accounting policies of the Bank upon adoption of IFRS 16, which have been applied since the date of initial application.

Right-of-use assets

The Bank recognizes right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognized, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Bank is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognized right-of-use asset is depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right-of-use assets are subject to impairment testing.

(thousands of Russian rubles)

2. Basis of preparation (continued)

Changes in accounting policies (continued)

Lease liabilities

At the commencement date of the lease, the Bank recognizes lease liabilities measured at the present value of lease payments to be made over the lease term. Lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. Lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Bank and payments of penalties for terminating a lease, if the lease term reflects the Bank exercising the option to terminate. Variable lease payments that do not depend on an index or a rate are recognized as expenses in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Bank uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in in-substance fixed lease payments or a change in the assessment of the option to purchase the underlying asset.

Short-term leases and leases of low-value assets

The Bank applies the short-term lease recognition exemption to its short-term leases (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that is considered of low value (i.e., below RUB 300 thousand). Lease payments on short-term leases and leases of low-value assets are recognized as expenses on a straight-line basis over the lease term.

Significant judgment in determining the lease term of contracts with renewal options

The Bank determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Bank applies judgment in evaluating whether it is reasonably certain to exercise the option to renew. That is, it considers all relevant factors that create an economic incentive for it to exercise the renewal option. After the commencement date, the Bank reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise (or not to exercise) the option to renew (e.g., a change in business strategy).

Amounts recognized in the statement of financial position and statement of profit or loss

Set out below are the carrying amounts of the Bank's right-of-use assets and lease liabilities and their movements during the period.

	Right-of-use assets				***Lease liabilities***
	Buildings	***Land***	***Vehicles***	***Total***	
31 December 2018	**213,851**	**2,186**	**46**	**216,083**	**216,083**
Additions	464	–	–	**464**	464
Changes in contractual lease payments	27,917	(523)	–	**27,394**	26,346
Depreciation expense	(18,896)	(433)	(15)	**(19,344)**	–
Interest expense	–	–	–	**–**	5,177
Payments	–	–	–	**–**	(22,185)
30 June 2019	**223,336**	**1,230**	**31**	**224,597**	**225,885**

The Bank recognized expenses from short-term leases of RUB 76 thousand and leases of low-value assets of RUB 153 thousand, respectively, for the six months ended 30 June 2019.

(thousands of Russian rubles)

3. Cash and accounts with the CBR

Cash comprises:

	30 June 2019 (unaudited)	*31 December 2018*
Cash on hand	1,353,992	1,475,569
Accounts with the CBR	1,636,490	986,742
Cash and accounts with the CBR	**2,990,482**	**2,462,311**

Credit institutions are required to maintain a non-interest earning cash deposit (obligatory reserve) with the CBR, the amount of which depends on the level of funds attracted by the credit institution. The Bank's ability to withdraw such deposit is significantly restricted by the statutory legislation.

As at 30 June 2019 and 31 December 2018, the obligatory reserve with the CBR amounted to RUB 175,240 thousand and RUB 113,511 thousand, respectively.

Cash and cash equivalents for the purposes of the statement of cash flows comprise the following:

	30 June 2019 (unaudited)	*31 December 2018*
Current and clearing accounts with credit institutions (Note 5)	7,169,086	5,492,136
Cash and accounts with the CBR	2,990,482	2,462,311
Time deposits with credit institutions up to 90 days (Note 5)	372,146	371,668
Reverse repurchase agreements with credit institutions up to 90 days (Note 5)	300,124	2,351,474
Less: allowance for impairment	(23,675)	(18,281)
	10,808,163	**10,659,308**
Less:		
Obligatory reserve with the CBR	(175,240)	(113,511)
Encumbered current and clearing accounts with credit institutions	(60,402)	(62,841)
Cash and cash equivalents	**10,572,521**	**10,482,956**

All balances of cash and cash equivalents are taken to Stage 1.

4. Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss comprise:

	30 June 2019 (unaudited)	*31 December 2018*
Debt securities		
Russian state bonds	9,841,031	1,356,245
	9,841,031	**1,356,245**
Equity securities		
Corporate shares	14,806,383	9,773,498
Shares of resident banks	289,100	315,343
Depository receipts for corporate shares	375,425	294,000
	15,470,908	**10,382,841**
Derivative financial assets	15,913	25,086
Financial assets at fair value through profit or loss	**25,327,852**	**11,764,172**

(thousands of Russian rubles)

4. Financial assets at fair value through profit or loss (continued)

Financial assets at fair value through profit or loss pledged under repurchase agreements comprise:

	30 June 2019 (unaudited)	*31 December 2018*
Debt securities		
Russian state bonds	40,202,131	41,251,184
	40,202,131	**41,251,184**
Equity securities		
Corporate shares	5,850,583	10,178,304
Shares of resident banks	1,135,750	–
Depository receipts for corporate shares	2,089,761	–
	9,076,094	**10,178,304**
Financial assets at fair value through profit or loss pledged under repurchase agreements	**49,278,225**	**51,429,488**

Derivative financial instruments

The Bank enters into derivative financial instruments for trading purposes. The table below shows the fair values of derivative financial instruments, recorded as assets or liabilities, together with their notional amounts. The notional amount, recorded gross, is the amount of a derivative's underlying asset and is the basis upon which changes in the value of derivatives are measured. Notional amounts indicate the volume of transactions outstanding at the year end and are not indicative of the credit risk.

	30 June 2019 (unaudited)			*31 December 2018*		
	Notional amount	*Fair value*		*Notional amount*	*Fair value*	
		Asset	*Liability*		*Asset*	*Liability*
Foreign exchange contracts						
Futures – foreign	79,911	–	–	698,645	–	–
Futures – domestic	12,087,735	–	–	5,363,886	–	–
Credit derivative financial instruments						
Credit default swaps – foreign	6,492,615	11,234	–	7,135,018	24,699	–
Contracts for precious metals						
Precious metal forward – domestic	3,988,687	4,679	907	42,608	387	–
Total derivative assets/liabilities		**15,913**	**907**		**25,086**	**–**

Foreign and domestic in the table above stand for counterparties where foreign means non-Russian entities and domestic means Russian entities.

As at 30 June 2019 and 31 December 2018, the Bank has positions in the following types of derivatives:

Forwards and futures

Forwards and futures are contractual agreements to buy or sell a specified financial instrument at a specific price and date in the future. Forwards are customized contracts transacted in the over-the-counter market. Futures are transacted in standardized amounts on regulated exchanges and are subject to daily cash margin requirements. The fair value of standardized exchange-traded contracts providing for the daily transfer of a variation margin is determined as the amount of claims for (obligation to pay) a variation margin at the end of the operating day.

Swaps

Swaps are contractual agreements between two parties to exchange movements in interest and foreign currency rates and equity indices, and (in the case of credit default swaps) to make payments with respect to defined credit events based on specified notional amounts.

(thousands of Russian rubles)

5. Amounts due from credit institutions

Amounts due from credit institutions comprise:

	30 June 2019 (unaudited)	*31 December 2018*
Current and clearing accounts with credit institutions	7,169,086	5,492,136
Time deposits with credit institutions up to 90 days	372,146	371,668
Reverse repurchase agreements with credit institutions up to 90 days	300,124	2,351,474
	7,841,356	**8,215,278**
Less: allowance for impairment	(31,097)	(25,716)
Amounts due from credit institutions	**7,810,259**	**8,189,562**

As at 30 June 2019, the Bank placed RUB 6,126,791 thousand (31 December 2018: RUB 4,417,240 thousand) and RUB 646,360 thousand (31 December 2018: RUB 697,777 thousand) on current and clearing accounts with NCI NCC (JSC) and OECD banks, respectively.

As at 30 June 2019, time deposits with credit institutions included RUB 372,146 thousand (31 December 2018: RUB 371,668 thousand) placed with an OECD bank.

As at 30 June 2019 and 31 December 2018, the Bank entered into reverse repurchase agreements with a Russian credit institution.

	30 June 2019 (unaudited)		*31 December 2018*	
	Carrying amount of loans	*Fair value of collateral*	*Carrying amount of loans*	*Fair value of collateral*
Russian state bonds	–	–	2,301,442	2,479,005
Clearing participation certificate	300,124	300,000	50,032	50,000
Total	**300,124**	**300,000**	**2,351,474**	**2,529,005**

Movements in allowances for ECL as at 30 June 2019 are presented in the table below.

	Stage 1	*Stage 2*	*Stage 3*	*Total*
Allowance for ECL at 1 January 2019	**18,521**	**–**	**7,195**	**25,716**
Assets recognized during the period	14,378	–	–	**14,378**
Assets disposed or redeemed (except for write-offs)	(9,833)	–	–	**(9,833)**
Changes in models and inputs used for ECL calculations	836	–	–	**836**
30 June 2019 (unaudited)	**23,902**	**–**	**7,195**	**31,097**

Movements in allowances for ECL as at 30 June 2018 are presented in the table below.

	Stage 1	*Stage 2*	*Stage 3*	*Total*
Allowance for ECL at 1 January 2018	**8,600**	**–**	**–**	**8,600**
Assets recognized during the period	756	–	–	**756**
Assets disposed or redeemed (except for write-offs)	(2,173)	–	–	**(2,173)**
Transfers to Stage 3	(1,735)	–	1,735	**–**
Effect on period-end ECL due to transfers between stages during the period	–	–	5,390	**5,390**
30 June 2018 (unaudited)	**5,448**	**–**	**7,125**	**12,573**

(thousands of Russian rubles)

6. Loans to customers

Loans to customers comprise:

	30 June 2019 (unaudited)	*31 December 2018*
Loans to legal entities	22,453,675	19,421,436
Reverse repurchase agreements	8,181,667	6,094,907
Loans to individuals	3,691,011	3,712,204
Net investment in finance leases	1,316,634	1,316,610
Total loans to customers	**35,642,987**	**30,545,157**
Less: allowance for impairment	(18,195,569)	(14,318,736)
Loans to customers at amortized cost	**17,447,418**	**16,226,421**
Loans to customers at FVPL	1,119,119	1,459,437
Loans to customers	**18,566,537**	**17,685,858**

Information on fair value measurement of loans to customers at FVPL is presented in Note 15.

Allowance for impairment of loans to customers

Movements in allowances for ECL on loans to legal entities as at 30 June 2019 are presented in the table below.

Loans to legal entities	*Stage 1*	*Stage 2*	*Stage 3*	*POCI assets*	*Total*
Allowance for ECL at 1 January 2019	**1,005,216**	**6,706,326**	**2,936,220**	**–**	**10,647,762**
New assets, including under previously extended credit lines	1,523,145	181,788	–	–	**1,704,933**
Assets derecognized or redeemed (excluding write-offs)	(472,209)	(589,307)	(123,178)	–	**(1,184,694)**
Transfers to Stage 1	271,957	(271,957)	–	–	**–**
Transfers to Stage 2	(166,093)	166,093	–	–	**–**
Transfers to Stage 3		(97,154)	97,154	–	**–**
Effect on period-end ECL due to transfers between stages during the period	(43,064)	191,424	76,751	–	**225,111**
Unwinding of discount (recorded in interest income)	–	–	80,967	–	**80,967**
Changes in models and inputs used for ECL calculations, including due to modification not resulting in derecognition	9,417	242,582	(9,046)	–	**242,953**
30 June 2019 (unaudited)	**2,128,369**	**6,529,795**	**3,058,868**	**–**	**11,717,032**

Movements in allowances for ECL on reverse repurchase agreements as at 30 June 2019 are presented in the table below.

Reverse repurchase agreements	*Stage 1*	*Stage 2*	*Stage 3*	*POCI assets*	*Total*
Allowance for ECL at 1 January 2019	**139,948**	**–**	**–**	**–**	**139,948**
Assets recognized during the period	2,452,378	–	–	–	**2,452,378**
Assets disposed or redeemed (except for write-offs)	(139,948)	–	–	–	**(139,948)**
30 June 2019 (unaudited)	**2,452,378**	**–**	**–**	**–**	**2,452,378**

(thousands of Russian rubles)

6. Loans to customers (continued)

Allowance for impairment of loans to customers (continued)

Movements in allowances for ECL on loans to individuals as at 30 June 2019 are presented in the table below.

Loans to individuals	*Stage 1*	*Stage 2*	*Stage 3*	*POCI assets*	*Total*
Allowance for ECL at 1 January 2019	**1,666,839**	**205,787**	**462,977**	**–**	**2,335,603**
New assets, including under previously extended credit lines	1,334	8,576	–	–	**9,910**
Assets derecognized or redeemed (excluding write-offs)	(552)	(17,494)	(2,087)	–	**(20,133)**
Transfers to Stage 2	(1,496,347)	1,496,513	(166)	–	**–**
Transfers to Stage 3	(395)	(15,540)	15,935	–	**–**
Effect on period-end ECL due to transfers between stages during the period	–	374,045	87,489	–	**461,534**
Unwinding of discount (recorded in interest income)	–	–	16,354	–	**16,354**
Changes in models and inputs used for ECL calculations, including due to modification not resulting in derecognition	–	47,139	(3,185)	–	**43,954**
Translation differences	–	–	(10,281)	–	**(10,281)**
30 June 2019 (unaudited)	**170,879**	**2,099,026**	**567,036**	**–**	**2,836,941**

Movements in allowances for ECL on net investment in finance leases as at 30 June 2019 are presented in the table below.

Net investment in finance leases	*Stage 1*	*Stage 2*	*Stage 3*	*POCI assets*	*Total*
Allowance for ECL at 1 January 2019	**–**	**1,195,423**	**–**	**–**	**1,195,423**
Assets recognized during the period	–	32,696	–	–	**32,696**
Assets disposed or redeemed (except for write-offs)	–	(29,385)	–	–	**(29,385)**
Changes in models and inputs used for ECL calculations, including due to modification not resulting in derecognition	–	(9,516)	–	–	**(9,516)**
30 June 2019 (unaudited)	**–**	**1,189,218**	**–**	**–**	**1,189,218**

Movements in allowances for ECL on loans to legal entities as at 30 June 2018 are presented in the table below.

Loans to legal entities	*Stage 1*	*Stage 2*	*Stage 3*	*POCI assets*	*Total*
Allowance for ECL at 1 January 2018	**244,621**	**5,039,035**	**3,209,976**	**–**	**8,493,632**
New assets, including under previously extended credit lines	309,321	76	12,001	–	**321,398**
Assets derecognized or redeemed (excluding write-offs)	(30,167)	(123,042)	–	–	**(153,209)**
Transfers to Stage 2	(297,695)	297,695	–	–	**–**
Effect on period-end ECL due to transfers between stages during the period	–	516,028	–	–	**516,028**
Changes in models and inputs used for ECL calculations, including due to modification not resulting in derecognition	(6,205)	261,222	34,223	–	**289,240**
Write-off on sale of assets	–	–	(176,152)	–	(176,152)
Write-off against allowance	–	–	(629)	–	**(629)**
30 June 2018 (unaudited)	**219,875**	**5,991,014**	**3,079,419**	**–**	**9,290,308**

(thousands of Russian rubles)

6. Loans to customers (continued)

Allowance for impairment of loans to customers (continued)

Movements in allowances for ECL on reverse repurchase agreements as at 30 June 2018 are presented in the table below.

Reverse repurchase agreements	*Stage 1*	*Stage 2*	*Stage 3*	*POCI assets*	*Total*
Allowance for ECL at 1 January 2018	**1,272,107**	**–**	**–**	**–**	**1,272,107**
New originated or purchased assets	863,567	–	–	–	**863,567**
Assets derecognized or redeemed (excluding write-offs)	(1,272,107)	–	–	–	**(1,272,107)**
30 June 2018 (unaudited)	**863,567**	**–**	**–**	**–**	**863,567**

Movements in allowances for ECL on loans to individuals as at 30 June 2018 are presented in the table below.

Loans to individuals	*Stage 1*	*Stage 2*	*Stage 3*	*POCI assets*	*Total*
Allowance for ECL at 1 January 2018	**2,378,533**	**–**	**350,908**	**–**	**2,729,441**
New assets, including under previously extended credit lines	20,289	–	4,508	–	**24,797**
Assets derecognized or redeemed (excluding write-offs)	(339,277)	–	(953)	–	**(340,230)**
30 June 2018 (unaudited)	**2,059,545**	**–**	**354,463**	**–**	**2,414,008**

Movements in allowances for ECL on net investment in finance leases as at 30 June 2018 are presented in the table below.

Net investment in finance leases	*Stage 1*	*Stage 2*	*Stage 3*	*POCI assets*	*Total*
Allowance for ECL at 1 January 2018	**–**	**1,310,797**	**–**	**–**	**1,310,797**
Changes in models and inputs used for ECL calculations, including due to modification not resulting in derecognition	–	9,507	–	–	**9,507**
30 June 2018 (unaudited)	**–**	**1,320,304**	**–**	**–**	**1,320,304**

Restructured and modified loans

The Bank derecognizes a financial asset, e.g. a loan to a customer, if the related contractual terms are renegotiated to the extent that it in fact becomes a new loan, and records the difference in gains or losses arising from derecognition before impairment loss is recognized. On initial recognition, loans are classified to Stage 1 for ECL measurement purposes, unless the newly originated loan is deemed to be a POCI asset.

If modification does not imply a significant change in cash flows, such modification does not result in derecognition. Based on changes in cash flows discounted at the original EIR, the Bank recognizes gains or losses from modification before impairment loss is recognized.

The table below shows Stage 2 and Stage 3 assets that were renegotiated during the period and, as a result, recognized as restructured assets, and the associated losses incurred by the Bank due to the modification.

	30 June 2019 (unaudited)	*30 June 2018 (unaudited)*
Loans to customers modified during the period		
Amortized cost before modification	1,951,252	–
Net modification loss/gain	(119,422)	–
Loans to customers modified since initial recognition		
Gross carrying amount at 30 June of loans to customers for which impairment allowance calculation was changed to 12-month ECL measurement	241,103	–

(thousands of Russian rubles)

7. Taxation

The corporate income tax expense comprises:

	For the six months ended	
	30 June 2019 (unaudited)	***30 June 2018 (unaudited)***
Current tax charge	350,334	206,648
Deferred tax charge/(credit) – origination and reversal of temporary differences	510,467	(123,880)
Income tax expense	**860,801**	**82,768**

8. Credit loss expense, other impairment losses and provisions

The table below shows ECL expenses on financial instruments recorded in the statement of profit or loss for the six months ended 30 June 2019.

Unaudited	***Notes***	***Stage 1***	***Stage 2***	***Stage 3***	***POCI assets***	***Simplified approach***	***Total***
Cash and accounts with the CBR	3	–	–	–	–	–	**–**
Amounts due from credit institutions	5	5,381	–	–	–	–	**5,381**
Loans to customers	6	1,939,623	1,710,503	129,386	–	–	**3,779,512**
Other financial assets	8	–	–	–	–	33,725	**33,725**
Financial guarantees	13	(308,167)	(131,854)	–	–	–	**(440,021)**
Loan commitments	13	28,249	(18,048)	–	–	–	**10,201**
Total credit loss expense		**1,665,086**	**1,560,601**	**129,386**	**–**	**33,725**	**3,388,798**

The allowance for ECL on assets is deducted from the carrying amount of the respective assets. Provisions for financial guarantees and loan commitments are recorded in other provisions in the statement of financial position.

Movements in allowances for ECL on other financial assets for the six months ended 30 June 2019 are as follows:

	30 June 2019 (unaudited)
Allowance for ECL at 1 January 2019	**34,060**
Charge	33,725
Write-off against allowance	(243)
30 June 2019 (unaudited)	**67,542**

The table below shows ECL expenses on financial instruments recorded in the statement of profit or loss for the six months ended 30 June 2018.

Unaudited	***Notes***	***Stage 1***	***Stage 2***	***Stage 3***	***POCI assets***	***Simplified approach***	***Total***
Cash and accounts with the CBR	3	–	–	–	–	–	**–**
Amounts due from credit institutions	5	(3,152)	–	7,125	–	–	**3,973**
Loans to customers	6	(752,274)	961,486	49,779	–	–	**258,991**
Other financial assets	8	–	–	–	–	(3,794)	**(3,794)**
Financial guarantees	13	490,319	228,378	–	–	–	**718,697**
Loan commitments	13	56,797	1,839	–	–	–	**58,636**
Letters of credit	13	2	–	–	–	–	**2**
Total credit loss expense		**(208,308)**	**1,191,703**	**56,904**	**–**	**(3,794)**	**1,036,505**

(thousands of Russian rubles)

8. Credit loss expense, other impairment losses and provisions (continued)

Movements in allowances for ECL on other financial assets for the six months ended 30 June 2018 are as follows:

	30 June 2018 (unaudited)
Allowance for ECL at 1 January 2018	**17,722**
(Reversal)	(3,794)
30 June 2018 (unaudited)	**13,928**

9. Amounts due to credit institutions

As at 30 June 2019, amounts due to credit institutions included repurchase agreements with Russian credit institutions of RUB 49,672,700 thousand maturing on 5 July 2019 (31 December 2018: RUB 50,557,291 thousand maturing on 11 January 2019).

The carrying amount and fair value of securities pledged under repurchase agreements are disclosed in Note 16.

10. Amounts due to customers

Amounts due to customers comprise:

	30 June 2019 (unaudited)	*31 December 2018*
Current accounts	7,296,098	7,812,319
Brokerage accounts	6,926,202	2,355,849
Time deposits	3,610,131	3,251,797
Repurchase agreements	3,009,002	–
Amounts due to customers	**20,841,433**	**13,419,965**

As at 30 June 2019, amounts due to customers of RUB 13,678,554 thousand, or 65.6%, were due to ten largest customers (31 December 2018: RUB 7,572,749 thousand, or 56.4%).

Included in time deposits are deposits of individuals in the amount of RUB 2,766,184 thousand (31 December 2018: RUB 3,212,796 thousand). In accordance with the Russian Civil Code, the Bank is obliged to repay such deposits upon demand of a depositor. In case a time deposit is repaid upon demand of the depositor prior to maturity, interest on it is paid based on the interest rate for demand deposits, unless a different interest rate is specified in the agreement.

The carrying amount and fair value of securities pledged under repurchase agreements are disclosed in Note 16.

11. Debt securities issued

Debt securities issued comprise:

	30 June 2019 (unaudited)	*31 December 2018*
Savings certificates	559,684	644,510
Promissory notes	219,146	63,545
Debt securities issued	**778,830**	**708,055**

Interest-bearing promissory notes and savings certificates issued by the Bank as at 30 June 2019 bear annual interest rates ranging from 1.3% to 13.2% (31 December 2018: from 5.75% to 13.2%) and mature through 18 April 2028.

(thousands of Russian rubles)

12. Equity

The authorized, issued and fully paid share capital comprises:

	Number of shares		*Nominal amount*		*Inflation*	
	Preferred	***Ordinary***	***Preferred***	***Ordinary***	***adjustment***	***Total***
31 December 2018	48	17,168,974	5	6,695,900	250,235	**6,946,140**
30 June 2019	48	17,168,974	5	6,695,900	250,235	**6,946,140**

The share capital of the Bank was contributed by the shareholders in Russian rubles, and the shareholders are entitled to dividends and any capital distribution in Russian rubles.

At the shareholders' meeting held in April 2019, the Bank declared and paid dividends for 2018 from retained earnings for prior years totaling RUB 2,082,942 thousand (RUB 121.32 per ordinary share and RUB 30.33 per preferred share).

At the shareholders' meeting held in June 2018, the Bank declared and paid dividends for 2017 in the amount of RUB 442,273 thousand from the profit for 2017 and a part of retained earnings for prior years (RUB 25.76 per ordinary share and RUB 6.44 per preferred share). The dividends were paid in July 2018.

As at 30 June 2019, the revaluation reserve for securities at fair value through other comprehensive income of RUB 9 thousand was included in equity. Securities at fair value through other comprehensive income are recorded in other assets in the statement of financial position.

13. Commitments and contingencies

Operating environment

Russia continues economic reforms and development of its legal, tax and regulatory frameworks as required by a market economy. The future stability of the Russian economy is largely dependent on these reforms and developments and the effectiveness of economic, financial and monetary measures taken by the Russian government.

The Russian economy has been negatively affected by sanctions imposed on Russia by a number of countries. The ruble interest rates remained high. The combination of the above resulted in reduced access to capital, a higher cost of capital, and increased uncertainty regarding economic growth, which could negatively affect the Bank's future financial position, results of operations and business prospects. Management believes it is taking appropriate measures to support the sustainability of the Bank's business in the current circumstances.

Legal

In the ordinary course of business, the Bank is subject to legal actions and complaints. Management believes that the ultimate liability, if any, arising from such actions or complaints will not have a material adverse effect on the financial condition or the results of future operations of the Bank.

Taxation

Major part of the Bank'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 activity of the Bank may be challenged by the relevant regional and federal authorities. Recent events within the Russian Federation suggest that the tax authorities may be taking a more assertive position in their interpretation and application of this legislation and assessments. It is therefore possible that transactions and activities of the Bank that have not been challenged in the past may be challenged at any time in the future. As a result, significant additional taxes, penalties and interest may be assessed by the relevant authorities. Tax reviews of the accuracy of tax calculation and payment conducted by the tax authorities may cover 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 30 June 2019, management believes that its interpretation of the relevant legislation is appropriate and that the Bank's tax, currency and customs positions will be sustained.

(thousands of Russian rubles)

13. Commitments and contingencies (continued)

Commitments and contingencies

The Bank's commitments and contingencies comprise the following:

	30 June 2019 (unaudited)	*31 December 2018*
Credit-related commitments		
Guarantees	9,171,943	9,808,014
Loan commitments	934,005	807,582
	10,105,948	**10,615,596**
Less: allowance for impairment	(466,392)	(896,212)
Commitments and contingencies	**9,639,556**	**9,719,384**

Movements in allowances for ECL on financial guarantees as at 30 June 2019 are presented in the table below.

Financial guarantees	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Allowance for ECL at 1 January 2019	**454,924**	**305,538**	**–**	**760,462**
New financial guarantees	146,205	93,638	–	**239,843**
Financial guarantees that were derecognized or expired (except for write-offs)	(252,296)	(274,748)	–	**(527,044)**
Transfers to Stage 1	3,900	(3,900)	–	**–**
Transfers to Stage 2	(64,708)	64,708	–	**–**
Effect on period-end ECL due to transfers between stages during the period	(2,721)	3,249	–	**528**
Changes in models and inputs used for ECL calculations	(138,547)	(14,801)	–	**(153,348)**
30 June 2019 (unaudited)	**146,757**	**173,684**	**–**	**320,441**

Movements in allowances for ECL on loan commitments as at 30 June 2019 are presented in the table below.

Loan commitments	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Allowance for ECL at 1 January 2019	**30,306**	**105,444**	**–**	**135,750**
New commitments	99,688	8,818	–	**108,506**
Commitments that were derecognized or expired (except for write-offs)	(71,477)	(14,540)	–	**(86,017)**
Transfers to Stage 1	24,728	(24,728)	–	**–**
Transfers to Stage 2	(102)	102	–	**–**
Effect on period-end ECL due to transfers between stages during the period	(18,088)	26	–	**(18,062)**
Changes in models and inputs used for ECL calculations	(6,500)	12,274	–	**5,774**
30 June 2019 (unaudited)	**58,555**	**87,396**	**–**	**145,951**

Movements in allowances for ECL on financial guarantees as at 30 June 2018 are presented in the table below.

Financial guarantees	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Allowance for ECL at 1 January 2018	**543,568**	**120,558**	**707**	**664,833**
New financial guarantees	1,221,238	–	–	**1,221,238**
Financial guarantees derecognized or redeemed (except for write-offs)	(446,903)	(108,448)	–	**(555,351)**
Transfers to Stage 2	(292,092)	292,092	–	**–**
Effect on period-end ECL due to transfers between stages during the period	–	44,639	–	**44,639**
Changes in models and inputs used for ECL calculations	8,076	95	–	**8,171**
30 June 2018 (unaudited)	**1,033,887**	**348,936**	**707**	**1,383,530**

(thousands of Russian rubles)

13. Commitments and contingencies (continued)

Commitments and contingencies (continued)

Movements in allowances for ECL on loan commitments as at 30 June 2018 are presented in the table below.

Loan commitments	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Allowance for ECL at 1 January 2018	**32,082**	**43,264**	**–**	**75,346**
New commitments, including under previously extended credit lines	82,174	2,035	–	**84,209**
Commitments derecognized or redeemed (excluding write-offs)	(8,902)	(1,931)	–	**(10,833)**
Transfers to Stage 2	(13,652)	13,652	–	**–**
Effect on period-end ECL due to transfers between stages during the period	–	(2,662)	–	**(2,662)**
Changes in models and inputs used for ECL calculations	(2,823)	(9,255)	–	**(12,078)**
30 June 2018 (unaudited)	**88,879**	**45,103**	**–**	**133,982**

Movements in allowances for ECL on letters of credit as at 30 June 2018 are presented in the table below.

Letters of credit	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Allowance for ECL at 1 January 2018	**–**	**–**	**–**	**–**
New letters of credit	2	–	–	**2**
30 June 2018 (unaudited)	**2**	**–**	**–**	**2**

14. Net gains from financial instruments at fair value through profit or loss

Net gains from assets and liabilities at fair value through profit or loss comprise:

	For the six months ended	
	30 June 2019 (unaudited)	*30 June 2018 (unaudited)*
Net (losses)/gains from sale of securities	(26,220)	473,251
Adjustment to fair value of securities	7,568,680	280,158
Net gains from sale of derivative financial instruments	1,378,538	243,970
Net losses from revaluation of derivative financial instruments	(9,693)	(38,777)
Loans to customers at FVPL	847,595	(197,318)
Net gains from financial assets and liabilities at fair value through profit or loss	**9,758,900**	**761,284**

15. Fair value measurement

Fair value measurement procedures

Classification of fair value measurement is based on the fair value hierarchy (Level 1, 2 or 3). The levels correlate to the possibility of direct measurement of fair value using market data and reflect the materiality of the inputs used for the fair value measurement.

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets which are available to the Bank at the measurement date;
- Level 2 inputs are inputs other than Level 1 quoted prices, that are observable on the market either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

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

(thousands of Russian rubles)

15. Fair value measurement (continued)

Fair value hierarchy

In determining fair values, the Bank maximizes the use of observable inputs and minimizes the use of unobservable inputs.

For the purpose of fair value disclosures, the Bank has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy.

30 June 2019 (unaudited)	***Fair value measurement using***			
	Level 1 inputs	***Level 2 inputs***	***Level 3 inputs***	***Total***
Assets measured at fair value				
Financial assets at fair value through profit or loss:	74,396,669	209,408	–	**74,606,077**
Russian state bonds	50,043,162	–	–	**50,043,162**
Equity securities	24,353,507	193,495	–	**24,547,002**
Derivative financial instruments, including:	–	15,913	–	**15,913**
- Credit default swaps – foreign	–	*11,234*	–	***11,234***
- Forwards (precious metals) – domestic	–	*4,679*	–	***4,679***
Loans to customers at FVPL	–	–	1,119,119	**1,119,119**
Investment property	–	–	556,202	**556,202**
Assets for which fair values are disclosed				
Cash and accounts with the CBR	–	–	2,990,482	**2,990,482**
Amounts due from credit institutions	–	–	7,810,259	**7,810,259**
Loans to customers	–	–	17,437,548	**17,437,548**
Other financial assets	–	–	1,158,534	**1,158,534**
Liabilities measured at fair value				
Other liabilities (derivative financial instruments)	–	907	–	**907**
- Forwards (precious metals) – domestic	–	*907*	–	***907***
Liabilities for which fair values are disclosed				
Amounts due to credit institutions	–	–	49,672,700	**49,672,700**
Amounts due to customers	–	–	20,844,809	**20,844,809**
Debt securities issued	–	–	692,066	**692,066**
Other financial liabilities	–	–	414,326	**414,326**

31 December 2018	***Fair value measurement using***			
	Level 1 inputs	***Level 2 inputs***	***Level 3 inputs***	***Total***
Assets measured at fair value				
Financial assets at fair value through profit or loss:	62,033,058	1,160,602	–	**63,193,660**
Russian state bonds	42,607,429	–	–	**42,607,429**
Equity securities	19,425,629	1,135,516	–	**20,561,145**
Derivative financial instruments, including:	–	25,086	–	**25,086**
- Credit default swaps – foreign	–	*24,699*	–	***24,699***
- Forwards (precious metals) – domestic	–	*387*	–	***387***
Loans to customers at FVPL	–	–	1,459,437	**1,459,437**
Investment property	–	–	523,700	**523,700**
Assets for which fair values are disclosed				
Cash and accounts with the CBR	–	–	2,462,311	**2,462,311**
Amounts due from credit institutions	–	–	8,189,562	**8,189,562**
Loans to customers	–	–	16,353,961	**16,353,961**
Other financial assets	–	–	338,008	**338,008**
Liabilities for which fair values are disclosed				
Amounts due to credit institutions	–	–	50,557,291	**50,557,291**
Amounts due to customers	–	–	13,422,146	**13,422,146**
Debt securities issued	–	–	663,770	**663,770**
Other financial liabilities	–	–	175,495	**175,495**

Except as detailed above, the fair value of financial assets and liabilities approximates their carrying amount.

(thousands of Russian rubles)

15. Fair value measurement (continued)

Fair values of financial assets and liabilities not recorded at fair value

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

	30 June 2019 (unaudited)			*31 December 2018 (unaudited)*		
	Carrying amount	*Fair value*	*Unrecognized gain/(loss)*	*Carrying amount*	*Fair value*	*Unrecognized gain/(loss)*
Financial assets						
Cash and accounts with the CBR	2,990,482	2,990,482	–	2,462,311	2,462,311	–
Amounts due from credit institutions	7,810,259	7,810,259	–	8,189,562	8,189,562	–
Loans to customers	17,447,418	17,437,548	(9,870)	16,226,421	16,353,961	127,540
Other financial assets	1,158,534	1,158,534	–	338,008	338,008	–
Financial liabilities						
Amounts due to credit institutions	49,672,700	49,672,700	–	50,557,291	50,557,291	–
Amounts due to customers	20,841,433	20,844,809	(3,376)	13,419,965	13,422,146	(2,181)
Debt securities issued	778,830	692,066	86,764	708,055	663,770	44,285
Other financial liabilities	414,326	414,326	–	175,495	175,495	–
Total unrecognized change in unrealized fair value			**73,518**			**169,644**

Valuation models and assumptions

The following describes the models and assumptions used to determine fair values of assets and liabilities recorded at fair value in the financial statements and of those items that are not measured at fair value in the statement of financial position, but their fair value is disclosed.

Assets for which fair value approximates carrying amount

For financial assets and financial liabilities that are liquid or have a short-term maturity (less than three months), it is assumed that the carrying amounts approximate their fair values. This assumption is also applied to demand deposits and savings accounts without a specific maturity.

Derivatives

Derivatives valued using a valuation technique with market observable inputs are mainly credit default swaps. The valuation model incorporates various inputs, including forward and spot rates, the fair value of the underlying asset as well as interest rate curves.

Financial assets at fair value through profit or loss

Securities valued using a valuation or pricing model primarily consist of unquoted equity and debt securities. These securities are valued using models which sometimes only incorporate data observable in the market and at other times use both observable and non-observable data. The non-observable inputs to the models include assumptions regarding the future financial performance of the investee, its risk profile, and economic assumptions regarding the industry and geographical jurisdiction in which the investee operates.

Financial assets and financial liabilities carried at amortized cost

The fair value of quoted bonds is based on price quotations at the reporting date. The fair value of non-quoted instruments, loans to customers, customer deposits, amounts due from credit institutions, amounts due to credit institutions, other financial assets and liabilities and finance lease liabilities is measured by discounting future cash flows using rates currently available for debt on similar terms, credit risk and remaining maturities.

Loans at fair value through profit or loss

The fair value of loans is measured based on discounted future cash flows adjusted for the borrower's credit risk. The models rely on unobservable inputs, e.g., the discount rate.

(thousands of Russian rubles)

15. Fair value measurement (continued)

Valuation models and assumptions (continued)

A 1% increase in the discount rate results in a decrease in the fair value of loans by RUB 15,926 thousand. A 1% decrease in the discount rate results in an increase in the fair value of loans by RUB 16,733 thousand. Applicable discount rates range from 6.93% to 7.35%.

Investment property

The Bank engages an independent appraiser for the investment property fair value measurement. For this purpose, the appraiser used the market approach.

The market approach is based on the prices of market transactions significantly adjusted for differences in the nature, location or condition of a specific real estate item.

Significant unobservable inputs in determining the fair value of real estate items

As at 31 December 2018, significant unobservable inputs used to determine the fair value of real estate property (infrastructure facilities) located in Moscow region included average prices of offers to sell similar properties ranging from RUB 29,356 to RUB 36,244 per sq. m. A 10% increase in prices of offers results in an increase in the fair value of real estate property by RUB 48,317 thousand. A 10% decrease in prices of offers results in a decrease in the fair value of real estate by RUB 48,317 thousand.

As at 31 December 2018, significant unobservable inputs used to determine the fair value of real estate property located in Moscow region included average prices of offers to sell similar properties ranging from RUB 111,732 to RUB 141,667 per sq. m. A 10% increase in prices of offers results in an increase in the fair value of real estate property by RUB 4,360 thousand. A 10% decrease in prices of offers results in a decrease in the fair value of real estate by RUB 4,360 thousand.

Movements in Level 3 assets and liabilities measured at fair value

The following table shows a reconciliation of the opening and closing amounts of Level 3 assets which are recorded at fair value.

	1 January 2019	*Total gains/(losses) recorded in profit or loss*	*Total gains/(losses) recorded in other comprehensive income*	*Additions*	*Redemptions/ Disposals*	*30 June 2019 (unaudited)*
Financial assets						
Loans to customers at FVPL	1,459,437	847,595	–	66,402	(1,254,315)	1,119,119
Investment property	523,700	–	–	32,502	–	556,202
Total Level 3 financial assets	**1,983,137**	**847,595**	**–**	**98,904**	**(1,254,315)**	**1,675,321**

	1 January 2018	*Total gains/(losses) recorded in profit or loss*	*Total gains/(losses) recorded in other comprehensive income*	*Additions*	*Redemptions/ Disposals*	*31 December 2018*
Financial assets						
Loans to customers at FVPL	771,253	(307,029)	–	995,213	–	1,459,437
Investment property	547,820	(7,390)	–	20,910	(37,640)	523,700
Total Level 3 financial assets	**1,319,073**	**(314,419)**	**–**	**1,016,123**	**(37,640)**	**1,983,137**

(thousands of Russian rubles)

15. Fair value measurement (continued)

Movements in Level 3 assets and liabilities measured at fair value (continued)

Gains or losses on Level 3 financial instruments included in profit or loss for the year comprise:

	For the six months ended 30 June 2019 (unaudited)			*For the year ended 31 December 2018*		
	Realized gains/(losses)	*Unrealized gains/(losses)*	*Total*	*Realized gains/(losses)*	*Unrealized gains/(losses)*	*Total*
Total gains or losses recorded in profit or loss for the period	–	847,595	**847,595**	(5,906)	(308,513)	**(314,419)**

Transfers between Level 1 and Level 2

The tables below show transfers between Level 1 and Level 2 of the fair value hierarchy for financial assets recorded at fair value.

	Transfers from Level 1 to Level 2	
	30 June 2019 (unaudited)	*31 December 2018*
Financial assets		
Financial assets at fair value through profit or loss	–	522,700
	–	**522,700**

The above financial instruments were transferred from Level 1 to Level 2 as they ceased to be actively traded during the period and their fair values were consequently obtained through valuation techniques using observable market inputs.

	Transfers from Level 2 to Level 1	
	30 June 2019 (unaudited)	*31 December 2018*
Financial assets		
Financial assets at fair value through profit or loss	1,061,185	72,852

The above financial instruments were transferred from Level 2 to Level 1 as they became actively traded during the period and their fair values were consequently determined using quoted prices in an active market.

16. Transferred financial assets that are not derecognized

The table below provides a summary of the financial assets transferred by the Bank under repurchase agreements in such a way that all the transferred financial assets do not qualify for derecognition.

		Financial assets at fair value through profit or loss			
30 June 2019 (unaudited)	*Transferred financial asset*	*Government debt securities*	*Other debt securities*	*Other securities*	*Total*
Carrying amount of assets	Repurchase agreements	40,202,131	–	9,076,094	**49,278,225**
Total		**40,202,131**	**–**	**9,076,094**	**49,278,225**
Carrying amount of associated liabilities	Repurchase agreements with credit institutions	37,049,448	–	4,015,618	**41,065,066**
	Repurchase agreements with legal entities	–	–	3,009,002	**3,009,002**
Total		**37,049,448**	**–**	**7,024,620**	**44,074,068**

(thousands of Russian rubles)

16. Transferred financial assets that are not derecognized (continued)

31 December 2018	*Transferred financial asset*	*Financial assets at fair value through profit or loss* Government debt securities	*Other debt securities*	*Other securities*	*Total*
Carrying amount of assets	Repurchase agreements	41,251,184	–	10,178,304	**51,429,488**
Total		**41,251,184**	**–**	**10,178,304**	**51,429,488**
Carrying amount of associated liabilities	Repurchase agreements with credit institutions	37,363,493	–	7,104,866	**44,468,359**
Total		**37,363,493**	**–**	**7,104,866**	**44,468,359**

Securities sold under repurchase agreements are transferred to a third party and the Bank receives cash in exchange, or other financial assets. If securities increase or decrease in value, the Bank may, in certain circumstances, require, or be required, to pay additional cash collateral.

The Bank has determined that it retains substantially all the risks and rewards of these securities, which include credit risk, market risk, country risk and operational risk, and therefore has not derecognized them. In addition, it recognized a financial liability for cash received.

Likewise, the Bank may sell or repledge securities received as loans or purchased under reverse repurchase agreements but is obliged to return the securities, and the counterparty retains substantially all the risks and rewards of ownership. Consequently, the securities are not recognized by the Bank, which instead records a separate asset for any possible cash collateral given.

As at 30 June 2019, the fair value of securities purchased under reverse repurchase agreements and sold under repurchase agreements amounted to RUB 9,235,612 thousand (31 December 2018: RUB 6,661,579 thousand). The associated liabilities, which are recorded against the cash received for such transactions, are presented in the statement of financial position as at 30 June 2019 as amounts due to credit institutions of RUB 8,607,634 thousand (31 December 2018: RUB 6,088,932 thousand).

The carrying amount and fair value of securities sold under repurchase agreements was RUB 49,278,225 thousand as at 30 June 2019 (31 December 2018: RUB 51,429,488 thousand) and included financial assets at fair value through profit or loss.

The associated liabilities, which are recorded against the cash received for such transactions, are presented in the statement of financial position as at 30 June 2019 as amounts due to credit institutions of RUB 41,065,066 thousand (31 December 2018: RUB 44,468,359 thousand) and amounts due to customers of RUB 3,009,002 thousand (31 December 2018: none).

17. Offsetting of financial instruments

The tables below show the effect of enforceable master netting agreements and similar agreements that do not result in an offset in the statement of financial position.

30 June 2019 (unaudited)	*Gross amount of recognized financial assets*	*Gross amount of recognized 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	*Cash collateral received*	*Net amount*
Financial assets						
Financial assets pledged under repurchase agreements	49,278,225	–	49,278,225	(44,074,068)	–	5,204,157
Total	**49,278,225**	**–**	**49,278,225**	**(44,074,068)**	**–**	**5,204,157**
Financial liabilities						
Payables under repurchase agreements	44,074,068	–	44,074,068	(44,074,068)	–	–
Total	**44,074,068**	**–**	**44,074,068**	**(44,074,068)**	**–**	**–**

(thousands of Russian rubles)

17. Offsetting of financial instruments (continued)

31 December 2018	*Gross amount of recognized financial assets*	*Gross amount of recognized 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*	
Financial assets						
Financial assets pledged under repurchase agreements	51,429,488	–	51,429,488	(44,468,359)	–	6,961,129
Total	**51,429,488**	**–**	**51,429,488**	**(44,468,359)**	**–**	**6,961,129**
Financial liabilities						
Payables under repurchase agreements	44,468,359	–	44,468,359	(44,468,359)	–	–
Total	**44,468,359**	**–**	**44,468,359**	**(44,468,359)**	**–**	**–**

18. Related party disclosures

In accordance with IAS 24 *Related Party Disclosures*, 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. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

Related parties include:

- Shareholders of the Bank;
- Key management personnel of the Bank, i.e. persons having authority and responsibility for planning, directing and controlling the activities of the Bank, either directly or indirectly;
- Other related parties, including close relatives of the shareholders and key management personnel, and companies under the control or common control of parties related to the Bank or close relatives thereof.

The outstanding balances of related party transactions at the end of the reporting period are as follows:

	30 June 2019 (unaudited)			
	Shareholders	*Key management personnel*	*Other related parties*	*Total*
Loans outstanding at 1 January 2019	**–**	**6,518**	**449,897**	**456,415**
Loans issued during the period	–	–	343,018	**343,018**
Loans repaid during the period	–	(3,750)	(326,019)	**(329,769)**
Other movements	–	–	15,696	**15,696**
Loans outstanding at 30 June 2019	**–**	**2,768**	**482,592**	**485,360**
Less allowance for impairment	–	(318)	(377,391)	**(377,709)**
Loans outstanding at 30 June 2019, less allowance	**–**	**2,450**	**105,201**	**107,651**
Other assets	–	12	181	**193**
Deposits at 1 January 2019	**–**	**406,077**	**8,313**	**414,390**
Deposits received during the year	1,000,000	517,780	70,700	**1,588,480**
Deposits repaid during the year	(1,000,000)	(678,005)	(58,246)	**(1,736,251)**
Other movements	–	(29,226)	(250)	**(29,476)**
Deposits at 30 June 2019	**–**	**216,626**	**20,517**	**237,143**
Settlement and current accounts at 30 June 2019	**1,061,609**	**168,400**	**37,777**	**1,267,786**
Debt securities issued	194,218	125,536	–	**319,754**
Other liabilities	775	20,426	113	**21,314**

(thousands of Russian rubles)

18. Related party disclosures (continued)

	31 December 2018			
	Shareholders	*Key management personnel*	*Other related parties*	*Total*
Loans outstanding at 1 January 2018	**–**	**56,147**	**461,170**	**517,317**
Loans issued during the year	–	–	10,000	**10,000**
Loans repaid during the year	–	(49,629)	–	**(49,629)**
Other movements	–	–	(21,273)	**(21,273)**
Loans outstanding at 31 December 2018	**–**	**6,518**	**449,897**	**456,415**
Less allowance for impairment at 31 December	–	(611)	(345,535)	**(346,146)**
Loans outstanding at 31 December 2018, less allowance	**–**	**5,907**	**104,362**	**110,269**
Other assets	534	87,011	117	**87,662**
Deposits at 1 January 2018	**366,084**	**150,393**	**–**	**516,477**
Deposits received during the year	63,624	600,471	8,009	**672,104**
Deposits repaid during the year	(456,851)	(382,078)	–	**(838,929)**
Other movements	27,143	37,291	304	**64,738**
Deposits at 31 December 2018	**–**	**406,077**	**8,313**	**414,390**
Settlement and current accounts at 31 December 2018	**8,291**	**84,010**	**863**	**93,164**
Debt securities issued	207,055	135,534	–	**342,589**
Other liabilities	534	87,011	117	**87,662**
Loan commitments	–	3,000	–	**3,000**

Income and expenses arising from related party transactions are as follows:

	For the six months ended							
	30 June 2019 (unaudited)				*30 June 2018 (unaudited)*			
	Share-holders	*Key manage-ment personnel*	*Other related parties*	*Total*	*Share-holders*	*Key manage-ment personnel*	*Other related parties*	*Total*
Interest income	–	260	28,109	**28,369**	–	5,248	27,507	**32,755**
Interest expense	(53,412)	(10,106)	(496)	**(64,014)**	(66,883)	(2,578)	(1,075)	**(70,536)**
Credit loss income/(expense)	–	527	(32,076)	**(31,549)**	–	35,001	(10,000)	**25,001**
Net (losses)/gains from foreign currencies	32,522	42,739	1,555	**76,816**	(56,389)	(12,554)	(10,177)	**(79,120)**
Fee and commission income	32,817	8,468	135	**41,420**	24,148	89	307	**24,544**
Other income	76	79	11,946	**12,101**	47,494	–	–	**47,494**
Other operating expenses	(1,430)	(779)	(4,058)	**(6,267)**	(902)	(1,179)	(1,560)	**(3,641)**

Compensation to key management personnel comprises the following:

	For the six months ended	
	30 June 2019 (unaudited)	*30 June 2018 (unaudited)*
Salaries and other short-term benefits	28,759	24,796
Long-term employee benefits	10,697	9,635
Mandatory pension contributions	5,084	4,072
Social security costs	1,926	1,621
Total key management personnel compensation	**46,466**	**40,124**

19. Events after the reporting date

At the shareholders' meeting held in July 2019, the Bank declared dividends for the first six months of 2019 from a part of profit for the first six months of 2019 totaling RUB 850,208 thousand (RUB 49.52 per ordinary share and RUB 12.38 per preferred share).