PJSC MTS Bank

Consolidated Financial Statements and
Independent Auditor’s Report
for 2018

Public Joint-Stock Company MTS Bank

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Public Joint-Stock Company MTS Bank

Statement of Management's Responsibilities for the Preparation and Approval of the Consolidated Financial Statement for the Year Ended December 31, 2018

Management is responsible for the preparation of the consolidated financial statements that present fairly the financial position of Public Joint-Stock Company MTS Bank (the "Bank") and its subsidiaries (the "Group") as at December 31, 2018, and the related consolidated statements of profit or loss, of other comprehensive income, changes in equity and cash flows for the year than ended, and of significant accounting policies and notes to the consolidated financial statements (the "consolidated financial statements") in compliance with International Financial Reporting Standards ("IFRS").

In preparing the consolidated financial statements, management is responsible for:

- Properly selecting and applying accounting policies;
- Presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- Providing additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's consolidated financial position and consolidated financial performance;
- Making an assessment of the Group's ability to continue as a going concern.

Management is also responsible for:

- Designing, implementing and maintaining an effective and sound system of internal controls throughout the Group;
- Maintaining adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the consolidated financial position of the Group, and which enable them to ensure that the consolidated financial statements of the Group comply with IFRS;
- Maintaining statutory accounting records in compliance with legislation and accounting standards of the Russian Federation ("RF");
- Taking such steps as are reasonably available to safeguard the assets of the Group; and
- Preventing and detecting fraud and other irregularities.

The consolidated financial statements of the Group for the year ended December 31, 2018 were authorised for issue by the Management on April 15, 2019.

On behalf of the Management Board:

I. V. Filatov
Chairman of the Management Board

April 15, 2019
Moscow

A. V. Yeltyshev
Chief Accountant

April 15, 2019
Moscow

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders and the Board of Directors of the Public Joint-Stock Company MTS Bank:

Opinion

We have audited the consolidated financial statements of Public Joint Stock Company MTS Bank (the "Bank") and its subsidiaries (the "Group") which comprise the consolidated statement of financial position as at December 31, 2018, the consolidated statements of profit and loss, of other comprehensive income, changes in equity and cash flows for the year than ended, and of significant accounting policies and notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2018, and its consolidated financial performance and its consolidated cash flows for 2018 in accordance with the International Financial Reporting Standards (further the "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* (the "IESBA Code") together with the ethical requirements that are relevant to our audit of the consolidated financial statements in the Russian Federation. We have also fulfilled our other ethical responsibilities in accordance with these requirements and the 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, we do not express a separate opinion on these matters.

Why was the matter determined to be a key audit matter?	How was the matter addressed in the audit?
Impairment of loans to customers of PJSC MTS Bank We focused on this area because transition to IFRS 9 *Financial Instruments* since January 1, 2018, is associated with significant changes in the methodology and process of the assessment of impairment of loans to customers. The applied models and techniques for calculating expected credit losses use the data from both external and internal sources as well as require complex and subjective judgments of the Group's management. Key areas of judgment and estimation uncertainty in respect of the provisions for expected credit losses on loans to customers include: • Determining the stage of impairment of loans assessed on an individual basis, based on the determination of whether a significant increase in credit risk has occurred; • Assessment of the probability of default for loans, assessed on an individual basis, on the first and second stages; • Assessment of the probability of default and the level of loss given default for loans that are collectively assessed. See Note 3 to the consolidated financial statements.	We obtained understanding of the processes and control procedures of the Group regarding the assessment of credit risk and calculation of provisions for expected credit losses. We assessed the methodology, models and techniques used by the management in assessing expected credit losses for the compliance with IFRS 9 *Financial Instruments* requirements. For the loans assessed on an individual basis, we analysed the criteria considered by the management for identifying a significant change of credit quality. On a selective basis, using all available information on the selected borrowers, we assessed appropriateness of the impairment stage, and examined management's conclusion on the absence of a significant change in credit risk. With the assistance of internal experts in actuarial calculations, we analysed validation reports for the model used to determine the probability of default on an individual basis for loans in the first and second impairment stages. With the assistance of our internal actuarial experts, we assessed the mechanism and logic and assumptions used in the models, including segmentation for portfolios with similar credit risk characteristics. In some cases, we made alternative calculations and compared the results with the calculations performed by the management. We tested completeness and accuracy of data used in collective models for calculating expected credit losses, including historical data, as well as the correctness of macroeconomic forecasts used by the Group, based on external sources. We also checked the completeness and assessed the consistency of the disclosures in the consolidated financial statements with the requirements of IFRS 9.
Assessment and measurement of deferred tax assets and tax losses carried forward We focused on this area because in assessment and measurement of deferred tax assets ("DTA"), in particular, DTA with respect to unused tax losses, the Bank management makes complex and subjective judgements in respect of estimating future taxable profits. In addition, the book value of DTA as at December 31, 2018 is material and amounts to RUB 3 244 416	We obtained understanding of the processes and control procedures of the Group related to development of models and estimation of future taxable profit. We checked that the amount of DTA in respect of tax losses carried forward is recognised to the extent of future taxable profit available against which the unused tax losses can be utilised. In order to check the appropriateness of recognised DTA we checked the inputs, assumptions and the calculations in the models. In particular, we performed the following procedures:

Why was the matter determined to be a key audit matter?	How was the matter addressed in the audit?
thousand, including DTA of RUB 1 100 352 thousand for unused tax losses. Estimation of future taxable profit is the most sensitive to the changes of the following assumptions: • macroeconomic indicators; • volume and types of the Bank's transactions and their profitability; • projected losses on different groups of assets. See Note 14 to the consolidated financial statements on pages 49-50.	• We analysed the assumptions used by the management of the Bank in estimating future taxable profit, and compared them with our knowledge of the Bank's operations, its strategy and future development plans, the current situation and the banking industry development forecasts; • We assessed accuracy of previous forecasts of taxable profit, and performed sensitivity analysis to test the effect of changes in forecasting assumptions on future taxable profit. We further examined how the Bank's management considered this sensitivity when determining the value of recognised DTA. We also checked the completeness and the consistency of disclosures in the consolidated financial statements with the requirements of IAS 12 *Income Tax*.
Determining the value of land and buildings within fixed assets and investment property The Group applies a revaluation model to measure land and buildings within fixed assets in accordance with IAS 16 *Property, plant equipment*. Investment property is assessed at fair value in accordance with IAS 40 *Investment Property*. Fair valuation of land and buildings and investment property is a key audit matter, as it involves subjectivity and requires the use of judgments, in particular, in respect of unobservable source data. The key assumptions used in the assessment are dependent on the individual characteristics of each property object. See Note 23 to the consolidated financial statements on page 65.	We obtained an understanding of the processes and control procedures of the Group regarding the assessment of the fair value of real estate performed by the bank independently and with the involvement of independent appraisers. With the assistance of our internal valuation experts, for individual classes of objects, we reviewed the methods and the models for their consistency with previous valuations, and analysed significant assumptions used in the valuation for their reasonableness and for compliance with the valuation standards. We considered the potential impact on the valuation of a number of assumptions that were not taken into account in the Bank's models, and assessed their effect by making adjustments to the valuation models, where necessary. On a sample basis, we tested accuracy of input data of the valuation models by checking it with supporting documentation. We also examined completeness and adequacy of disclosures related to the valuation of land and buildings within property and equipment and investment property in the consolidated financial statements.

Other Information

Management is responsible for the other information. The other information comprises the information included in the quarterly report of the issuer for the first quarter of 2019, but does not include the consolidated financial statements and our auditor's report thereon. The quarterly report of the issuer for the first quarter of 2019 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 during the review we consider whether the other information is materially inconsistent with the annual statements, knowledge obtained in the audit or otherwise appears to be materially misstated.

When we read the quarterly report of the issuer for the first quarter of 2019, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

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

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with 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.

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

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISA 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 ISA, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control;
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our 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 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 performance of the audit of the Group's financial statements, management and control over it. We remain solely responsible for our audit opinion.[1]

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period, which constitute the key audit matters included herein.

Report on procedures performed in accordance with the Federal Law No. 395-1 dated December 2, 1990 "On Banks and Banking Activities"

The Management of the Bank is responsible for compliance with the obligatory ratios established by the Bank of Russia, as well as for compliance of the Bank's internal control and risk management systems with the Bank of Russia requirements.

According to Article 42 of Federal Law No. 395-1 "On Banks and Banking Activities" dated December 2, 1990 (the "Federal Law") in the course of our audit of the Bank's financial statements for 2018 we performed procedures with respect to the Bank's compliance with the obligatory ratios as at January 1, 2019 and compliance of its internal control and risk management systems with the CBR requirements.

We have selected and performed procedures based on our judgment, including inquiries, analysis and review of documentation, comparison of the Bank's policies, procedures and methodologies with the CBR requirements, as well as recalculations, comparisons and reconciliations of numeric values and other information.

[1] This paragraph is required only if the audit is a group audit under ISA 600.

We report our findings below:

1. With respect to the Bank's compliance with the mandatory ratios: the mandatory ratios as at January 1, 2019 were within the limits established by the Central Bank of Russia.

   We have not carried out any procedures towards the Bank's accounting data, apart from the procedures that we considered necessary for the purpose of expressing an opinion on whether the Bank's statements fairly represent in all material respects its financial position as at December 31, 2018 and its financial results and cash flows for 2018 in accordance with the Russian rules for the preparation of annual financial statements by credit institutions.

2. With respect to compliance of the Bank's internal control and risk management systems with the CBR requirements:

   (a) in accordance with the CBR requirements and recommendations as at December 31, 2018 the Bank's internal audit department was subordinated and accountable to the Bank's Board of Directors and the Bank's risk management departments were not subordinated or accountable to the departments undertaking the respective risks, the heads of the Bank's risk management and internal audit departments comply with qualification requirements established by the CBR;
   (b) as at December 31, 2018, the Bank had duly approved in accordance with the CBR requirements and recommendations the internal policies regarding identification and management of significant risks, including credit, operating, market, interest rate, legal, liquidity, and reputational risks;
   (c) as at December 31, 2018, the Bank had a reporting system with regard to the Bank's significant credit, operating, market, interest rate, legal, liquidity and reputational risks, and with regard to the Group's capital;
   (d) frequency and sequential order of reports prepared by the Bank's risk management and internal audit departments in 2018 on management of credit, operating, market, interest rate, legal, liquidity and reputational risks were in compliance with the Bank's internal policies; these reports included the results of monitoring of the effectiveness of the Bank's respective methodologies and recommendations for improvement;
   (e) as at December 31, 2018, the authority of the Bank's Board of Directors and the Bank's executive bodies included control over compliance with the risk limits and capital adequacy ratios established by the Bank. In order to control the efficiency and consistency of how the Bank's risk management policies were applied during 2018, the Bank's Board of Directors and the Bank's executive bodies regularly discussed reports prepared by the risk management and internal audit departments and considered proposed corrective measures.

We have carried out procedures with respect to the Bank's internal control and risk management systems solely to report on the findings related to compliance of the Bank's internal control and risk management systems with the CBR requirements.

Акционерное общество «Делойт и Туш СНГ»
для аудиторских заключений и отчетов
Россия, г. Москва, ул. Лесная, д. 5

Ekaterina Vladimirovna Ponomarenko,
Engagement Partner

April 15, 2019

Company: Public Joint-Stock Company MTS Bank

State Registration Certificate No. 2268 dated January 29, 1993

Certificate of registration in the Unified State Register of Legal Entities: №1027739053704 dated August 08, 2002, issued by Interdistrict Inspectorate of the Russian Ministry of Taxation No. 39 for Moscow.

Location: Russia, 115432, Moscow, Andropova Avenue 18, bld. 1

Audit Firm: AO "Deloitte & Touche CIS"

State Registration Certificate No. 018.482 issued by Moscow Registration Chamber on October 30, 1992.

Primary state registration number: 1027700425444

Certificate of registration in the Unified State Register of Legal Entities:
series 77 No. 004840299, issued by Moscow Interdistrict Inspectorate of the Russian Ministry of Taxation No. 39 on November 13, 2002.

Member of Self-Regulated Organization of Auditors "Russian Union of Auditors" (Association), ORNZ 11603080484.

Public Joint-Stock Company MTS Bank

Consolidated Statement of Profit and Loss for the Year Ended December 31, 2018
(in thousands of Russian Rubles, unless otherwise indicated)

	Notes	2018	2017 (restated)
Continuing operations			
Interest income	6, 33	15 867 721	14 030 724
Interest expense	6, 33	(6 235 698)	(6 443 992)
Net interest income before provision for impairment losses on interest-bearing assets		**9 632 023**	**7 586 732**
Provision for impairment losses on interest-bearing assets	7, 33	(2 227 265)	(677 325)
Net interest income		**7 404 758**	**6 909 407**
Net gains from operations with securities at fair value through profit or loss	8	976 543	69 517
Net (loss)/gain on operations with derivative financial instruments	9	(455 955)	354 135
Net loss on foreign exchange operations	10	(58 954)	(656 511)
Fee and commission income	11, 33	6 545 476	4 339 097
Fee and commission expense	11, 33	(4 526 822)	(2 960 251)
Net gain on available-for-sale financial assets		-	1 324
Net loss recognised on disposal of subsidiaries	21	(15 261)	-
Recovery of provision/(provision) for losses on other transactions	7, 33	9 603	(474 488)
Changes in fair value of investment property	23	(382 436)	(204 179)
Net loss on disposal of investment property		(122 646)	(89 797)
Revaluation of property and equipment	22	(7 688)	(30 118)
Other income	12, 33	1 194 582	469 834
Net non-interest income		**3 156 442**	**818 563**
Operating income		**10 561 200**	**7 727 970**
Operating expense	13, 33	(9 558 417)	(7 452 914)
Profit before income tax		**1 002 783**	**275 056**
Income tax expense	14	(388 456)	(183 532)
Profit from continuing operations		**614 327**	**91 524**
Discontinued operations			
Loss from discontinued operations	15, 33	-	(66 203)
NET PROFIT		**614 327**	**25 321**
Attributable to:			
Owners of the parent Bank			
Profit from continuing operations		614 327	91 524
Loss from discontinued operations		-	(60 852)
Net profit attributable to shareholders of the parent Bank		614 327	30 672
Non-controlling interest			
Profit from continuing operations		-	-
Loss from discontinued operations		-	(5 351)
Net loss attributable to the non-controlling interest		-	(5 351)
PROFIT/(LOSS) PER SHARE			
From continuing operations – basic and diluted (RUB)	16	30	4
From discontinued operations – basic and diluted (RUB)	16	-	(3)

On behalf of the Management Board:

I. V. Filatov
Chairman of the Management Board

April 15, 2019
Moscow

A.V. Yeltyshev
Chief Accountant

April 15, 2019
Moscow

The notes on pages 14-94 form an integral part of these consolidated financial statements.

Public Joint-Stock Company MTS Bank

Consolidated Statement of Other Comprehensive Income
for the Year Ended December 31, 2018
(in thousands of Russian rubles)

	Notes	2018	2017
Net profit for the period		**614 327**	**25 321**
OTHER COMPREHENSIVE INCOME/(LOSS)			
Items that will not be subsequently reclassified to profit or loss:			
Exchange differences on translating foreign operations		-	337
Revaluation of property and equipment	22	6 960	(2 795)
Income tax	14	(1 392)	12 529
		5 568	10 071
Items that may be reclassified subsequently to profit or loss:			
Revaluation of securities at fair value through other comprehensive income		83	-
Change in provision for securities at fair value through other comprehensive income		(117)	-
Revaluation of available-for-sale financial assets		-	647 437
Reclassification adjustment relating to available-for-sale financial assets for sale disposed of during the period		-	(6 922)
Reclassification adjustment relating to available-for-sale financial assets for sale upon disposal of a subsidiary bank		-	(106 194)
Exchange differences on translating foreign operations		-	(21 430)
Reclassification adjustment relating to available-for-sale financial assets revaluation reserve on disposal of subsidiary		-	(2 437 358)
Income taxes	14	(17)	(119 948)
		(51)	(2 044 415)
Other comprehensive income/(loss) after income tax		5 517	(2 034 344)
TOTAL COMPREHENSIVE INCOME/(LOSS)		**619 844**	**(2 009 023)**
Attributable to:			
Shareholders of the parent Bank		619 844	(2 017 242)
Non-controlling interest		-	8 219
TOTAL COMPREHENSIVE INCOME/(LOSS)		**619 844**	**(2 009 023)**

On behalf of the Management Board:

I. V. Filatov
Chairman of the Management Board

April 15, 2019
Moscow

A.V. Yeltyshev
Chief Accountant

April 15, 2019
Moscow

The notes on pages 14-94 form an integral part of these consolidated financial statements.

Public Joint-Stock Company MTS Bank

Consolidated Statement of Financial Position
as at December 31, 2018
(in thousands of Russian rubles)

	Notes	December 31, 2018	December 31, 2017 (restated)
ASSETS:			
Cash and balances with the Central Bank	17	8 685 806	14 358 077
Investments in securities	18, 33	53 001 366	52 813 208
Due from banks	19, 33	4 392 829	6 484 497
Loans to customers	20, 33	72 571 216	57 618 514
Investments in a joint venture	21	690 102	-
Derivative financial instruments	28	228 062	244 519
Property and equipment and intangible assets	22	3 663 801	2 981 708
Investment property	23	3 360 620	4 090 832
Current income tax assets		74 006	-
Deferred income tax assets	14	3 244 416	3 169 537
Other assets	24, 33	1 390 267	727 392
TOTAL ASSETS		**151 302 491**	**142 488 284**
LIABILITIES AND EQUITY			
LIABILITIES:			
Due to banks and other financial institutions	25	7 749 869	1 254 992
Customer accounts	26, 33	116 674 392	114 696 391
Debt securities issued	27	1 717 129	2 073 655
Derivative financial instruments	28	373 147	42 854
Obligations on securities return		393 541	-
Current income tax liabilities		-	19 575
Other liabilities	29	5 321 472	3 174 907
TOTAL LIABILITIES		**132 229 550**	**121 262 374**
EQUITY:			
Equity attributable to owners of the parent Bank:			
Share capital	30	10 882 298	10 882 298
Treasury shares	30	(77 285)	-
Share premium	30	7 200 940	7 200 940
Available-for-sale financial assets revaluation reserve		-	614 370
Property and equipment revaluation reserve		61 567	55 999
Retained earnings		1 005 421	2 472 303
TOTAL EQUITY		**19 072 941**	**21 225 910**
TOTAL LIABILITIES AND EQUITY		**151 302 491**	**142 488 284**

On behalf of the Management Board:

I. V. Filatov
Chairman of the Management Board

April 15, 2019
Moscow

A.V. Yeltyshev
Chief Accountant

April 15, 2019
Moscow

The notes on pages 14-94 form an integral part of these consolidated financial statements.

Public Joint-Stock Company MTS Bank

Consolidated Statement of Changes in Equity
for the Year Ended December 31, 2018
(in thousands of Russian rubles)

	Notes	Share capital	Treasury shares	Share premium	Financial assets available-for-sale revaluation reserve	Revaluation reserve for securities at fair value through other comprehen-sive income	Cumulative translation reserve	Property and equipment revaluation reserve	(Accumulated deficit)/ Retained earnings	Total equity attributable to owners of the parent Bank	Non-controlling interest	TOTAL EQUITY
December 31, 2016		**10 882 298**	**-**	**19 087 389**	**216 526**	**-**	**2 451 421**	**182 370**	**(9 444 959)**	**23 375 045**	**3 283 516**	**26 658 561**
Group reorganisation	15	-	-	-	-	-	-	(132 034)	132 034	-	(3 291 735)	(3 291 735)
Result of transactions with related parties	15	-	-	-	-	-	-	-	(131 893)	(131 893)	-	(131 893)
Transfer of share premium to accumulated deficit	30	-	-	(11 886 449)	-	-	-	-	11 886 449	-	-	-
Comprehensive income/(loss)		-	-	-	397 844	-	(2 451 421)	5 663	30 672	(2 017 242)	8 219	(2 009 023)
December 31, 2017		**10 882 298**	**-**	**7 200 940**	**614 370**	**-**	**-**	**55 999**	**2 472 303**	**21 225 910**	**-**	**21 225 910**
Effect of transition to IFRS 9	3	-	-	-	(614 370)	51	-	-	(1 844 200)	(2 458 519)	-	(2 458 519)
Effect of transition to IFRS 15	3	-	-	-	-	-	-	-	(229 215)	(229 215)	-	(229 215)
January 1, 2018		**10 882 298**	**-**	**7 200 940**	**-**	**51**	**-**	**55 999**	**398 888**	**18 538 176**	**-**	**18 538 176**
Purchase of treasury shares	30	-	(77 285)	-	-	-	-	-	-	(77 285)	-	(77 285)
Dividends paid		-	-	-	-	-	-	-	(7 794)	(7 794)	-	(7 794)
Comprehensive income		-	-	-	-	(51)	-	5 568	614 327	619 844	-	619 844
December 31, 2018		**10 882 298**	**(77 285)**	**7 200 940**	**-**	**-**	**-**	**61 567**	**1 005 421**	**19 072 941**	**-**	**19 072 941**

On behalf of the Management Board:

I. V. Filatov
Chairman of the Management Board

April 15, 2019
Moscow

A.V. Yeltyshev
Chief Accountant

April 15, 2019
Moscow

The notes on pages 14-94 form an integral part of these consolidated financial statements.

Public Joint-Stock Company MTS Bank

Consolidated Statement of Cash Flows for the Year Ended December 31, 2018

(in thousands of Russian rubles)

	Notes	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES			
Interest received		15 425 097	14 028 547
Interest paid		(6 164 270)	(6 843 291)
Realised gains/(losses) on securities at fair value through profit or loss		675 411	(19 381)
Realised losses on derivative instruments		(109 205)	(857 671)
Payments on foreign currency transactions		(375 980)	(769 772)
Fees and commissions received		6 189 761	4 239 676
Fees and commissions paid		(4 553 581)	(2 604 463)
Other operating income received		809 844	222 264
Administrative and other operating expenses paid		(7 930 529)	(6 826 102)
Income tax paid		(558 325)	(176 174)
Cash inflow from operating activities before changes in operating assets and liabilities		**3 408 223**	**393 633**
Changes in operating assets and liabilities			
(Increase)/decrease in operating assets:			
Minimum reserve deposits with the Central Banks	17	(101 964)	(43 333)
Financial instruments at fair value through profit or loss		3 225 842	2 362 884
Due from banks		1 881 152	(3 883 800)
Loans to customers		(20 264 229)	(561 724)
Other assets		(583 098)	(116 841)
Increase/(decrease) in operating liabilities:			
Financial liabilities at fair value through profit or loss		390 882	-
Due to banks and other financial institutions		6 490 163	(1 692 479)
Customer accounts		1 502 538	21 212 889
Debt securities issued		(365 085)	(370 288)
Other liabilities		1 259 857	224 396
Net cash (outflow)/inflow from operating activities		**(3 155 719)**	**17 525 337**

Public Joint-Stock Company MTS Bank

Consolidated Statement of Cash Flows (continued)
for the Year Ended December 31, 2018
(in thousands of Russian rubles)

	Notes	2018	2017
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of property and equipment and intangible assets	22	(1 417 208)	(619 928)
Revenue from sale of property and equipment and intangible assets		52 828	6 960
Purchase of investment property	23	(79 992)	(913 195)
Proceeds from sale of investment property		625 182	651 465
Purchase of available-for-sale financial assets		-	(2 847 203)
Proceeds from sale of financial assets at fair value through other comprehensive income		349 102	3 087 060
Proceeds from sale of financial assets at fair value through other comprehensive income		349 102	3 087 060
Purchase of securities at amortised cost		(10 784 394)	(18 005 081)
Repayment of securities at amortised cost		7 862 178	9 501 623
Cash inflow/(outflow) on sale of subsidiaries	15	444 887	(13 873 520)
Net cash outflow from investing activities		**(2 947 417)**	**(23 011 819)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Purchase of treasury shares	30	(77 285)	-
Dividends paid		(7 794)	-
Repayment of subordinated debt		-	(6 600 000)
Net cash outflow from financing activities		**(85 079)**	**(6 600 000)**
Effect of foreign currencies exchange rate fluctuations on cash and cash equivalents		**23 638**	**(475 960)**
NET DECREASE IN CASH AND CASH EQUIVALENTS		**(6 164 577)**	**(12 562 442)**
CASH AND CASH EQUIVALENTS, beginning of the period	**17**	**16 281 310**	**28 843 752**
CASH AND CASH EQUIVALENTS, end of the period	**17**	**10 116 733**	**16 281 310**

On behalf of the Management Board:

I. V. Filatov
Chairman of the Management Board

April 15, 2019
Moscow

A.V. Yeltyshev
Chief Accountant

April 15, 2019
Moscow

The notes on pages 14-94 form an integral part of these consolidated financial statements.

(in thousands of Russian rubles, unless otherwise indicated)

1. Organisation

Public Joint Stock Company MTS Bank ("MTS Bank") is a joint-stock Bank. The Bank was established in the Russian Federation as an open joint stock company in 1993. Former title of MTS Bank is Joint Stock Commercial Bank "Moscow Bank for Reconstruction and Development" (Open Joint Stock Company) ("MBRD"). The title was changed under a decision of the shareholders' meeting held on December 16, 2011. In accordance with the change in Russian Federation legislation in 2014 the MTS Bank changed its legal form from OJSC to PJSC.

MTS Bank is regulated by the Central Bank of the Russian Federation (the "CBR") and conducts its business under general license number 2268. MTS Bank's primary business consists of commercial activities, trading with securities, foreign currencies and derivative instruments, originating loans and guarantees.

The registered office of the Bank is located at: Russian Federation, 115432, Moscow, Andropova Avenue 18, bld. 1.

As at December 31, 2018 and December 31, 2017, MTS Bank had 7 operating offices in the Russian Federation (the "RF").

MTS Bank is a parent company of a banking group (the "Group"). As at December 31, 2018, the Group controlled the companies CJSC "Mortgage Agent MTSB", LLC "VektorA", LLC "Skyfreight". As at December 31, 2017, the Group controlled the companies CJSC "Mortgage Agent MTSB", LLC "VektorA" and LLC "Design Solution", which was liquidated in April 2018.

In addition, as at December 31, 2018 and December 31, 2017, the Group exercises 100% control over the following investment funds:

- Closed unit investment combined fund "Kapitalny 2";
- Closed unit investment real estate fund "Uralskaya Nedvizhimost 1";
- Closed unit investment real estate fund "Uralskaya Nedvizhimost 2";
- Closed unit investment real estate fund "Bashkirskaya Nedvizhimost 2";
- Closed unit investment annuity fund "Rentny 2";
- Closed unit investment real estate fund "Rentny 3".

In 2017, the Group acquired control over closed unit investment real estate fund "Sistema – Rentnaya Nedvizhimost 1". In 2018, the Group lost 100% control over the specified fund, having sold part of the shares to a related party. As at December 31, 2018, investments in the fund are accounted for as a joint venture using the equity method (Note 21).

Shareholding structure of MTS Bank as at December 31, 2018 and December 31, 2017:

	December 31, 2018, %	December 31, 2017, %
Shareholder		
Mobile Telesystems B.V.	55.00	26.37
PJSC JSFC Sistema ("Sistema")	43.24	71.87
OJSC Moscow City Telephone Network	0.24	0.24
PJSC MTS Bank (treasury shares)	0.27	0.00
Other income	1.25	1.52
Total	**100.00**	**100.00**

1. Organisation (continued)

As at December 31, 2018 and December 31, 2017 Sistema directly or indirectly owned 72.30% and 86.60% of the share capital of MTS Bank, respectively. Mr. V.P. Evtushenkov owns a controlling stake in Sistema.

On July 5, 2018, PJSC Mobile TeleSystems ("MTS") acquired 28.63% of shares of PJSC MTS Bank from PJSC JSFC Sistema through its 100% subsidiary Mobile TeleSystems B.V.

As a result of the transaction, the share of MTS in the capital of MTS Bank increased from 26.61% to 55.24% (including the share of PJSC MGTS in the amount of 0.24%), while the share of direct ownership of JSFC Sistema in the capital of MTS Bank, respectively, decreased from 71.87% to 43.24%.

The General meeting of Shareholders has the authority to give final approval to these financial statements.

2. Basis of presentation

Accounting basis

Statement of compliance. These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB").

***Going concern*. ** In 2018, the Group received a profit after tax in the amount of RUB 614 327 thousand, in 2017 the Group's after-tax profit amounted to RUB 25 321 thousand.

Operations with the strongest impact on the Bank's financial result for 2018 include corporate and retail loans, securities transactions, inter-bank market transactions and customer services. In 2018, the Bank continued to pursue a policy aimed at improving the quality of the loan portfolio through, on the one hand, improving the quality of new loan originations, and on the other, increasing the collection efficiency.

At the end of 2018, net interest income before deduction of provisions grew by RUB 2 045 291 thousand or 27% in comparison with 2017, as well as the volume of loan portfolios of businesses and individuals: the net volume of loans to customers increased by RUB 14 952 702 thousand or 26%. In 2018, the Bank paid great attention to the development of transactional business, which, in turn, led to the increase in net fee and commission income by 46%.

To ensure operational efficiency and maintain financial stability, the Bank's management and shareholders intend to develop the Bank's business both in corporate and in retail segments focusing on transactional income, lending to low-risk clientele, operations with JSFC Sistema and further improvement in cost efficiency.

The main goal of the Bank in 2019 is the further growth of an active retail customer base due to the development of the "digital bank" model, as well as the construction of a "digital" transactional bank for servicing small and micro businesses. To achieve this goal, the Bank scales the successful practices accumulated during the year of the realisation of the digital transformation program. In the near future, MTS Bank intends to significantly increase the number of retail customers by implementing a number of strategic projects. The new priority of the Bank will be the accelerated development of the small and medium business division with emphasis on digital services and the ecosystem benefits of a wide range of partnerships between the Bank and MTS operator. The workflow in the corporate segment will not undergo significant changes. The Bank intends to focus on the development of settlement and savings services for companies and on the moderate growth of the loan portfolio without increasing risk. At the same time, the offer to corporate clients will significantly expand due to the development of factoring products.

2. Basis of presentation (continued)

As at December 31, 2018 the Group has a negative cumulative liquidity position but, considering stable sources of funding, the position takes a positive value of RUB 4 465 817 thousand for the period less than 1 year. As at December 31, 2018, the Bank's liabilities to related parties amounted to 46.3% (as at December 31, 2017 — 50.1%) of the total liabilities. Management of the Bank carried out an analysis of its funding requirements and confirms that the Bank will be able to meet all obligations as they fall due in 2019 and beyond.

As at the end of 2018, the capital adequacy ratio of PJSC MTS Bank (calculated in accordance with the requirements of the CB RF) was 11.9% with the minimum regulatory requirement for the capital adequacy ratio of 8%. As at the end of 2018 the common equity adequacy ratio of PJSC MTS Bank (calculated in accordance with the requirements of the CB RF) was 7.96% with a minimum regulatory requirement of 4.5% to the level of common equity.

These financial statements have been prepared on the assumption that the Group is a going concern and will continue its operation for the foreseeable future. The management of the Group is confident that the going concern assumption can be fully applied to the Group.

Other basis of presentation criteria. These consolidated financial statements are presented in thousands of Russian rubles ("RUB thousand"), unless otherwise indicated. These consolidated financial statements have been prepared on the historical cost basis except for certain properties and financial instruments that are measured at revalued amounts or fair values at the end of each reporting period, as explained in the accounting policies below.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received from sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2, leasing transactions that are within the scope of IAS 17, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 or value in use in IAS 36.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3. Levels correspond to the possibility of direct fair value determination on the basis of market data and reflect the significance of the inputs used in course of the fair value measurement in its entirety:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Group can access at the measurement date;
- Level 2 inputs are prices, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The Bank and its subsidiaries registered in the Russian Federation maintain their accounting records in accordance with the Russian Accounting Standards ("RAS"). These consolidated financial statements have been prepared from the statutory accounting records and have been adjusted to conform to IFRS.

Functional currency. Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The functional currency of the parent of the Group is the Russian Ruble ("RUB"). The Russian Ruble is the presentational currency of the consolidated financial statements of the Group. All values are rounded to the nearest thousand Rubles, except where otherwise indicated.

(in thousands of Russian rubles, unless otherwise indicated)

2. Basis of presentation (continued)

Offsetting. Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position only when the Group has a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liability simultaneously. Income and expense is not offset in the consolidated statement of profit or loss unless required or permitted by any accounting standard or interpretation, and as specifically disclosed in the accounting policies of the Group.

The principal accounting policies are set out below.

3. Significant accounting principles

The same accounting policies, presentation and methods of computation have been followed in these financial statements for the year ended December 31, 2018, as were applied in the preparation of the Group' s financial statements for the year ended December 31, 2017, except for the accounting policies and impact of the adoption of the following new and amended Standards and Interpretations:

IFRS 9	*Financial instruments*
IFRS 15	*Revenue from Contracts with Customers (and the related Clarifications)*
Amendments to IAS 40	*Transfers of Investment Property*
Amendments to IFRSs	*Annual Improvements to IFRSs 2014-2016 Cycle*
IFRIC 22	*Foreign Currency Transactions and Advance Consideration*

New and amended IFRSs effective in the current year

Effect of adoption of IFRS 9 Financial Instruments. In the current year the Group adopted IFRS 9 *Financial Instruments* (revised in July 2014) and related amendments in other IFRSs effective for annual periods beginning on or after January 1, 2018. The transitional regulations of IFRS 9 allow the Group not to restate comparatives. Information for prior periods was not restated, as in the transition to the new standard the Bank applied a modified retrospective approach which allows to include the changes resulting from the application of a new accounting policy in retained earnings at the beginning of the period. In addition, the Group adopted the amendments to IFRS 7 *Financial Instruments: Disclosure related to this standard*, which were applied to disclosures in relation to 2018.

IFRS 9 introduced new requirements to:

1. Classification and measurement of financial assets and financial liabilities;
2. Impairment of financial assets; and
3. Hedge accounting.

Details of new requirements as well as their impact on the Group's consolidated financial statements are described below.

Classification and measurement of financial assets. All recognised financial assets that are within the scope of IFRS 9 are required to be subsequently measured at amortised cost or fair value on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. Debt instruments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are measured at amortised cost at the end of subsequent accounting periods. Debt instruments held within a business model, whose objective is achieved both by obtaining contractual cash flows and selling the financial asset, are measured at fair value through other comprehensive income. All other debt and equity instruments are measured at fair value through profit or loss. In addition, in accordance with IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading nor contingent consideration recognised by an acquirer in a business combination to which IFRS 3 applies) in other comprehensive income, with only dividend income generally recognised in profit or loss.

3. Significant accounting principles (continued)

For an asset to be classified and measured at amortised cost or at fair value through other comprehensive income ("FVTOCI"), its contractual terms should give rise to cash flows that are solely payments of principal and interest on the principal outstanding (SPPI).

For the purpose of SPPI test, principal is the fair value of the financial asset at initial recognition. That principal amount may change over the life of the financial asset (e.g. if there are repayments of principal). Interest consists of consideration for the time value of money, for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs, as well as a profit margin. The SPPI assessment is made in the currency in which the financial asset is denominated.

Contractual cash flows that are SPPI are consistent with a basic lending arrangement. Contractual terms that introduce exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement, such as exposure to changes in equity prices or commodity prices, do not give rise to contractual cash flows that are SPPI. An originated or an acquired financial asset can be a basic lending arrangement irrespective of whether it is a loan in its legal form.

The Group has more than one business model for managing its financial instruments which reflect how the Group manages its financial assets in order to generate cash flows. The Group's business models determine whether cash flows will result from collecting contractual cash flows, selling financial assets or both.

An assessment of business models for managing financial assets is performed at the date of initial application of IFRS 9 to determine the classification of a financial asset.

Debt securities classified as held to maturity investments and loans to customers are held by the Group within a business model whose objective is to collect the contractual cash flows that are solely payments of principal and interest on the principal outstanding. These financial assets are accounted for by the Group at amortised cost in accordance with IFRS 9.

Debt securities classified as available-for-sale financial assets are held within a business model whose objective is achieved both by collecting contractual cash flows and selling the notes in the open market, and the contractual terms give rise to cash flows on specified dates that are solely payments of principal and interest on the principal outstanding. The Group accounts for these debt securities at fair value through other comprehensive income in accordance with IFRS 9.

Investments in fund units and equity securities that were previously classified as available-for-sale financial assets are accounted for in accordance with IFRS 9 at fair value through profit or loss.

At initial recognition of a financial asset, the Group determines whether newly recognised financial assets are part of an existing business model or whether they reflect the commencement of a new business model. The Group reassess its business models each reporting period to determine whether the business models have changed since the preceding period. For the current reporting period, the Group has not identified a change in its business models.

When a debt instrument measured at FVTOCI is derecognised, the cumulative gain/loss previously recognised in other comprehensive income is reclassified from equity to profit or loss. In contrast, when derecognising investments in equity instruments designated as measured at fair value through other comprehensive income, the cumulative gain/loss previously recognised in other comprehensive income is not subsequently reclassified to profit or loss but transferred within equity. Debt instruments that are subsequently measured at amortised cost or at FVTOCI are subject to impairment.

Classification and measurement of financial liabilities. The classification and measurement of financial liabilities remain largely unchanged as compared to the requirements in IAS 39. Derivative financial instruments will continue to be measured at fair value through profit or loss ("FVTPL"). Embedded derivatives are no longer separated from the host contract. With regard to the measurement of financial liabilities at fair value through profit or loss, IFRS 9 requires that the amount of change in the fair value of a financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of such changes in other comprehensive income would create or enlarge an accounting mismatch in profit or loss.

(in thousands of Russian rubles, unless otherwise indicated)

3. Significant accounting principles (continued)

The following tables present the effect of adoption of IFRS 9 on the Group's statement of financial position and retained earnings as at January 1, 2018, including the effect of replacement of the incurred credit loss model in accordance with IAS 39 with the expected credit loss model in accordance with IFRS 9.

A reconciliation of the carrying amount in accordance with IAS 39 and balances recorded in accordance with IFRS 9 as at January 1, 2018 is presented below:

	Valuation category in accordance with IAS 39	Valuation category in accordance with IFRS 9	December 31, 2017	Reclassifi-cation	Revaluation/ provisions	January 1, 2018
Financial Assets						
Financial assets at fair value through profit or loss	At fair value through profit or loss	x	19 545 396	(19 545 396)	-	-
Financial assets available for sale	Available-for-sale	At fair value through other comprehensive income	6 166 244	(6 166 244)	-	-
Investments held to maturity	Held to maturity	At amortised cost	27 346 087	(27 346 087)	-	-
Investments in securities	x	At fair value through profit or loss (obligatory)	-	25 110 005	(6 701)	25 103 304
Investments in securities	x	At fair value through other comprehensive income	-	357 116	-	357 116
Investments in securities	x	At amortised cost	-	27 346 087	(39 927)	27 306 160
Derivative financial instruments	x	At fair value through profit or loss (obligatory)	-	244 519	-	244 519
Due from banks	Loans and accounts receivable	At amortised cost	6 484 497	-	(1 809)	6 482 688
Loans to customers	Loans and accounts receivable	At amortised cost	57 618 514	-	(2 222 861)	55 395 653
Financial liabilities						
Financial liabilities at fair value through profit or loss	At fair value through profit or loss	At fair value through profit or loss	42 854	(42 854)	-	-
Derivative financial instruments	x	At fair value through profit or loss	-	42 854	-	42 854
Provisions for financial guarantees and credit lines	x	x	401 961	-	187 221	589 182

(in thousands of Russian rubles, unless otherwise indicated)

3. Significant accounting principles (continued)

The impact of the transition to IFRS 9 on equity is presented below:

	Financial assets available-for-sale revaluation reserve	**Revaluation reserve for securities at fair value through other comprehensive income**	**Retained earnings**
Closing balance in accordance with IAS 39 as at December 31, 2017	**614 370**	**-**	**2 472 303**
Reclassification	(614 370)	614 370	
Recognition of expected credit losses on financial assets measured at amortised cost	-	-	(2 264 597)
Recognition of expected credit losses on credit-related commitments	-	-	(187 221)
Reclassification of equity instruments as measured at fair value through profit or loss	-	(614 436)	614 436
Changes in fair value of securities measured at fair value through profit or loss	-	-	(6 701)
Recognition of expected credit losses on securities measured at fair value through other comprehensive income	-	117	(117)
Opening balance in accordance with IFRS 9 as at January 1, 2018	**-**	**51**	**628 103**

Impairment. IFRS 9 introduces an 'expected credit loss' ("ECL") model for the measurement of the impairment of financial assets, as opposed to an incurred credit loss model in accordance with IAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. Starting from January 1, 2018, the Group records an ECL allowance for all loans to customers and debt financial assets not carried at FVTPL, as well as loan commitments and financial guarantee contracts (collectively referred to as "financial instruments"). The impairment requirements in accordance with IFRS 9 do not apply to equity financial instruments.

The group developed a valuation technique of provisions based on the analysis of expected credit losses. In accordance with it, depending on the change in the level of credit risk of a financial instrument since its initial recognition, financial instruments are divided into 3 groups:

- Stage 1 of credit quality – financial instruments with a low level of credit risk, that is, the borrower has a stable ability to fulfill liabilities under the contract in the near future, adverse changes in economic and commercial conditions in the long term can, but not necessarily, reduce its ability to fulfill liabilities under the loan agreement;
- Stage 2 of credit quality – financial instruments for which there is a significant deterioration of credit risk as compared with the moment of initial recognition;
- Stage 3 of credit quality – financial instruments that have at least one of the signs of default.

For financial instruments referred to the stage 1 of credit quality, the provision is valued based on expected credit losses for 12 months. For financial instruments for which there is a significant increase in credit risk from the time of initial recognition, the provision is valued taking into account expected credit losses over the entire life time.

Signs of deterioration in credit quality, indicating an increase in credit risk on corporate borrowers and debt securities, evaluated on an individual basis, entailing the transfer of financial instruments from stage 1 to stage 2 of credit quality are presented below:

3. Significant accounting principles (continued)

Loans to corporate borrowers

- Relative increase in PD ("probability of default") compared with the moment of initial recognition by 100 or more percentage points;
- The presence of overdue principal and/or interest for more than 30 calendar days in banks;
- Risk restructuring, in which the debtor is able to repay at the expense of its own financial and economic activities;
- Technical default on bond issues;
- Identifying other factors indicating an increase in credit risk.

Debt securities

- Technical default (at least for one of the issuer's bond issues);
- Restructuring of the issuer's liabilities on a bonded loan (at least on one of the issuer's bonds issues), except the case of a change in its conditions that meets the criteria for risk-free restructuring;
- Identifying other factors indicating an increase in credit risk.

Amounts due from credit institutions

- Default of a credit institution;
- Restructuring of the credit institution's liability to the Bank, except the case of a change in its conditions that meets the criteria for risk-free restructuring;
- The introduction by the Bank of Russia of the interim administration;
- Identifying other factors indicating an increase in credit risk.

Description of the signs of default on corporate borrowers and debt securities is given below:

Corporate borrowers

- The existence of overdue principal and/or interest for more than 90 days;
- The existence of overdue principal and/or interest for a period of less than 90 calendar days in banks if there are other facts indicating that it is impossible to fulfill liabilities to the Group;
- Appeal to creditors (including the Group) for restructuring due to the inability to fulfill the liabilities;
- Default on bond loans (except for technical default);
- The introduction of bankruptcy proceedings;
- Bank filing a claim/claims for declaring a borrower bankrupt;
- Appeal of the borrower to the court with a statement of bankruptcy or taking measures aimed at non-fulfillment of its liabilities to the creditor bank (for example, the borrower challenges the terms of a credit transaction in court (subject to refusal to service and pay liabilities to the bank);
- Writing-off a part of the borrower's debt by the Group;
- Sale of a credit claim with significant economic losses due to the deterioration in the quality of the credit claim;
- Repayment of liabilities to the Group due to the provision of other loans by the Group (excluding cases when such payments are stipulated by the terms of loan agreements);
- The borrower imposes a moratorium on repayment of debt liabilities to creditors;
- Revocation of licenses/permits necessary for the principal activity from the borrower;
- Provision of critical (forced) restructuring by the Group for economic or legal reasons related to the financial difficulties of the borrower, which the lender would not have decided under any other circumstances in which the borrower's operational activity is no longer the source of repayment, i.e. the borrower is not able to repay at the expense of own financial and economic activities (for example, the source of redemption is the sale of assets, the funds of the guarantor, etc.);
- Other credit risk factors indicating the impossibility of meeting liabilities to the Group.

3. Significant accounting principles (continued)

Debt securities

The delay in the fulfillment of liabilities by the issuer, the duration of which exceeded 10 working days (unless a shorter period is provided for by the issuing documents), or a refusal to fulfill the specified liability in the following cases:

- Payment of the next interest income (coupon) on the bonds;
- Redemption of the nominal value of the bond (redemption of the part of the nominal value if the redemption of the nominal value is carried out in parts);
- Fulfillment of the obligation to purchase bonds, if it is provided for by the terms of the issue (redemption on an offer).

As part of collective valuation, retail loans, as well as loans issued to small and medium-sized businesses, are divided into credit quality stages, depending on the period of overdue debts.

Stage 1 contains only non-overdue loans, stage 2 contains loans with overdue debts from 1 to 90 days, stage 3 of credit quality contains loans with overdue debts more than 90 days.

The group may also use additional factors to move a financial instrument to the stage with a higher level of credit risk, for example, the existence of facts of loan restructuring.

The provision for expected credit losses within the collective valuation is calculated in the context of product groups of retail loans and loans provided to small and medium-sized businesses.

As part of an individual valuation of the quality of retail loans and loans of small and medium-sized businesses, assignment to one of the credit quality stages occurs as a result of a cumulative valuation of the duration of overdue debt or its absence, valuation of the payment flow for a financial instrument, as well as the market value of the collateral (if available).

Acquired impaired financial assets are classified into stage 3 of the credit impairment. When a financial instrument is modified, the credit impairment stage is determined in the same way as for the initial instrument.

If the Group does not have reasonable expectations regarding the recovery of a financial asset in full or partially, the gross carrying amount of such a financial asset should be reduced. Such a reduction represents (partial) derecognition of the financial asset.

The mechanism for calculating expected credit losses (Expected Loss – hereinafter "EL") is described below:

EL = PD*LGD*EAD

The probability of default (PD) is calculated on the basis of statistical data and reflects the estimated value of the probability of default occurring within a certain period of time (12 months or the entire life of a financial instrument). Loss given default (LGD) reflects the estimated value of losses that occur in the event of default as calculated on the basis of statistical data. Based on the available information on the level of losses, the Group uses different models to estimate the level of LGD. If sufficient information on the level of losses is available, this parameter is valued by comparing the exposure at default (EAD) and the amount of expected fees.

Provision valuation for financial guarantees provided by the Bank is made in accordance with the approaches outlined above with the inclusion in the calculation of an additional parameter of the probability of guarantee disclosure. Provision valuation for loans granted for investment projects is based on the analysis of the discounted cash flows.

(in thousands of Russian rubles, unless otherwise indicated)

3. Significant accounting principles (continued)

The table below presents a reconciliation of the opening balances of total provisions for loan losses in accordance with IAS 39, provisions for loan commitments and financial guarantee contracts in accordance with IAS 37 *Provisions, contingent liabilities and contingent assets*, and loss provision for expected credit losses in accordance with IFRS 9.

	Provisions for possible losses accrued in accordance with IAS 39/ IAS 37 requirements as at December 31, 2017	**Recognition of ECL**	**ECL in accordance with IFRS 9 as at January 1, 2018**
Due from banks	(42 483)	(1 809)	(44 292)
Loans to customers	(8 448 513)	(2 222 861)	(10 671 374)
Investments held to maturity in accordance with IAS 39/Investments into securities (measured at amortised cost) in accordance with IFRS 9	-	(39 927)	(39 927)
Financial guarantees issued	(438 169)	167 932	(270 237)
Commitments on loans and unused credit lines	36 208	(355 153)	(318 945)

Net interest income. Interest income and expense for all financial instruments except for those measured or designated as at fair value through profit or loss (FVTPL) are recognised in 'Net interest income' as 'Interest income' and 'Interest expense' in the profit or loss accounts using the effective interest method. Interests on financial instruments of the FVTPL category are included in the 'Net interest income' and are calculated according to the contractual terms for the accrual of interest income/expense.

The effective interest rate (EIR) is the rate that exactly discounts estimated future cash flows of the financial instrument 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. The future cash flows are estimated taking into account all the contractual terms of the instrument. The calculation of the EIR includes all fees and points paid or received between parties to the contract that are incremental and directly attributable to the specific lending arrangement, transaction costs, and all other premiums or discounts.

For financial assets at FVTPL transaction costs are recognised in profit or loss at initial recognition.

The interest income/interest expense is calculated by applying the EIR to the gross carrying amount of non-credit impaired financial assets (i.e. at the amortised cost of the financial asset before adjusting for any expected credit loss provision), or to the amortised cost of financial liabilities. For credit-impaired financial assets the interest income is calculated by applying the EIR to the amortised cost of the credit-impaired financial assets (i.e. the gross carrying amount less the provision for expected credit losses (ECLs)). For financial assets purchased or originated credit-impaired (POCI) the EIR reflects the ECLs in determining the future cash flows expected to be received from the financial asset.

Fee and commission income/expenses. Fee and commission income and expense include fees other than those that are an integral part of EIR (see above). Fee and commission expenses with regards to services are accounted for as the services are received.

IFRS 15 Revenue from Contracts with Customers. 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.

3. Significant accounting principles (continued)

When applying IFRS 15, the Group uses a modified retrospective approach. The cumulative effect of the initial application of IFRS 15 of RUB 229 215 thousand recognised at January 1, 2018 and recorded in the consolidated statement of changes in equity is recognised as an adjustment to the retained earnings opening balance. This transition method was applied only to contracts that were not completed as at January 1, 2018.

In the current year the Group adopted a number of amendments to IFRS including the standards and interpretations issued by the International Accounting Standards Board (IASB) which are effective for annual periods, beginning not earlier than January 1, 2018. The application of those amendments had no material impact on the disclosures or the amounts recognised in this financial statements.

Amendments to IAS 40 Transfers of Investment Property. The amendments clarify that a transfer to, or from, investment property necessitates an assessment of whether a property meets, or has ceased to meet, the definition of investment property, supported by observable evidence that a change in use has occurred. The amendments also clarify that evidence of changes in the nature of the use of an item may include other situations than those specified in IAS 40. In addition, the change in use is also possible for property items under construction (i.e., the change in use is not limited to finished items).

IFRIC 22 Foreign Currency Transactions and Advance Consideration. IFRIC 22 addresses how to determine the 'date of transaction' for the purpose of determining the exchange rate to use on initial recognition of an asset, expense or income, when consideration for that item has been paid or received in advance in a foreign currency which resulted in the recognition of a non-monetary asset or non-monetary liability (e.g. a non-refundable deposit or deferred revenue).

The Interpretation specifies that the date of transaction is the date on which the entity initially recognises the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration. If the entity performs or receives several advance payments, the date of the transaction is determined separately for each payment or receipt of payment.

Accounting principles, presentations and calculation methods that were used only in the preparation of the Group's financial statements for the year ended December 31, 2017

Recognition and measurement of financial instruments. The Group recognises financial assets and liabilities in its consolidated statement of financial position when it becomes a party to the contractual obligations of the instrument. Regular way purchases and sales of financial assets and liabilities are recognised using settlement date accounting. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Effective interest method. The effective interest method is a method of calculating the amortised cost of debt and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

3. Significant accounting principles (continued)

A financial asset other than a financial asset held for trading or contingent consideration that may be paid by an acquirer as part of a business combination may be designated as financial asset at fair value through profit or loss upon initial recognition if:

- Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- The financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- It forms part of a contract containing one or more embedded derivatives, and IAS 39 *Financial Instruments: Recognition and Measurement* permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial assets. Financial assets are classified into the following specified categories: financial assets 'at fair value through profit or loss' (FVTPL), 'held-to-maturity', 'available-for-sale' (AFS) and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Financial assets at FVTPL. Financial assets are classified as at FVTPL (i) contingent consideration that may be paid by an acquirer as part of a business combination to which IFRS 3 applies, (ii) held for trading, or (iii) it is designated as at FVTPL.

A financial asset is classified as held for trading if:

- It has been acquired principally for the purpose of selling it in the near term; or
- On initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- It is a derivative that is not designated and effective as a hedging instrument.

A financial asset that is not held for trading or is other than a contingent consideration that may be provided by the buyer in a business combination, may be designated as FVTPL on initial recognition provided that:

- Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- The financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- It forms part of a contract containing one or more embedded derivatives, and IAS 39 *Financial Instruments: Recognition and Measurement* permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any dividend or interest earned on the financial asset and is included in the 'other gains and losses' and 'interest income' line item, respectively, in the statement of profit or loss. Fair value is determined in the manner described in Note 35.

Investments held to maturity. Held to maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity dates that the Group has the positive intent and ability to hold to maturity. Held to maturity investments are measured at amortised cost using the effective interest method less any allowance for impairment.

3. Significant accounting principles (continued)

If the Group were to sell or reclassify more than an insignificant amount of held to maturity investments before maturity (other than in certain specific circumstances), the entire category would be tainted and would have to be reclassified as available for sale. Furthermore, the Group would be prohibited from classifying any financial asset as held to maturity during the current financial year and following two financial years.

Available-for-sale financial assets. Available-for-sale financial assets are non-derivatives that are either designated as available-for-sale or are not classified as (a) loans and receivables, (2) held to maturity investments or (c) financial assets at fair value through profit or loss.

Listed shares and listed redeemable notes held by the Bank that are traded in an active market and classified as AFS are stated at fair value. The Group also has investments in unlisted shares that are not traded in an active market but that are also classified as AFS financial assets and stated at fair value at the end of each reporting period (because the directors consider that fair value can be reliably measured). Gains and losses arising from changes in fair value are recognised in other comprehensive income and accumulated in the assets revaluation reserve, with the exception of other-than-temporary impairment losses, interest calculated using the effective interest method, and foreign exchange gains and losses on monetary assets, which are recognised in profit or loss. Where the financial asset is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the assets revaluation reserve is reclassified to profit or loss.

AFS equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost less any identified impairment losses at the end of each reporting period.

The fair value of AFS monetary assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the end of the reporting period. The foreign exchange gains and losses that are recognised in profit or loss are determined based on the amortised cost of the monetary asset. Other foreign exchange gains and losses are recognised in other comprehensive income.

Loans and receivables. Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market (including balances with the Central Bank of the Russian Federation, due from banks, loans to customers and other financial assets) are classified as 'loans and receivables'. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Securities repurchase and reverse repurchase agreements and securities lending transactions. In the normal course of business, the Group enters into financial assets sale and purchase back agreements ("repos") and financial assets purchase and sale back agreements ("reverse repos"). Repos and reverse repos are utilised by the Group as an element of its treasury management.

A repo is an agreement to transfer a financial asset to another party in exchange for cash or other consideration and a concurrent obligation to reacquire the financial assets at a future date for an amount equal to the cash or other consideration exchanged plus interest. These agreements are accounted for as financing transactions. Financial assets sold under repos are retained in the consolidated financial statements and consideration received under these agreements is recorded as collateralised deposit received within deposits by banks/deposits by customers/deposits with the CBR.

Assets purchased under reverse repos are recorded in the consolidated financial statements as cash placed on deposit counterparties by securities and other assets and are classified within due from banks and/or loans to customers.

The Group enters into securities repurchase agreements and securities lending transactions under which it receives or transfers collateral in accordance with normal market practice. Under standard terms for repurchase transactions in the RF and other states of the Commonwealth of Independent States (hereinafter "CIS"), the recipient of collateral has the right to sell or repledge the collateral, subject to returning equivalent securities on settlement of the transaction.

3. Significant accounting principles (continued)

The transfer of securities to counterparties is only reflected on the statement of financial position if the risks and rewards of ownership are also transferred.

Impairment of financial assets. Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For listed and unlisted equity investments classified as AFS, a significant or prolonged decline in the fair value of the security below its cost is considered to be an objective evidence of impairment.

For loans and receivables and all other financial assets, objective evidence of impairment could include:

- Significant financial difficulty of the issuer or counterparty; or
- Breach of contract, such as default or delinquency in interest or principal payments; or
- Renegotiation of terms of loans;
- Default or delinquency in interest or principal payments; or
- Likely probability that the borrower will enter bankruptcy or financial re-organisation or
- Disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial assets, such as loans and receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of an impaired portfolio of loans and receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade accounts receivable, where the carrying amount is reduced through the use of a provision account. When a loan or a receivable is considered uncollectible, it is written off against the provision account. Changes in the provision are recognised through profit or loss.

When an AFS financial asset is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss in the period.

If in a subsequent period the amount of the impairment loss on financial assets carried at amortised cost decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through the profit and loss. The carrying amount of financial assets at the date the impairment is reversed cannot exceed what the carrying amount would have been had the impairment not been recognised.

In respect of AFS equity securities, impairment losses previously recognised in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss i recognised in other comprehensive income and accumulated under the heading of assets revaluation reserve.

In respect of AFS debt securities, impairment losses are subsequently reversed through profit or loss if an increase in the fair value of the financial assets can be objectively related to an event occurring after the recognition of the impairment loss.

3. Significant accounting principles (continued)

Reclassification of financial assets. Effective from July 1, 2009, the Group was permitted to reclassify, in certain circumstances, non-derivative financial assets out of the 'Held for trading' category and into the 'Available-for-sale', 'Loans and receivables', or 'Held to maturity' categories. From this date on, it is also permitted to reclassify, in certain circumstances, financial instruments out of the 'Available-for-sale' category and into the 'Loans and receivables' category. Reclassifications are recorded at fair value at the date of reclassification, which becomes the new amortised cost. Reclassification is at the election of management, and is determined on an instrument by instrument basis.

Derecognition of financial assets. The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognise a collateralised borrowing for the proceeds received.

Financial liabilities and equity instruments issued

Classification as debt or equity. Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments. An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recognised as proceeds received, net of direct issue costs.

Repurchase of the Group's own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Bank's own equity instruments.

Financial liabilities. Financial liabilities are classified as either financial liabilities 'at FVTPL' or 'other financial liabilities'.

Financial liabilities at FVTPL. Financial liabilities are classified as at FVTPL when the financial liability is (i) contingent consideration that may be paid by an acquirer as part of a business combination to which IFRS 3 applies, (ii) held for trading, or (iii) it is designated as at FVTPL.

A financial liability is classified as held for trading or contingent consideration that may be paid by an acquirer as part of a business combination may be designated as at FVTPL upon initial recognition if:

- It has been incurred principally for the purpose of repurchasing it in the near term; or
- On initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- It is a derivative that is not designated and effective as a hedging instrument.

A financial liability other than a financial liability held for trading may be designated as at FVTPL upon initial recognition if:

- Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- The financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- It forms part of a contract containing one or more embedded derivatives, and IAS 39 *Financial Instruments: Recognition and Measurement* permits the entire combined contract (asset or liability) to be designated as at FVTPL.

3. Significant accounting principles (continued)

Financial liabilities at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liability and is included in the 'interest expenses' line item in the statement of profit or loss. Fair value is determined in the manner described in Note 35.

Other financial liabilities. Other financial liabilities, including depository instruments with the Central Bank of the Russian Federation, deposits by banks and customers, other borrowed funds, debt securities issued, repurchase agreements, subordinated debt and other financial liabilities, are initially measured at fair value, net of transaction costs.

Other financial liabilities are subsequently measured at amortised cost. Interest expense is calculated using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

Financial guarantee contracts. A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due in accordance with the terms of a debt instrument.

Financial guarantee contracts issued by the Group are initially measured at their fair values and, if not designated as at FVTPL, are subsequently measured at the higher of:

- The amount of the obligation under the contract, as determined in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*; and
- The amount initially recognised less, where appropriate, cumulative amortisation recognised in accordance with the revenue recognition policy.

Derecognition of financial liabilities. The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, canceled or they expire. Where an existing financial liability is replaced by another from the same lender 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. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit and loss.

Accounting principles, presentations and calculation methods for the current reporting period that were used in the preparation of the Group's financial statements for the year ended December 31, 2017

Basis of consolidation. The consolidated financial statements incorporate the financial statements of MTS Bank and entities controlled by MTS Bank (its subsidiaries).

Control is achieved when the Bank:

- Has power over the investee;
- Is exposed, or has rights, to variable returns from its involvement with the investee; and
- Has the ability to use its power to affect its returns.

MTS Bank reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

3. Significant accounting principles (continued)

When MTS Bank has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. MTS Bank considers all relevant facts and circumstances in assessing whether or not the Bank's voting rights in an investee are sufficient to give it power, including:

- The size of the Bank's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- Potential voting rights held by the Bank, other vote holders or other parties;
- Rights arising from other contractual arrangements; and
- Any additional facts and circumstances that indicate that the Bank has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when MTS Bank obtains control over the subsidiary and ceases when the Bank loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Bank gains control until the date when the Bank ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Bank and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Bank and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of the subsidiaries to bring its accounting policies in line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Non-controlling interests. Non-controlling interests represent the portion of profit or loss and net assets of subsidiaries not owned, directly or indirectly, by the Bank.

Non-controlling interests are presented separately in the consolidated statement of profit or loss, statement of other comprehensive income and within equity in the consolidated statement of financial position, separately from parent shareholders' equity.

Changes in the Group's ownership interests in the existing subsidiaries. Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to the owners of the Group.

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. When assets of the subsidiary are carried at revalued amounts or fair values and the related cumulative gain or loss has been recognised in other comprehensive income and accumulated in equity, the amounts previously recognised in other comprehensive income and accumulated in equity are accounted for as if the Group had directly disposed of the relevant assets (i.e. reclassified to profit or loss or transferred directly to retained earnings as specified by applicable IFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting in accordance with IAS 39 *Financial Instruments: Recognition and Measurement* and IFRS 9 *Financial Instruments* in 2017 and 2018 respectively, or, when applicable, the cost on initial recognition of an investment in an associate or a jointly controlled entity.

3. Significant accounting principles (continued)

When the Group loses control over a subsidiary due to a related party transaction, the difference between the fair value of the transferred interest and the consideration received is recognised in equity.

Business combinations. Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Group obtains control) and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

Recognition of fee and commission income. Loan origination fees are deferred, together with the related direct costs, and recognised as an adjustment to the effective interest rate of the loan. Where it is probable that a loan commitment will lead to a specific lending arrangement, the loan commitment fees are deferred, together with the related direct costs, and recognised as an adjustment to the effective interest rate of the resulting loan. Where it is unlikely that a loan commitment will lead to a specific lending arrangement, the loan commitment fees are recognised in profit or loss over the remaining period of the loan commitment. Where a loan commitment expires without resulting in a loan, the loan commitment fee is recognised in profit or loss on expiry. Loan servicing fees are recognised as revenue as the services are provided. Loan syndication fees are recognised in profit or loss when the syndication has been completed. All other commissions are recognised as services are rendered.

Recognition of dividend income. Dividend income from investments is recognised when the shareholder's right to receive payment has been established (provided that it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably).

Recognition of rental income. The Group's policy for recognition of income as a lessor is set out in the "leases" section of this footnote.

Share-based payments. The liability on cash-settled share-based payments is initially recognised at fair value. The fair value of the liability is estimated at the reporting date until the liability is settled, as well as at the date of settlement. At the same time, changes in fair value are recorded within profit and loss for the period.

Cash and cash equivalents**.** Cash and cash equivalents include cash on hand, unrestricted balances on correspondent accounts with banks, the Central Bank of Russian Federation, term deposits with the Central Bank of Russian Federation with original maturity less than 90 days.

The minimum provision deposits with the CBR are subject to restrictions to their availability and therefore are not included in cash and cash equivalents.

Precious metals. Assets and liabilities denominated in precious metals are translated at the current rate computed based on the second fixing of the London Metal Exchange (LME) rates, using the RUB/USD exchange rate effective at the date. Changes in the bid prices are recorded in net gain/(loss) on operations with precious metals operations.

Due from banks. In the normal course of business, the Group maintains advances and deposits for various periods of time with other banks. Due from banks are initially recognised at fair value. Due from banks are subsequently measured at amortised cost using the effective interest method. Amounts due from credit institutions are carried net of any provision for impairment losses.

3. Significant accounting principles (continued)

Renegotiated loans. Where possible, the Group seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated any impairment is measured using the original effective interest rate as calculated before the modification of terms and the loan is no longer considered past due. Management continually reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original effective interest rate.

Write off of loans and advances. Loans and advances are written off against the provision for impairment losses when deemed uncollectible, including by means of foreclosure on the provision. Loans and advances are written off after management has exercised all possibilities available to collect amounts due to the Group and after the Group has sold all available collateral. Usually, the Group writes off unsecured debt overdue for the period of 720 days against the related provision for impairment. Subsequent recoveries of amounts previously written off are included in other operating income in the consolidated statement of profit and loss in the period of recovery.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

On derecognition of a financial asset other than in its entirety (e.g. when the Group retains an option to repurchase part of a transferred asset), the Group allocates the previous carrying amount of the financial asset between the part it continues to recognise under continuing involvement, and the part it no longer recognises on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognised and the sum of the consideration received for the part no longer recognised and any cumulative gain or loss allocated to it that had been recognised in other comprehensive income is recognised in profit or loss. A cumulative gain or loss that had been recognised in other comprehensive income is allocated between the part that continues to be recognised and the part that is no longer recognised on the basis of the relative fair values of those parts.

Investments in a joint venture. A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent.

The results and assets and liabilities of a joint venture are incorporated in these financial statements using the equity method of accounting.

Under the equity method, investments in a joint venture are initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the joint venture. When the Group's share of losses of a joint venture exceeds the Group's interest in that joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment in the joint venture), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the joint venture.

Investments in a joint venture are accounted for using the equity method from the date on which the investee becomes a joint venture. Any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognised immediately in profit or loss in the period in which the investment is acquired.

The group ceases to use the equity method when the entity ceases to be a joint venture.

3. Significant accounting principles (continued)

When Group reduces its ownership interest in a joint venture but continues to use the equity method, the Group reclassifies the proportion of the gain or loss that had previously been recognised in other comprehensive income to profit or loss relating to that reduction in ownership interest if that gain or loss would be reclassified to profit or loss on the disposal of the related assets or liabilities.

Profit and losses resulting from the transactions with the joint venture are recognised in the Group's consolidated financial statements only to the extent of interests in the joint venture that are not related to the Group.

Derivative financial instruments

Forwards and futures. Forward and futures contracts are contractual arrangements to buy or sell a specified financial instrument at a specific price and date in the future. Forwards are customised contracts transacted in the over-the-counter market. Futures contracts are transacted in standardised amounts on regulated exchanges and are subject to daily cash margin requirements. The differences in the risk associated with forward and futures contracts are mainly due to credit risk and liquidity risk.

The Group has credit exposure to the counterparties of forward contracts. The credit risk related to future contracts is considered minimal because the cash margin requirements of the exchange helps ensure that these contracts are always honored. Forward contracts are settled gross and are, therefore, considered to bear a higher liquidity risk than the futures contracts which are settled on a net basis. Both types of contracts result in market risk exposure.

Swaps. Swaps are contractual agreements between two parties to exchange streams of payments over time based on specified notional amounts, in relation to movements in a specified underlying index such as an interest rate, foreign currency rate or equity index.

Interest rate swaps relate to contracts taken out by the Group with other financial institutions in which the bank either receives or pays a floating rate of interest in return for paying or receiving, respectively, a fixed rate of interest. Payment flows are usually netted against each other, with the difference being paid by one party to the other. In a currency swap, the Group pays a specified amount in one currency and receives a specified amount in another currency. Currency swaps are mostly gross-settled. Credit default swaps are contractual agreements between two parties to make payments with respect to defined credit events, based on specified notional amounts. The Group purchases credit default swaps from monocline insurers and banks in order to mitigate the risk of default by the counterparty on the underlying security referenced by the swap.

Options. Options are contractual agreements that convey the right, but not the obligation, for the purchaser either to buy or sell a specific amount of a financial instrument at a fixed price, either at a fixed future date or at any time within a specified period. The Group purchases and sells options through regulated exchanges and in the over-the-counter markets.

Options purchased by the Group provide the Group with the opportunity to purchase (call options) or sell (put options) the underlying asset at an agreed-upon value either on or before the expiration of the option. The Group is exposed to credit risk on purchased options only to the extent of their carrying amount, which is their fair value.

Options written by the Group provide the purchaser the opportunity to purchase from or sell to the bank the underlying asset at an agreed-upon value either on or before the expiration of the option.

The Group enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign exchange rate risk, including foreign exchange forward contracts, interest rate swaps and cross currency swaps. Further details of derivative financial instruments are disclosed in Note 28.

Derivatives are initially recognised at fair value at the date the derivative contracts are entered into and are subsequently remeasured to their fair value at the end of each reporting period. Gains and losses arising from that are immediately recognised through financial results, except derivatives designated and effective as a hedging instrument. The timing of the recognition in profit or loss depends on the nature of the hedge relationship. The Group designates certain derivatives as either hedges of the fair value of recognised assets or liabilities or firm commitments (fair value hedges), hedges of highly probable forecast transactions or hedges of foreign currency risk of firm commitments (cash flow hedges), or hedges of net investments in foreign operations.

3. Significant accounting principles (continued)

Embedded derivatives. Derivatives embedded in non-derivative host contracts are treated as separate derivatives when they meet the definition of a derivative, their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at FVTPL.

Leases. Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessor. Amounts due from lessees under finance leases are recognised as receivables at the amount of the Group's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

Income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

The Group as lessee. Assets held under capital leases are initially recognised as assets of the Group at their fair value at the inception of a lease or, if lower, at the present value of minimum lease payments. The corresponding liability to the lessor is included in the consolidated statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance costs are recognised in profit or loss, unless they are directly attributable to qualifying assets. In the latter case they are capitalised in accordance with the Group's general policy on borrowing costs. Contingent rentals arising under finance leases are recognised as expenses in the periods in which they are incurred.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Property and equipment and intangible assets. Property and equipment (except for buildings and land plots) and intangible assets, acquired after January 1, 2003 are carried at historical cost less accumulated depreciation and any recognised impairment loss, if any. Property and equipment (except for buildings and land plots) and intangible assets, acquired before January 1, 2003 are carried at historical cost restated for inflation less accumulated depreciation and any recognised impairment loss, if any.

Depreciation is recognised so as to write off the cost or deemed cost (other than freehold land and properties under construction) less their residual values over their useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis at the following annual rates:

Land and buildings	2%
Furniture and equipment	20%
Intangible assets	20%

Leasehold improvements are amortised over the life of the related leased asset. Expenses related to repairs and renewals are charged when incurred and included in operating expenses unless they qualify for capitalisation.

3. Significant accounting principles (continued)

The carrying amounts of property and equipment and intangible assets are reviewed at each reporting date to assess whether they are recorded in excess of their recoverable amounts. The recoverable amount is the higher of fair value less costs to sell and value in use. Where carrying amounts exceed the estimated recoverable amount, assets are written down to their recoverable amount. After the recognition of an impairment loss the depreciation charge for fixed assets and intangible assets is adjusted in future periods to allocate the assets' revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Land and buildings held for use in supply of services, or for administrative purposes, are stated in the consolidated statement of financial position at their revalued amounts, being the fair value at the date of revaluation.

Any revaluation increase arising on the revaluation of property and equipment is credited to the property and equipment revaluation reserve, except to the extent that it reverses a revaluation decrease from the same asset recognised previously in the consolidated statement of profit or loss. In this case the increase is credited to profit or loss for the period to the extent of the decrease previously charged. A decrease in carrying amount arising on the revaluation is charged as an expense to the extent that it exceeds the positive balance, if any, held in the property and equipment revaluation reserve relating to a previous revaluation of that asset.

Depreciation on revalued land and buildings is charged to the consolidated statement of profit or loss. On the subsequent sale or retirement of a revalued property, the attributable revaluation surplus remaining in the property and equipment revaluation reserve is transferred directly to retained earnings.

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Investment property. Investment properties are properties held to earn rentals and/or for capital appreciation (including property under construction for such purposes). Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are measured at fair value. Gains and losses arising from changes in the fair value of investment properties are included in profit or loss in the period in which they arise.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from the disposal. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognised.

Non-currents assets classified as held for sale. Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the non-current asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

When the Group is committed to a sale plan involving loss of control of a subsidiary, all of the assets and liabilities of that subsidiary are classified as held for sale when the criteria described above are met, regardless of whether the Group will retain a non-controlling interest in its former subsidiary after the sale.

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of their previous carrying amount and fair value less costs to sell.

3. Significant accounting principles (continued)

Impairment of tangible and intangible assets other than goodwill. At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell or value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount.

An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount. In this case the impairment loss is treated as a revaluation decrease.

When an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. Recovery of impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount. In this case the recovery of impairment loss is treated as a revaluation increase.

Taxation. Income tax expense comprises current tax and deferred tax.

Current income tax is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated statement of profit and loss because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Bank's current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred income tax is recognised for temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

3. Significant accounting principles (continued)

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred income tax assets and deferred income tax liabilities are offset and reported net in the consolidated statement of financial position if:

- The Group has a legally enforceable right to set off current income tax assets against current income tax liabilities; and
- Deferred income tax assets and the deferred income tax liabilities relate to income taxes levied by the same taxation authority on the same taxable entity.

Current and deferred tax for the year. Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity. In this case, the current and deferred taxes are also recognised in other comprehensive income or directly in equity, respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Operating taxes. Countries where the Group operates also have various other taxes, which are assessed on the Group's activities. These taxes are included as a component of operating expenses in the consolidated statement of profit or loss.

***Provisions*.** Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Contingencies. Contingent liabilities are not recognised in the consolidated statement of financial position but are disclosed unless the possibility of any outflow in settlement is remote. A contingent asset is not recognised in the consolidated statement of financial position but disclosed when an inflow of economic benefits is probable.

Retirement benefit costs. In accordance with the requirements of the RF legislation, pension payments are calculated by an employer as certain percentages of salary expenses and transferred to the pension fund of the RF which transfers them to pension funds selected by employees. The Group does not have an obligation to transfer pension payments directly to pension funds selected by employees. This expense is charged to profit or loss in the period in which the related salaries are earned. Upon retirement, all retirement benefit payments are made by the pension funds as selected by employees. The Group does not have any pension arrangements separate from the RF state pension system. In addition, the Group has no post-retirement benefits or other significant compensated benefits requiring accrual.

(in thousands of Russian rubles, unless otherwise indicated)

3. Significant accounting principles (continued)

Foreign currency translation. In preparing the financial statements of each individual Group entity, transactions in currencies other than the entity's functional currency (foreign currencies) are recognised at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are translated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences on monetary items are recognised in profit or loss in the period in which they arise except for:

- Exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings;
- Exchange differences on transactions entered into in order to hedge certain foreign currency risks; and
- Exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognised initially in other comprehensive income and reclassified from equity to profit or loss on repayment of the monetary items.

For the purposes of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into RUB using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity (attributed to non-controlling interests as appropriate).

On the disposal of a foreign operation (i.e. a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, a disposal involving loss of joint control over a jointly controlled entity that includes a foreign operation, or a disposal involving loss of significant influence over an associate that includes a foreign operation), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Group are reclassified to profit or loss.

In the case of a partial disposal that does not result in the Group losing control over a subsidiary that includes a foreign operation, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognised in profit or loss. For all other partial disposals (i.e. reductions in the Group's ownership interest in associates or jointly controlled entities that do not result in the Group losing significant influence or joint control), the proportionate share of the accumulated exchange differences is reclassified to profit or loss.

Goodwill and fair value adjustments on identifiable assets and liabilities acquired arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the rate of exchange prevailing at the end of each reporting period. Exchange differences arising are recognised in equity.

Exchange rate. Below are the year-end exchange rates used by the Group in the preparation of these consolidated financial statements:

	December 31, 2018	**December 31, 2017**
RUB/USD	69.4706	57.6002
RUB/EUR	79.4605	68.8668
RUB/Gold (1 gram)	2 856.6800	2 400.9700

(in thousands of Russian rubles, unless otherwise indicated)

3. Significant accounting principles (continued)

The exchange rates used by the Group in the preparation of the consolidated financial statements as at year-end are as follows:

	2018	2017
Average exchange rate for the period for revaluation of foreign currency account balances		
RUB/USD	62.7078	58.3529
RUB/EUR	73.9546	65.9014

Collateral. The Group obtains collateral in respect of customer liabilities where this is considered appropriate. The collateral normally takes the form of a lien over the customer's assets and gives the Group a claim on these assets for both existing and future customer liabilities.

Accounting for the effects of hyperinflation. In accordance with IAS 29 the economy of the Russian Federation was treated as hyperinflationary till the end of 2002. Since January 1, 2003, the economy of the Russian Federation ceased to be hyperinflationary and the costs of non-monetary assets, liabilities and equity as stated in measuring units as at December 31, 2002 was used to form the opening balances as at January 1, 2003.

Fiduciary activities. The Group provides depositary services to its customers, which include transactions with securities on their depositary accounts. Assets accepted and liabilities incurred under the fiduciary activities are not included in the Group's financial statements. The Group accepts the operational risk on these activities, but the Group's customers bear the credit and market risks associated with such operations. Revenue for provision of trustee services is recognised as services are provided.

Segment information. The Group separates operating segments based on its organisational structure. Operating segments are presented on the basis of management accounting records provided to the chief operating decision maker, Chairman of the Management Board. The segments whose revenue, financial result or assets are 10% or more of all the segments, are reported separately.

Share capital and share premium. Contributions to share capital, made before January 1, 2003 are recognised at their cost restated for inflation. Contributions to share capital made after January 1, 2003 are recognised at cost. Share premium represents the excess of contributions over the nominal value of the shares issued.

Dividends on ordinary shares are recognised in equity as a reduction in the period in which they are declared. Dividends that are declared after the reporting date are treated as a subsequent event in accordance with IAS 10 *Events after the Reporting Date* and disclosed accordingly.

Equity reserves. The reserves recorded in equity (other comprehensive income) on the Group's statement of financial position include:

- Available-for-sale financial assets revaluation reserve which comprises changes in fair value of available-for-sale financial assets;
- Foreign currency translation reserve which is used to record exchange differences arising from the translation of the net investment in foreign operations, net of the effects of hedging;
- Property revaluation reserve, which comprises revaluation reserve of land and building;
- Other capital reserve, which includes the portions of compound financial liabilities that qualify for treatment as equity.

(in thousands of Russian rubles, unless otherwise indicated)

3. Significant accounting principles (continued)

New and revised IFRS in issue but not yet effective

At the time of approval of these financial statements the Group has not applied the following new and revised IFRSs that have been issued but are not yet effective:

IFRS 16	*Leases*
IFRS 17	*Insurance Contracts*
Amendments to IAS 9	*Characteristics of a prepayment with a negative consideration*
Amendments to IAS 28	*Long-term Interests in Associates and Joint Ventures*
Annual Improvements to IFRSs 2015-2017 Cycle	Amendments to IFRS 3 *Business Combinations*, IFRS 11 *Joint Arrangements*, IAS 12 *Income Taxes* and IAS 23 *Borrowing Costs*
Amendments to IAS 19	*Revaluation as a Result of Changing the Plan, Reducing or Eliminating the Deficit*
IFRS 10 *Consolidated Financial Statements* and IAS 28 (amendments)	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*
Amendments to IFRS 3	*Business Combinations*
Amendments to IAS 1 and IAS 8	*Definition of Materiality*
IFRIC 23	*Uncertainty Over Income Tax Treatments*

Management does not expect the application of the Standards specified above to have a significant impact on the financial statements of the Group in subsequent periods, except as indicated below:

IFRS 16 Leases. IFRS 16 introduces a comprehensive model for the identification of lease contracts and accounting treatments for both lessors and lessees. When effective for reporting periods beginning after January 1, 2019, IFRS 16 will replace all current lease accounting guidelines, including IAS 17 *Leases* and related interpretations. The date of initial application of IFRS 16 for the Group is January 1, 2019.

The Group selected a model of the retrospective application of IFRS 16 in full in accordance with IFRS 16:C5 (a). Accordingly, the Group will recalculate the benchmarks.

In contrast to lessee accounting, IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17.

Impact of new definition of leases. The Group plans to use the practical measure proposed as part of the transition to IFRS 16, which allows not to redefine whether the contract represents itself or contains the terms of the leases. Accordingly, the definition of leases in accordance with IAS 17 and IFRIC 4 still will be applied to the lease contracts entered into or amended before January 1, 2019.

The change in definition of leases relates primarily to the concept of control. IFRS 16 distinguishes leases and service contracts on the basis of whether the use of an identified asset is controlled by a customer. Control must be exercised if the customer has:

- The right to obtain substantially all of the economic benefits from use of the identified asset; and
- The right to directly use such an asset.

The Group will apply the definition of leases and the associated guidance of IFRS 16 for all lease contracts entered into or modified not earlier than 1 January 2019 (regardless of whether it is a lessor or a lessee under a lease contract).

<u>Impact on lease accounting by the lessee</u>

Operating leases: IFRS 16 will change the lease accounting by the Group previously classified as operating leases in accordance with IAS 17 (off-balance accounting).

3. Significant accounting principles (continued)

When initially applying IAS 16 to all lease contracts (except as indicated below), the Group must:

(a) Recognise in the consolidated statements of financial position right-of-use assets and lease liabilities, initially valued at the present value of future lease payments;
(b) Recognise in the consolidated statements of profit and loss depreciation of right-of-use assets and interest on lease liabilities;
(c) Separate in the consolidated statements of cash flow the total amount of cash used to repay the principal (presented in financial activities) and interest (presented in operating activities).

For the short-term lease contracts (up to 12 months) and lease of low-value assets (like personal computers and office furniture), the standard allows to recognise lease expenses evenly.

Lease incentive payments (for example, a free (grace) period) will be recognised within assessment of right-of-use assets and lease liabilities, while, in accordance with IAS 17, they led to the recognition of the incentive payment on a lease liability, amortised as an even reduction in lease expenses over the lease period.

According to IFRS 16, the right-of-use assets are assessed for impairment in accordance with IAS 36 *Impairment of Assets*. This will replace the previous requirement for the recognition of the provision for onerous lease contracts.

The preliminary analysis shows that at December 31, 2018 the Group will record the right-of-use asset in the amount of RUB 422 638 thousand and the corresponding lease liability in the amount of RUB 402 613 thousand in respect of all such lease contracts. The effect on profit or loss is the reduction of other expenses by RUB 350 710 thousand, increase in amortisation by RUB 323 522 thousand and interest expenses by RUB 37 337 thousand. The Group does not plan to classify any lease contracts as short-term lease contracts and lease contracts of low-value assets.

Finance lease: The main difference between IFRS 16 and IAS 17 at the level of assets received under finance lease contracts is the valuation of the residual value guarantee provided by the lessee to the lessor. According to IFRS 16, the Group recognises within its lease liability only the amount expected to be paid in accordance with the residual value guarantee, and not the maximum amount of the guarantee, as provided for in IAS 17. Upon initial application, the Group will include the equipment previously recorded within property and equipment in the line with right-of-use assets, and the lease liability, previously recorded within debt — as a separate line for lease liabilities.

Based on the analysis of the Group's financial lease contracts as at December 31, 2018, taking into account the facts and circumstances existing on that date, the management of the Group concluded that the change would not affect the amounts recorded in the consolidated financial statements of the Group.

<u>Impact on lease accounting by the lessor.</u> According to IFRS 16, the lessor will continue to classify the lease as operating or financial and report each type of lease separately. However, IFRS 16 changed and extended the requirements for the record of information, in particular, on how the lessor must manage the risks associated with its residual share of leased assets.

According to IFRS 16, the interim lessor recognises the principal lease contract and the sublease contract as two separate contracts. The interim lessor should classify sublease as financial or operating lease on the basis of the right-of-use asset, stipulated by the principal lease contract (and not on the basis of the corresponding asset, as provided for in accordance with IAS 17).

As a result of this change, the Group reclassifies some sublease contracts as finance lease contracts. According to the requirements of IFRS 9, the estimated provision for expected credit losses will be recognised in respect of finance lease receivables. Leased assets will be derecognised, and financial lease receivables will be recognised. This change in accounting will change the timing of recognition of related revenue (recorded within financial income).

4. Critical accounting judgments and key sources of estimation uncertainty

In the application of the Group's accounting policies management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from those estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Critical judgments in applying accounting policies. The following are the critical judgments, apart from those involving estimations (see below), that the Group management have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the consolidated financial statements.

Business model assessment. Classification and measurement of financial assets depends on the results of the SPPI and the business model test. The Group determines the business model at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. This assessment includes judgement reflecting all relevant evidence including how the performance of the assets is evaluated and their performance measured, the risks that affect the performance of the assets and how these are managed and how the managers of the assets are compensated. The Group monitors financial assets measured at amortised cost or fair value through other comprehensive income that are derecognised prior to their maturity to understand the reason for their disposal and whether the reasons are consistent with the objective of the business for which the asset was held. Monitoring is part of the Group's continuous assessment of whether the business model for which the remaining financial assets are held continues to be appropriate and if it is not appropriate whether there has been a change in business model and so a prospective change to the classification of those assets. In case of irrelevance of the model, the analysis is conducted for changes in the business model and possible changes in the classification of the relevant assets.

Significant increase in credit risk. As explained in Note 3, estimated credit losses ("ECL") are measured as a provision equal to 12-month ECL for stage 1 assets, or lifetime ECL assets for stage 2 or stage 3 assets. An asset moves to stage 2 when its credit risk has increased significantly since initial recognition. IFRS 9 does not define what constitutes a significant increase in credit risk. In assessing whether the credit risk of an asset has significantly increased the Group takes into account qualitative and quantitative reasonable and supportable forward looking information. Refer to Note 37 for more details.

Establishing groups of assets with similar credit risk characteristics. When ECLs are measured on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics. Further details about the characteristics considered within the relevant judgment are given in Note 37. The Bank monitors the appropriateness of the credit risk characteristics on an ongoing basis to assess whether they continue to be similar. This is required in order to ensure that should credit risk characteristics change there is appropriate re-segmentation of the assets. This may result in new portfolios being created or assets moving to an existing portfolio that better reflects the similar credit risk characteristics of that group of assets. Re-segmentation of portfolios and movement between portfolios is more common when there is a significant increase in credit risk (or when that significant increase reverses). As a result, the assets move from 12-month to lifetime ECLs, or vice versa. These movements can also occur within portfolios that continue to be measured on the same basis of 12-month or lifetime ECLs but the amount of ECL changes because the credit risk of the portfolios differ.

Models and assumptions used. The Group uses various models and assumptions in measuring fair value of financial assets as well as in estimating ECL. Judgement is applied in identifying the most appropriate model for each type of asset, as well as for determining the assumptions used in these models, including assumptions that relate to key drivers of credit risk. See Note 37 for more details on ECL and Note 35 for more details on fair value measurement.

4. Critical accounting judgments and key sources of estimation uncertainty (continued)

Key sources of estimation uncertainty. The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Determination of the number and relative value of forward looking scenarios for each type of product/market and the definition of forward looking information related to each scenario. When measuring the level of credit losses, the Group uses reasonable forward looking information, which is based on the assumptions about the future movement of various economic factors and how these factors will affect each other. Refer to Note 37 for more details, including analysis of the sensitivity of the reported ECL to changes in estimated forward looking information.

Probability of default ("PD"). PD constitutes a key input in measuring ECL. PD is an estimate of the likelihood of default over a given time horizon, the calculation of which includes historical data, assumptions and expectations of future conditions. See Note 37 for more details, including analysis of the sensitivity of the reported ECL to changes in PD resulting from changes in economic drivers.

Loss given default ("LGD"). LGD is 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, taking into account cash flows from collateral and integral credit enhancements. See Note 37 for more details, including analysis of the sensitivity of the reported ECL to changes in LGD resulting from changes in economic drivers.

Valuation of financial instruments. The Group uses valuation techniques that include inputs that are not based on observable market date to estimate the fair value of certain types of financial instruments. Note 35 provides detailed information about the key assumptions used in the determination of the fair value of financial instruments, as well as the detailed sensitivity analysis for these assumptions. Management believes that the chosen valuation techniques and assumptions used are appropriate in determining the fair value of financial instruments.

Revaluation of property and equipment and investment property. Land, buildings, and investment property, except for construction in progress recorded at cost and tested for impairment are stated in the consolidated statement of financial position at their revalued amounts, being the fair value at the date of revaluation, determined from market-based evidence by appraisal undertaken by professional independent appraisers, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Market value of property is assessed using three methods:

- The comparable sales method which involves analysis of market sales prices for similar real estate property;
- The income-based method which assumes a direct relationship between revenues generated by the property and its market value;
- The costs method which presumes the value of property to be equal to its recoverable amount less any depreciation charges.

Revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair values at the reporting date. The date of the latest revaluation is December 31, 2018.

Deferred tax assets. A deferred tax asset is recognised for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilised. Assessment of probability is based on management's estimates of future taxable profit and involves the exercise of significant judgement from the Group's management.

The recoverability of the deferred tax asset has been determined using profitability forecasts used in the long-term business strategy of the Group, including the assumption of planned business changes within the Group. These assumptions were tested for sensitivity to confirm that the estimates used are not overestimated or aggressive. The forecast assumptions do not include any incremental tax planning strategies.

(in thousands of Russian rubles, unless otherwise indicated)

4. Critical accounting judgments and key sources of estimation uncertainty (continued)

The Group believes it will utilise the deferred tax assets.

Provisions for possible payments. The Group discloses estimated (probable) liabilities under legal or constructive obligations and other conditions defined in IAS 37, clause 14. The Group provides for such liabilities if management believes that the probability of such obligations arising is higher than the probability of an event where such obligations will not arise.

5. Reclassifications

The following reclassifications have been made to the consolidated financial statements for the year ended 31 December 2017 to conform to the presentation as at 31 December 2018.

	Consolidated statement of profit and loss for the year ended December 31, 2018		
	As previously reported for 2017	**Reclassification amount for 2017**	**2017 (restated)**
Provision for impairment losses on interest-bearing assets	(704 806)	27 481	(677 325)
Provision for impairment losses on other transactions	(447 007)	(27 481)	(474 488)
Net gain on financial assets and liabilities at fair value through profit or loss	423 652	(423 652)	-
Net gains from operations with securities at fair value through profit or loss	-	69 517	69 517
Net loss/(gain) on operations with derivative financial instruments	-	354 135	354 135
Fee and commission income	4 157 716	181 381	4 339 097
Fee and commission expense	(2 665 392)	(294 859)	(2 960 251)
Operating expense	(7 566 392)	113 478	(7 452 914)

	Consolidated statement of financial position as at December 31, 2018		
	As previously reported for 2017	**Reclassification amount for 2017**	**2017 (restated)**
Loans to customers	57 582 306	36 208	57 618 514
Other liabilities	(3 138 699)	(36 208)	(3 174 907)
Financial assets at fair value through profit or loss	19 545 396	(19 545 396)	-
Available-for-sale financial assets	6 166 244	(6 166 244)	-
Investments held to maturity	27 346 087	(27 346 087)	-
Investments in securities	-	52 813 208	52 813 208
Derivative financial Instruments	-	244 519	244 519
Financial liabilities at fair value through profit or loss	42 854	(42 854)	-
Derivative financial instruments	-	42 854	42 854

(in thousands of Russian rubles, unless otherwise indicated)

6. Net interest income

	2018	2017
Interest income		
Interest income calculated by applying the effective interest rate		
Loans to customers	11 335 750	10 120 490
Investments in securities measured at amortised cost (previously classified as held to maturity)	2 376 953	1 779 266
Due from banks	973 150	619 628
Investments in securities at fair value through other comprehensive income	1 989	-
Available-for-sale financial assets	-	55 577
Other interest income		
Investments in securities at fair value through profit or loss	1 179 879	1 455 763
Total interest income	**15 867 721**	**14 030 724**
Interest expense		
Interest expense calculated by applying the effective interest rate		
Customer accounts	(5 945 470)	(6 048 345)
Debt securities issued	(205 596)	(291 797)
Due to banks and other financial institutions	(84 632)	(83 207)
Subordinated loans	-	(20 643)
Total interest expense	**(6 235 698)**	**(6 443 992)**

(in thousands of Russian rubles, unless otherwise indicated)

7. Provision for impairment losses, other provisions

The movements in provision for impairment losses on interest bearing assets were as follows:

	Due from banks (Note 19)	Loans to customers (Note 20)	Investments in securities measured at amortised cost (Note 18)	Total
December 31, 2016	**48 333**	**36 500 533**	**-**	**36 548 866**
(Recovery)/provision – continuing operations	(5 850)	683 175	-	677 325
Recovery of provision – discontinued operations	-	(3 488)	-	(3 488)
Write-off against provision	-	(24 547 348)	-	(24 547 348)
Disposal of provision on sale	-	(44 426)	-	(44 426)
Group reorganisation	-	(3 819 243)	-	(3 819 243)
Foreign exchange difference	-	(356 898)	-	(356 898)
December 31, 2017	**42 483**	**8 412 305**	**-**	**8 454 788**
The effect of the transition to new standards (Note 3)	1 809	2 222 861	39 927	2 264 597
Provision/(recovery of provision)	11 633	2 252 197	(36 450)	2 227 380
Write-off against provision	(15 923)	(4 061 972)	-	(4 077 895)
Provision recovery for the assets previously written off	-	796 849	-	796 849
Disposal of provision on sale	-	(355 502)	-	(355 502)
Foreign exchange difference	-	(3 464)	-	(3 464)
December 31, 2018	**40 002**	**9 263 274**	**3 477**	**9 306 753**

The change (recovery) of provisions for securities estimated at fair value through other comprehensive income for the year ended December 31, 2018 amounted to RUB 117 thousand.

The movements in provision for losses on other transactions were as follows:

	Other assets (Note 24)	Guarantees issued (Note 32)	Loan commitments (Note 32)	Provisions for legal claims (Note 29)	Total
December 31, 2016	**807 108**	**352 159**	**8 727**	**81 222**	**1 249 216**
Provision	144 732	86 010	27 481	216 265	474 488
Write-off against provision	(104 969)	-	-	(12 176)	(117 145)
December 31, 2017	**846 871**	**438 169**	**36 208**	**285 311**	**1 606 559**
The effect of the transition to new standards (Note 3)	-	(167 932)	355 153	-	187 221
Provision/(recovery of provision)	172 979	(46 640)	(170 170)	34 228	(9 603)
Write-off against provision	(500 001)	-	-	(151 909)	(651 910)
December 31, 2018	**519 849**	**223 597**	**221 191**	**167 630**	**1 132 267**

Provision for impairment of interest bearing assets and other assets are deducted from the respective asset items. Provision for guarantees, loan commitments and legal claims are accounted for as other liabilities.

(in thousands of Russian rubles, unless otherwise indicated)

8. Net gains from operations with securities at fair value through profit or loss

Net gains from operations with securities at fair value through profit or loss are presented in the table below:

	2018	2017 (restated)
Realised gain/(loss) from trading operations	675 411	(19 381)
Fair value adjustments	301 132	88 898
Net gains from operations with securities at fair value through profit or loss	**976 543**	**69 517**

9. Net (loss)/gain on operations with derivative financial instruments

Net loss/(gain) on operations with derivative financial instruments is presented below:

	2018	2017 (restated)
Realised (loss)/gain on derivatives	(310 870)	152 471
Fair value adjustments	(145 085)	201 664
Net (loss)/gain on operations with derivative financial instruments	**(455 955)**	**354 135**

10. Net loss on foreign exchange operations

Net loss on foreign exchange operations comprises:

	2018	2017
Dealing, net	1 377 161	(711 392)
Translation differences, net	(1 436 115)	54 881
Total net loss on foreign exchange operations	**(58 954)**	**(656 511)**

(in thousands of Russian rubles, unless otherwise indicated)

11. Fee and commission income and expenses

Fee and commission income and expense comprise:

	2018	2017 (restated)
Fee and commission income:		
Acquiring and card transactions	2 680 756	1 798 909
Agent fees on insurance products	890 260	85 326
Maintenance of bank cards	768 287	704 924
Cash operations with plastic cards	552 949	435 487
Settlement operations	464 482	250 019
Other cash operations	422 194	402 526
Maintenance of accounts	321 749	377 838
Documentary operations	139 419	106 241
Foreign currency agent and controller operations	49 546	51 213
Other	255 834	126 614
Total fee and commission income	**6 545 476**	**4 339 097**
Fee and commission expense:		
Settlement operations	(1 810 451)	(1 158 294)
Agent fees on banking products	(1 661 166)	(1 027 034)
Expenses for customer incentive programs for card products	(505 685)	(294 859)
Cash operations	(285 612)	(247 548)
Debt collection expenses	(174 334)	(142 526)
Documentary operations	(72 460)	(72 460)
Other	(17 114)	(17 530)
Total fee and commission expense	**(4 526 822)**	**(2 960 251)**

12. Other income

Other income comprises:

	2018	2017
Recovery of assets previously written off	379 776	198 312
Gain on write-off of liabilities	365 825	122 177
Operating lease income	325 043	110 032
Fines and penalties	25 664	15 475
Information and advisory services	6 318	9 725
Other	91 956	14 113
Total other income	**1 194 582**	**469 834**

(in thousands of Russian rubles, unless otherwise indicated)

13. Operating expense

Operating expense comprises:

	2018	2017 (restated)
Staff costs	4 316 691	3 225 503
Social security contributions	882 019	759 297
Total personnel expenses	**5 198 710**	**3 984 800**
Depreciation and amortisation	646 558	523 751
Communications	616 834	457 665
Payments to the Deposit Insurance Agency	549 020	338 840
Call center services	483 021	398 697
Property and equipment maintenance	426 881	325 385
Operating leases	327 688	370 169
Software maintenance	285 463	246 898
Professional services	250 364	186 011
Advertising and marketing expenses	114 424	41 772
Taxes other than income tax	96 032	91 307
Plastic cards	64 448	138 414
Security services	64 337	55 974
Office expenses	46 878	7 556
Fines and penalties	34 935	40 906
Travel expenses	31 256	16 113
Disposals of property and equipment	9 153	27 798
Other expenses	312 415	200 858
Total operating expenses	**9 558 417**	**7 452 914**

The Group approved motivation programs that give Group employees the right to receive payments as a result of repaying phantom and virtual shares due to them or receiving an equivalent amount of PJSC MTS shares. The number of allocated shares is determined by the terms of the programs and decisions of the collective bodies of the Group, and the transfer of the right depends on the achievement of certain performance indicators, the preservation of labor relations until the end of the periods established by the program and the approval of payment by the appropriate collective body. The Group records these motivation programs in accordance with IFRS 2 *Share-based Payment* as transactions based on the shares with cash settlements. In 2018, the Group recorded expenses for such motivation programs of RUB 999 577 thousand as part of 'Staff costs' line and of RUB 153 935 thousand in 'Social security contributions' line.

14. Income tax

The Group calculates tax payments based on the tax accounts maintained and prepared in accordance with the tax regulations of RF and countries where the Group and its subsidiaries operate, which may differ from IFRSs. As certain income and expense are tax-free or tax non-deductible the Group is subject to certain permanent tax differences.

The Group is subject to certain permanent tax differences due to the non-tax deductibility of certain expenses and certain income being treated as non-taxable for tax purposes.

Deferred taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities in the financial statements and the amounts used for tax purposes. Temporary differences at December 31, 2018 and December 31, 2017 relate mostly to different methods of income and expense recognition as well as to recorded values of certain assets.

Income tax in 2018 and 2017 was calculated by applying a 20% tax rate to the profit or loss for the year in respect of continuing operations.

(in thousands of Russian rubles, unless otherwise indicated)

14. Income tax (continued)

The tax rate used for the reconciliations below is the corporate tax rate of 20% payable by corporate entities in the Russian Federation on taxable profits (as defined) under tax law in that jurisdiction.

Tax effect of temporary differences as at December 31, 2018 and December 31, 2017 comprised:

	December 31, 2018	December 31, 2017
Deferred tax assets/(liabilities) in relation to:		
Due from banks and loans to customers	1 339 383	743 524
Other assets	199 718	55 600
Investment property	731 000	771 080
Investments in securities	(209 844)	(79 207)
Investments in a joint venture	(4 551)	-
Derivative financial instruments	29 017	(40 333)
Customer accounts	1 164	1 828
Property and equipment and intangible assets	6 975	(128 786)
Other financial liabilities	424 925	301 139
Tax loss carryforwards	5 501 758	6 154 887
Unrecognised deferred tax assets	(4 775 129)	(4 610 195)
Net deferred tax assets	**3 244 416**	**3 169 537**

Reconciliation between income tax expense and consolidated profit before income tax for the years ended December 31, 2018 and December 31, 2017 is presented in the table below:

	2018	2017
Profit before income tax	1 002 783	275 056
Tax at the statutory tax rate (20%)	200 557	55 011
Change in deferred tax asset not recognised	164 934	39 971
Effect of income taxed at different rates	(76 415)	(61 177)
Tax effect of permanent differences	99 380	149 727
Income tax expense	**388 456**	**183 532**
Current income tax expense	464 737	183 532
Changes in deferred tax assets	(76 281)	-
Income tax expense	**388 456**	**183 532**

As at December 31, 2018 and December 31, 2017, the Group did not recognise part of deferred tax asset of RUB 4 775 129 thousand and RUB 4 610 195 thousand, respectively, as related tax losses are not expected to be utilised. The valuation of deferred tax assets is highly judgmental and is discussed in Note 3.

Deferred tax assets/(liabilities)	2018	2017
Deferred tax assets at January 1	**3 169 537**	**3 287 043**
Deferred tax liabilities at January 1	**-**	**(204 136)**
Change in deferred income tax balances recognised in profit or loss from continuing operations	76 281	-
Change in deferred income tax balances recognised in profit or loss from discontinued operations	-	(13 578)
Changes in deferred income taxes recognised in other comprehensive income	(1 409)	(107 419)
Effect of foreign exchange rate changes	7	7 770
Group reorganisation	-	199 857
Deferred tax assets at December 31	**3 244 416**	**3 169 537**
Deferred tax liabilities at December 31	**-**	**-**

(in thousands of Russian rubles, unless otherwise indicated)

15. Discontinued operations

On May 29, 2017, the Group sold 47% of the shares of Luxembourg-based commercial bank East-West United Bank S.A. ("EWUB") to a related party, having lost control over the activities of the bank.

The amount of consideration received is presented in the table below:

	May 29, 2017
Consideration in cash	2 600 000
Fair value of 19% of shares of EWUB	1 104 383
Total	**3 704 383**

Disposed of assets and liabilities of EWUB are presented in the table below:

	May 29, 2017
ASSETS:	
Cash and balances with the Central Banks	12 293 318
Financial assets at fair value through profit or loss	30 816
Due from banks	6 757 509
Loans to customers	8 629 364
Available-for-sale financial assets	5 796 743
Property and equipment and intangible assets	1 361 050
Current income tax assets	184 512
Other assets	84 361
Total assets	**35 137 673**
LIABILITIES:	
Financial liabilities at fair value through profit or loss	85 635
Due to banks and other financial institutions	128 420
Customer accounts	24 859 712
Deferred income tax liabilities	199 857
Current income tax liabilities	318 281
Other liabilities	401 878
Total liabilities	**25 993 783**
Net assets disposed of	**9 143 890**

As at the transaction date, the fair value of assets sold exceeded the amount of consideration received from the buyer. The difference between the amount of consideration received and the fair value of assets sold amounting RUB 131 894 thousand is recognised in retained earnings of the Group.

(in thousands of Russian rubles, unless otherwise indicated)

15. Discontinued operations (continued)

The loss related to the disposal of the subsidiary is presented in the table below:

	May 29, 2017
Fair value of interest sold	2 731 894
Fair value of 19% of shares of EWUB	1 104 383
Disposed net assets	(9 143 890)
Non-controlling interests	3 291 735
Cumulative gain on available-for-sale financial assets reclassified from equity on loss of control of subsidiary	106 194
Cumulative exchange differences in respect of net assets of subsidiary reclassified from equity to profit or loss on loss of control over subsidiary	2 437 358
Group's liabilities to EWUB	(575 870)
Transaction costs	(2 270)
Loss on disposal	**(50 466)**

Net cash outflow from the disposal of the subsidiary is presented in the table below:

	May 29, 2017
Consideration in cash and cash equivalents	2 600 000
Less cash and cash equivalent balances disposed of	(16 473 520)
Total	**(13 873 520)**

The combined results of the discontinued operations included in the consolidated statement of profit or loss are presented below.

	2017
Interest income	346 188
Interest expense	(61 222)
Recovery of provision for impairment of interest-bearing assets	3 488
Net non-interest income	119 167
Operating expense	(394 644)
Income tax expense	(28 714)
Loss for the period	(15 737)
Loss on disposal	(50 466)
Loss from discontinued operations	**(66 203)**
Attributable to:	
Owners of the parent Bank	(60 852)
Non-controlling interest	(5 351)
Cash flows from discontinued operations	
Net cash inflow from operating activities	1 407 522
Net cash inflow from investing activities	329 812
Net cash inflow	**1 665 324**

(in thousands of Russian rubles, unless otherwise indicated)

16. Earnings/(loss) per share

The earnings/(loss) and weighted average number of ordinary shares used in calculation of basic and diluted earnings/(loss) per share are as follows:

	2018	**2017**
Net earnings for the period from continuing operations attributable to owners of the parent Bank	614 327	91 524
Net loss for the period from discontinued operations attributable to owners of the parent Bank	-	(60 852)
Weighted average number of ordinary shares for the purpose of basic and diluted earnings/(loss) per share	20 806 719	20 807 780
Earnings per share from continuing operations – basic and diluted (RUB)	**30**	**4**
Loss per share from discontinued operations – basic and diluted (RUB)	**-**	**(3)**

17. Cash and balances with the Central Bank

Cash and balances comprise:

	December 31, 2018	**December 31, 2017**
Balances with the Central Bank of the Russian Federation	5 853 167	10 781 906
Cash	2 832 639	3 576 171
Total cash and balances with the Central Banks	**8 685 806**	**14 358 077**

The balances with the Central Bank of the Russian Federation as at December 31, 2018 and December 31, 2017 include RUB 975 847 thousand and RUB 873 883 thousand, respectively, which represent the obligatory reserve deposits with the Central Bank. The Group is required to maintain obligatory reserve deposits with the Central Bank on a constant basis.

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

	December 31, 2018	**December 31, 2017**
Cash and balances with the Central Bank	8 685 806	14 358 077
Correspondent accounts with banks and other financial institutions	2 406 774	2 797 116
	11 092 580	**17 155 193**
Less minimum reserve deposits with the Central Bank of the Russian Federation	(975 847)	(873 883)
Total cash and cash equivalents	**10 116 733**	**16 281 310**

(in thousands of Russian rubles, unless otherwise indicated)

18. Investments in securities

Investments in securities comprise:

	December 31, 2018	December 31, 2017
Debt securities measured at amortised cost (previously classified as held to maturity)		
Corporate bonds	21 095 038	15 995 465
Debt securities of the RF constituent entities	9 423 068	11 035 238
Government Eurobonds of the RF	-	315 384
Less provision for impairment losses	(3 477)	-
	30 514 629	**27 346 087**
Debt securities at fair value through profit and loss		
Corporate and bank bonds	13 514 328	16 188 049
Government debt securities	146 574	25 598
Debt securities of the RF constituent entities	19 410	33 066
	13 680 312	**16 246 713**
Equity securities at fair value through profit and loss		
Investments in bond funds	8 806 425	3 054 164
	8 806 425	**3 054 164**
Available-for-sale securities		
Investments in bond funds	x	4 698 044
Equity securities	x	1 104 398
Debt securities	x	357 106
Investments in venture fund	x	6 696
	x	**6 166 244**
Total investments in securities	**53 001 366**	**52 813 208**

Investments in bond funds represent investments in Russian funds investing mainly in bonds and eurobonds of Russian issuers.

As at December 31, 2018 securities at amortised cost amounting to RUB 2 282 563 thousand were transferred as collateral under repurchase agreements (Note 25).

(in thousands of Russian rubles, unless otherwise indicated)

18. Investments in securities (continued)

Information about the movement of the provision for impairment of securities for the year ended December 31, 2018 is presented below:

	Stage 1	Total
Debt securities measured at amortised cost		
January 1, 2018	**39 927**	**39 927**
New assets received or acquired	11 395	11 395
Changes due to changes in credit risk, net	(44 322)	(44 322)
Assets redeemed or derecognised (except for write-off)	(3 523)	(3 523)
December 31, 2018	**3 477**	**3 477**
Debt securities at fair value through other comprehensive income		
January 1, 2018	117	117
Assets redeemed or derecognised (except for write-off)	(117)	(117)
December 31, 2018	**-**	**-**

Changes in the gross carrying amount of securities measured at amortised cost, which resulted in a change in the provision for possible losses, are presented below:

	Stage 1	Total
January 1, 2018	**27 346 087**	**27 346 087**
New assets received or acquired	10 784 393	10 784 393
Assets redeemed or derecognised (except for write-off)	(8 000 992)	(8 000 992)
Other changes	388 618	388 618
December 31, 2018	**30 518 106**	**30 518 106**

Information on the quality of securities measured at amortised cost as at December 31, 2018 is presented below:

	Stage 1
Debt securities rated:	
BBB	26 975 958
BB	3 510 244
<BB	31 904
Less provision for impairment losses	(3 477)
December 31, 2018	**30 514 629**

Information on the quality of securities held to maturity as at December 31, 2017 is presented below:

	December 31, 2017
Debt securities rated:	
BBB	12 817 371
BB	14 528 716
Total	**27 346 087**

(in thousands of Russian rubles, unless otherwise indicated)

19. Due from banks

Due from banks comprise:

	December 31, 2018	December 31, 2017
Correspondent accounts with banks and other financial institutions	2 406 774	2 797 116
Term deposits with banks	1 658 839	1 251 429
Reverse repurchase agreements with financial institutions	367 218	2 478 435
	4 432 831	**6 526 980**
Less provision for impairment losses	(40 002)	(42 483)
Total due from banks	**4 392 829**	**6 484 497**

As at December 31, 2018 and December 31, 2017, due from banks included guarantee deposits totaling RUB 1 543 995 thousand and RUB 1 176 237 thousand, respectively.

Fair value of assets pledged and carrying amount of loans granted under the reverse repurchase agreements as at December 31, 2018 and December 31, 2017 comprise:

	December 31, 2018	December 31, 2018	December 31, 2017	December 31, 2017
	Carrying amount of loans	Fair value of collateral	Carrying amount of loans	Fair value of collateral
Corporate bonds	367 218	388 829	2 251 860	2 355 074
Shares	-	-	226 575	259 740
Total	**367 218**	**388 829**	**2 478 435**	**2 614 814**

As at December 31, 2018 and December 31, 2017, due from banks contain balances of RUB 189 059 thousand and RUB 233 526 thousand, respectively, pledged as collateral for mortgage-backed bonds issued by the Group in 2014.

Information about the movement of the provision for impairment of due from banks for the year ended December 31, 2018 is presented below:

	Stage 1	Stage 2	Stage 3	Acquired or created credit impaired	Total
January 1, 2018	**1 149**	**25 824**	**15 923**	**1 396**	**44 292**
Transfer to Stage 3	-	(22 901)	22 901	-	-
New assets received or acquired	251	-	-	14 164	14 415
Changes due to changes in credit risk	409	(2 923)	-	104	(2 410)
Write-off against provision	-	-	(15 923)	-	(15 923)
Recoveries of the assets previously written off	-	-	-	(372)	(372)
December 31, 2018	**1 809**	**-**	**22 901**	**15 292**	**40 002**

(in thousands of Russian rubles, unless otherwise indicated)

19. Due from banks (continued)

Information about the movement of the provision for impairment of due from banks for the year ended December 31, 2017 is presented in Note 7.

Changes in the gross carrying amount of due from banks, which resulted in a change in the provision for possible losses, are presented below:

	Stage 1	Stage 2	Stage 3	Acquired or created credit impaired	Total
January 1, 2018	**6 483 837**	**25 824**	**15 923**	**1 396**	**6 526 980**
Transfer to Stage 3	-	(22 901)	22 901	-	-
New assets received or acquired	592 152	-	-	14 164	606 316
Write-off against provision	-	-	(15 923)	-	(15 923)
Repayment and other changes	(2 681 351)	(2 923)	-	(268)	(2 684 542)
December 31, 2018	**4 394 638**	**-**	**22 901**	**15 292**	**4 432 831**

Information about the quality of due from banks as at December 31, 2018 is presented below:

	Stage 1	Stage 3	Acquired or created credit impaired	Total
Due from banks rated:				
AA	5 251	-	-	5 251
A	2 243 340	-	-	2 243 340
BBB	1 230 523	-	-	1 230 523
BB	610 909	-	-	610 909
B	115 558	-	-	115 558
<B/Not rated	189 057	22 901	15 292	227 250
Less provision for impairment losses	(1 809)	(22 901)	(15 292)	(40 002)
December 31, 2018	**4 392 829**	**-**	**-**	**4 392 829**

Information about the quality of due from banks as at December 31, 2017 is presented below:

	December 31, 2017
Due from banks rated:	
AA	53 023
A	2 426 226
BBB	3 628 933
BB	351 909
<BB/Not rated	66 889
Less provision for impairment losses	(42 483)
Total	**6 484 497**

(in thousands of Russian rubles, unless otherwise indicated)

20. Loans to customers

Loans to customers comprise:

	December 31, 2018	December 31, 2017
Loans to customers	81 834 490	66 030 819
Less provision for impairment losses	(9 263 274)	(8 412 305)
Total loans to customers	**72 571 216**	**57 618 514**

The table below summarises carrying amount of loans to customers analysed by type of collateral obtained by the Group:

	December 31, 2018	December 31, 2017
Loans collateralised by guarantees of legal entities	17 984 333	19 225 161
Loans collateralised by pledge of real estate	14 236 954	12 691 823
Loans collateralised by pledge of own promissory notes	361 369	89 575
Loans collateralised by pledge of equipment	142 965	905 516
Loans collateralised by pledge of rights of claim	14 863	-
Loans collateralised by pledge of securities	32 246	40 325
Loans collateralised by pledge of inventories	11 972	7 688
Loans secured by cash	-	296 454
Loans collateralised by guarantees provided by the RF Ministry of Finance	-	118 438
Unsecured loans	49 049 788	32 655 839
Loans to customers	**81 834 490**	**66 030 819**
Less provision for impairment losses	(9 263 274)	(8 412 305)
Total loans to customers	**72 571 216**	**57 618 514**

Amounts, presented in the table above, are carrying amount of loans issued and do not necessary reflect the fair value of collateral received.

As at December 31, 2017, cash balances are placed with the Group as collateral for loans to customers in the amount of RUB 300 000 thousand (Note 26).

	December 31, 2018	December 31, 2017
Economic sectors analysis:		
Individuals	52 479 433	37 774 407
Trading	9 431 173	5 817 026
Real estate	5 458 361	8 500 815
Industrial manufacturing	4 154 842	3 402 470
Financial sector	2 180 511	3 156 596
Transport and communication	2 521 864	2 389 129
Agriculture	1 808 891	1 346 559
Finance leasing	1 023 550	1 099 320
Food production	173 128	197 208
Hotel business	36 979	313 403
Culture and art	13 265	21 065
Other	2 552 493	2 012 821
Loans to customers	**81 834 490**	**66 030 819**
Less provision for impairment losses	(9 263 274)	(8 412 305)
Total loans to customers	**72 571 216**	**57 618 514**

(in thousands of Russian rubles, unless otherwise indicated)

20. Loans to customers (continued)

Loans to individuals comprise the following products:

	December 31, 2018	December 31, 2017
Consumer loans	31 009 520	15 045 428
Mortgage loans	11 667 863	14 199 521
Credit cards	9 778 256	8 421 397
Other	23 794	108 061
Loans to individuals	**52 479 433**	**37 774 407**
Less provision for impairment losses	(4 943 561)	(3 983 265)
Total loans to individuals	**47 535 872**	**33 791 142**

As at December 31, 2018 and December 31, 2017, loans to individuals contain mortgage loans of RUB 1 160 958 thousand and RUB 1 776 401 thousand, respectively, pledged as collateral for mortgage-backed bonds issued by the Group in 2014.

As at December 31, 2018 and December 31, 2017, the Group granted loans to 2 groups of customers totaling RUB 4 396 036 thousand and RUB 7 203 081 thousand, respectively, which individually exceeded 10% of the Group's equity.

As at December 31, 2018 and December 31, 2017 loans to customers included loans totaling RUB 1 034 972 thousand and RUB 1 001 769 thousand, respectively, whose terms were renegotiated otherwise these loans would be past due or impaired.

During the years ended December 31, 2018 and December 31, 2017, the Group sold certain loans to third parties with a discount to nominal value with no recourse and without any service obligations associated with the loans. As at December 31, 2018 and December 31, 2017 such loans written off against provision amounted to RUB 355 502 thousand and RUB 44 426 thousand respectively (Note 7).

Information about the movement of the provision for impairment of loans to legal entities for the year ended December 31, 2018 is presented below:

	Stage 1	Stage 2	Stage 3	Acquired or created credit impaired	Total
January 1, 2018	**545 982**	**247 123**	**4 723 118**	**214 639**	**5 730 862**
Transfer to Stage 1	3 081	(77)	(3 004)	-	-
Transfer to Stage 2	(88 975)	88 975	-	-	-
Transfer to Stage 3	(1 417)	(47 258)	48 675	-	-
New assets received or acquired	249 057	-	-	124 028	373 085
Changes due to changes in credit risk	(387 703)	306 380	169 069	(84 120)	3 626
Disposal of provision on sale	-	-	(355 502)	-	(355 502)
Write-off against provision	-	-	(1 689 148)	-	(1 689 148)
Recoveries of the assets previously written off	-	-	260 254	-	260 254
Foreign exchange effect	(3 464)	-	-	-	(3 464)
December 31, 2018	**316 561**	**595 143**	**3 153 462**	**254 547**	**4 319 713**

(in thousands of Russian rubles, unless otherwise indicated)

20. Loans to customers (continued)

Information about the movement of the provision for impairment of loans to individuals for the year ended December 31, 2018 is presented below:

	Stage 1	Stage 2	Stage 3	Acquired or created credit impaired	Total
January 1, 2018	**885 499**	**484 755**	**3 176 418**	**357 632**	**4 904 304**
Transfer to Stage 1	660 222	(444 097)	(216 125)	-	-
Transfer to Stage 2	(246 183)	318 408	(72 225)	-	-
Transfer to Stage 3	(2 073)	(1 224 102)	1 226 175	-	-
New assets received or acquired	1 344 367	-	-	-	1 344 367
Changes due to changes in credit risk	(1 679 544)	1 314 145	896 518	-	531 119
Write-off against provision	-	-	(2 372 824)	-	(2 372 824)
Recoveries of the assets previously written off	-	-	536 595	-	536 595
December 31, 2018	**962 288**	**449 109**	**3 174 532**	**357 632**	**4 943 561**

Information about the movement of the provision for impairment of loans to customers for the year ended December 31, 2017 is presented in Note 7.

Changes in the gross carrying amount of loans to legal entities, which resulted in a change in the provision for possible losses, are presented below:

	Stage 1	Stage 2	Stage 3	Acquired or created credit impaired	Total
January 1, 2018	**19 640 853**	**2 679 577**	**5 721 627**	**214 639**	**28 256 696**
Transfer to Stage 1	7 862	(1 304)	(6 558,0)	-	-
Transfer to Stage 2	(1 782 342)	1 782 342	-	-	-
Transfer to Stage 3	(73 139)	(681 199)	754 338,0	-	-
New assets received or acquired	14 299 621	-	-	129 488	14 429 109
Sale	-	-	(355 502)	-	(355 502)
Write-off against provision	-	-	(1 689 148)	-	(1 689 148)
Repayment and other changes	(10 009,590)	(353 610)	(838 778)	(84 120)	(11 286 098)
December 31, 2018	**22 083 265**	**3 425 806**	**3 585 979**	**260 007**	**29 355 057**

(in thousands of Russian rubles, unless otherwise indicated)

20. Loans to customers (continued)

Changes in the gross carrying amount of loans to individuals, which resulted in a change in the provision for possible losses, are presented below:

	Stage 1	Stage 2	Stage 3	Acquired or created credit impaired	Total
January 1, 2018	**31 830 314**	**1 163 370**	**4 423 091**	**357 632**	**37 774 407**
Transfer to Stage 1	1 070 868	(784 343)	(286 525)	-	-
Transfer to Stage 2	(4 347 345)	4 475 285	(127 940)	-	-
Transfer to Stage 3	(124 739)	(2 757 667)	2 882 406	-	-
New assets received or acquired	40 593 106	-	-	-	40 593 106
Write-off against provision	-	-	(2 372 824)	-	(2 372 824)
Repayment and other changes	(22 597 630)	(543 085)	(374 541)	-	(23 515 256)
December 31, 2018	**46 424 574**	**1 553 560**	**4 143 667**	**357 632**	**52 479 433**

Information about the quality of loans to legal entities as at December 31, 2018 is presented below:

	Stage 1	Stage 2	Stage 3	Acquired or created credit impaired	December 31, 2018
Loans, collectively assessed for impairment					
Not past due	1 183 179	40 459	-	-	1 223 638
Past due loans:					
up to 30 days	-	2 207	5 258	-	7 465
31 – 60 days	-	2 023	-	-	2 023
61 – 90 days	-	4 231	-	-	4 231
91 – 180 days	-	-	5 982	8 995	14 977
over 180 days		-	687 482	1 692	689 174
Total loans to legal entities, collectively assessed for impairment	**1 183 179**	**48 920**	**698 722**	**10 687**	**1 941 508**
Loans, individually assessed for impairment					
Current	16 099 336	1 720 730			17 820 066
Requiring monitoring	4 800 750	1 656 156	-	-	6 456 906
Default			2 887 257	249 320	3 136 577
Total loans to legal entities, individually assessed for impairment	20 900 086	3 376 886	2 887 257	249 320	27 413 549
Less provision for impairment losses	(316 561)	(595 143)	(3 153 462)	(254 547)	(4 319 713)
Total	**21 766 704**	**2 830 663**	**432 517**	**5 460**	**25 035 344**

(in thousands of Russian rubles, unless otherwise indicated)

20. Loans to customers (continued)

Information about the quality of loans to individuals as at December 31, 2018 is presented below:

	Stage 1	Stage 2	Stage 3	Acquired or created credit impaired	December 31, 2018
Loans, collectively assessed for impairment					
Not past due	46 424 574	-	-	-	46 424 574
Past due loans:					
up to 30 days	-	858 714	-	-	858 714
31 – 60 days	-	289 542	-	-	289 542
61 – 90 days	-	204 328	-	-	204 328
91 – 180 days	-	-	542 116	-	542 116
over 180 days	-	-	3 202 400	-	3 202 400
Total loans to individuals, collectively assessed for impairment	**46 424 574**	**1 352 584**	**3 744 516**	**-**	**51 521 674**
Loans, individually assessed for impairment					
Requiring monitoring	-	200 976	5 127	357 632	563 735
Default	-	-	394 024	-	394 024
Total loans to individuals, individually assessed for impairment	-	200 976	399 151	357 632	957 759
Less provision for impairment losses	(962 288)	(449 109)	(3 174 532)	(357 632)	(4 943 561)
Total	**45 462 286**	**1 104 451**	**969 135**	**-**	**47 535 872**

Information about the quality of loans as at December 31, 2017 is presented below:

	Legal entities	Individuals	December 31, 2017
Top performing loans	16 637 817	31 725 044	48 362 861
Moderately performing loans	3 336 601	680 348	4 016 949
Other	3 852 954	1 385 750	5 238 704
Total	**23 827 372**	**33 791 142**	**57 618 514**

(in thousands of Russian rubles, unless otherwise indicated)

21. Investments in a joint venture

On December 28, 2018, the Group sold to a related party 40% of its shares of a closed unit real estate investment fund "Sistema – Rentnaya Nedvizhimost 1" ("Fund"), having lost control over the fund's activities.

The loss related to the disposal of the fund is presented in the table below:

	2018
Disposed off assets and liabilities:	
Investment property	(979 700)
Due from banks	(64 802)
Other assets	(130 417)
Other liabilities	23 441
Total net assets disposed off	**(1 151 478)**
Group's liabilities to the fund	(3 605)
Cash consideration recieved	449 720
Fair value of the Group's share in the fund	690 102
Loss on disposal	**(15 261)**

In accordance with the rules of trust management of the Fund, decisions of the general meeting are accepted by 75% of the votes of the total number of votes given to their owners in accordance with the number of investment shares owned by them at the date of the decision to convene a general meeting.

The Group cannot unilaterally manage the significant activities of the Fund, and the adoption of the decision of the general meeting can only be taken jointly with another investor.

As at December 31, 2018, the Group classified its interest in the fund as an investment in a joint venture.

Summarised financial information for the joint venture is presented below:

	December 31, 2018
Fund's assets	
Investment property	979 700
Due from banks	68 407
Other assets	130 417
Fund's liabilities	(23 442)
Fund's net assets	**1 155 082**
Group's share in the fund	60%
Carrying amount of the Group's share in the fund	**690 102**

(in thousands of Russian rubles, unless otherwise indicated)

22. Property and equipment and intangible assets

	Land and buildings	Capital investments	Furniture and equipment	Total property and equipment	Intangible assets	Total property and equipment and intangible assets
Book value						
December 31, 2016	**3 044 171**	**135 369**	**1 475 468**	**4 655 008**	**2 286 502**	**6 941 510**
Acquisitions	1 332	1 469	122 694	**125 495**	494 433	**619 928**
Reclassification to investment property	(56 574)	-	-	**(56 574)**	-	**(56 574)**
Disposals	-	(18 719)	(216 828)	**(235 547)**	(15 789)	**(251 336)**
Elimination of accumulated depreciation on revaluation	(33 401)	-	-	**(33 401)**	-	**(33 401)**
Revaluation	(32 914)	-	-	**(32 914)**	-	**(32 914)**
Foreign exchange differences	(17 238)	-	(1 400)	**(18 638)**	(2 670)	**(21 308)**
Disposal of subsidiary	(1 257 772)	-	(117 336)	**(1 375 108)**	(231 022)	**(1 606 130)**
December 31, 2017	**1 647 604**	**118 119**	**1 262 598**	**3 028 321**	**2 531 454**	**5 559 775**
Acquisitions	334 749	2 428	187 535	**524 712**	892 496	**1 417 208**
Reclassification to investment property	(10 259)	-	-	**(10 259)**	-	**(10 259)**
Disposals	(49 732)	(70 631)	(73 528)	**(193 891)**	(125 605)	**(319 496)**
Elimination of accumulated depreciation on revaluation	(38 009)	-	-	**(38 009)**	-	**(38 009)**
Revaluation	(729)	-	-	**(729)**	-	**(729)**
December 31, 2018	**1 883 624**	**49 916**	**1 376 605**	**3 310 145**	**3 298 345**	**6 608 490**

	Land and buildings	Capital investments	Furniture and equipment	Total property and equipment	Intangible assets	Total property and equipment and intangible assets
Accumulated depreciation						
December 31, 2016	**-**	**100 863**	**891 136**	**991 999**	**1 517 358**	**2 509 357**
Charge for the year – continuing operations	33 402	2 740	217 059	**253 201**	270 550	**523 751**
Charge for the year – discontinued operations	12 207		1 363	**13 570**	10 850	**24 420**
Disposals	-	(9 338)	(157 798)	**(167 136)**	(15 532)	**(182 668)**
Elimination of accumulated depreciation on revaluation	(33 401)	-	-	**(33 401)**	-	**(33 401)**
Foreign exchange differences	128	-	(1 363)	**(1 235)**	(1 675)	**(2 910)**
Disposal of subsidiary	(12 336)	-	(106 564)	**(118 900)**	(141 582)	**(260 482)**
December 31, 2017	**-**	**94 265**	**843 833**	**938 098**	**1 639 969**	**2 578 067**
Charge for the year	38 786	8 157	181 735	**228 678**	417 880	**646 558**
Disposals	(777)	(66 581)	(66 136)	**(133 494)**	(108 433)	**(241 927)**
Elimination of accumulated depreciation on revaluation	(38 009)	-	-	**(38 009)**	-	**(38 009)**
December 31, 2018	**-**	**35 841**	**959 432**	**995 273**	**1 949 416**	**2 944 689**
Net book value						
December 31, 2017	**1 647 604**	**23 854**	**418 765**	**2 090 223**	**891 485**	**2 981 708**
December 31, 2018	**1 883 624**	**14 075**	**417 173**	**2 314 872**	**1 348 929**	**3 663 801**

(in thousands of Russian rubles, unless otherwise indicated)

22. Property and equipment and intangible assets (continued)

As at December 31, 2018 and December 31, 2017, land and buildings owned by the Group were recognised at fair value. The following methods were used to measure the fair value: discounted cash flow method (income approach) and method of sales comparison (comparative approach).

For the estimation of the fair value, certain weights were assigned to the results obtained using the two above approaches, depending on the degree to which the estimates met, among other, such criteria as reliability and completeness of information. The fair value of these assets were RUB 1 883 623 thousand and RUB 1 647 603 thousand, respectively. If the land and buildings were accounted for at historical cost adjusted for inflation less accumulated depreciation and impairment losses, their carrying amount would be RUB 1 716 024 thousand and RUB 1 434 526 thousand as at December 31, 2018 and December 31, 2017, respectively.

During 2018, the Group acquired real estate properties from a related party for use in operating activities. As at December 31, 2018, these properties were recognised at fair value in the amount of RUB 325 218 thousand.

As at December 31, 2018 and December 31, 2017, included in property and equipment was fully depreciated equipment totaling RUB 461 091 thousand and RUB 395 691 thousand, respectively. The main part of disposals of property and equipment in 2018 included write-off of fully depreciated property.

As at December 31, 2018 and December 31, 2017, fair value of the buildings owned by the Group corresponded to the third level in the hierarchy of fair value.

23. Investment property

Investment property comprises:

	2018	**2017**
At 1 January	4 090 832	2 911 545
Acquisitions	79 992	913 195
Property taken in possession under loan agreements	1 289 501	1 154 959
Transferred from property and equipment	10 259	56 574
Disposals	(747 828)	(741 262)
Disposals due to loss of control over the fund (Note 21)	(979 700)	-
Changes in fair value of investment property	(382 436)	(204 179)
As at December 31	**3 360 620**	**4 090 832**

As at December 31, 2018 and December 31, 2017 operating lease income comprised investment property rental income of RUB 319 023 thousand and RUB 102 898 thousand, respectively.

As at December 31, 2018 and December 31, 2017 operating expenses comprised investment property operating expenses of RUB 88 412 thousand and RUB 39 625 thousand, respectively.

As at December 31, 2018 and December 31, 2017, investment property was recognised at fair value. The following methods were used for the estimation of the fair value: discounted cash flow method (income approach), method of sales comparison (comparative approach). For estimation of the final value, the results obtained using two approaches were weighted by the following criteria: reliability and completeness of the information and individual characteristics consideration.

The Group has no restrictions as to the sale of the investment property, or documented obligations to purchase, construct, repair, maintain or improve the investment property.

As at December 31, 2018 and December 31, 2017 fair value of the investment property owned by the Group corresponded to the third level in the hierarchy of fair value.

(in thousands of Russian rubles, unless otherwise indicated)

24. Other assets

Other assets are as follows:

	December 31, 2018	December 31, 2017
Accrued commission income	704 686	279 439
Advances to suppliers and contractors	401 627	229 457
Unsettled transactions with plastic cards	254 884	33 205
Inventories	159 759	187 918
Taxes other than income tax	88 193	250 699
Prepaid expenses	7 405	18 011
Precious metals	-	15 858
Other financial assets	214 261	517 360
Other non-financial assets	79 301	42 316
Total other assets less provisions	**1 910 116**	**1 574 263**
Less provision for impairment losses	(519 849)	(846 871)
Total other assets	**1 390 267**	**727 392**

As at December 31, 2018 and December 31, 2017 other assets comprised financial assets less provision of RUB 886 667 thousand and RUB 167 607 thousand, respectively.

25. Due to banks and other financial institutions

Due to banks and other financial institutions comprise:

	December 31, 2018	December 31, 2017
Loans under repurchase agreements	5 314 703	-
Loans and term deposits from banks and other financial institutions	1 268 341	27 009
Correspondent accounts of other banks	1 166 825	1 227 983
Total due to banks and other financial institutions	**7 749 869**	**1 254 992**

As of December 31, 2018, securities measured at amortised cost of RUB 2 282 563 thousand (Note 18) and securities received from the state corporation Deposit Insurance Agency as a subordinated loan in the amount of RUB 3 538 731 thousand (Note 36) were transferred as collateral under repurchase agreements with banks.

(in thousands of Russian rubles, unless otherwise indicated)

26. Customer accounts

Customer accounts comprise:

	December 31, 2018	December 31, 2017
Term deposits	67 820 329	70 706 345
Current accounts	48 854 063	43 990 046
Total customer accounts	**116 674 392**	**114 696 391**

As at December 31, 2018 and December 31, 2017, customer accounts, individually exceeding 10% of the Group's capital, were received from 5 and 6 customers for a total of RUB 59 947 075 thousand (51% of total customer accounts) and RUB 47 419 796 thousand (41% of total customer accounts), respectively.

As at December 31, 2017, customer accounts included cash received by the Group as collateral for loans to customers of RUB 300 000 thousand.

	December 31, 2018	December 31, 2017
Economic sectors analysis:		
Individuals	73 259 128	71 990 432
Transport and communications	20 874 179	17 261 811
Financial sector	6 841 435	6 345 743
Trading	4 252 104	3 624 564
Real estate and construction	3 705 600	4 217 373
Industrial manufacturing	1 962 600	3 742 300
Medicine	1 816 741	2 507 967
Science and education	98 141	254 241
Oil and gas sector	17 000	13 548
Other	3 847 464	4 738 412
Total customer accounts	**116 674 392**	**114 696 391**

27. Debt securities issued

Debt securities issued comprise:

	Maturity month/ year	Annual interest rate, %	December 31, 2018	Maturity month/ year	Annual interest rate, %	December 31, 2017
Mortgage-Backed Securities	November 2041	10.5%	1 237 957	November 2041	10.5%	1 896 894
Promissory notes	July 2017 – March 2020	0.03%-7.78%	479 172	June 2017 – August 2018	1.5%-8.08%	176 761
Total debt securities issued			**1 717 129**			**2 073 655**

As at December 31, 2018 and December 31, 2017, mortgage-backed securities issued by the Group of RUB 1 237 957 thousand and RUB 1 896 894 thousand, respectively, were secured by mortgage loans to retail customers in the amount of RUB 1 160 958 thousand and RUB 1 776 401 thousand, respectively (Note 20), and by the funds in banks of RUB 189 059 thousand and RUB 233 526 thousand, respectively (Note 19).

(in thousands of Russian rubles, unless otherwise indicated)

28. Derivative financial instruments

The tables below show the fair values and nominal values of derivative financial instruments recorded as assets or liabilities. The nominal value shown on a gross basis represents the value to which the rate or index is applied, and serves as the basis for estimating changes in the value of derivatives. Nominal value refers to the amount for the deals that have not been settled by year-end and is not equal to the exposure to market or credit risk.

As at December 31, 2018 derivative financial instruments comprise:

	Nominal amount	Settlements	Fair value Asset	Fair value Liability
Derivative financial instruments:				
Options to buy/sell securities	3 556 714	December 2019	182 666	328 268
Forward foreign exchange contracts	2 053 809	March 2019	45 396	44 879
Total derivative financial instruments			**228 062**	**373 147**

As at December 31, 2017 derivative financial instruments comprise:

	Nominal amount	Settlements	Fair value Asset	Fair value Liability
Derivative financial instruments:				
Options to buy/sell securities	3 200 000	December 2018	244 519	42 854
Total derivative financial instruments			**244 519**	**42 854**

29. Other liabilities

Other liabilities consist of the following:

	December 31, 2018	December 31, 2017
Salaries and other compensations payable to employees	1 845 019	784 993
Trade payables	1 536 502	911 501
Taxes payable other than income tax	636 343	412 649
Provisions for guarantees issued and credit commitments (Note 32)	444 788	474 377
Deferred income	375 856	45 582
Provision for legal claims (Note 7)	167 630	285 311
Contributions to the State Deposit Insurance Agency	107 939	85 492
Other	207 395	175 002
Total other liabilities	**5 321 472**	**3 174 907**

As at December 31, 2018 and December 31, 2017 other liabilities comprised other financial liabilities of RUB 4 014 440 thousand and RUB 1 925 734 thousand, respectively.

As at December 31, 2018, share-based cash-settled payables of RUB 1 153 512 thousand are recorded within salaries and other compensations payable to employees (Note 13).

Information on the movement of provisions for legal claims and provisions for guarantees issued and loan commitments for the years ended December 31, 2018 and December 31, 2017 is presented in Notes 7 and 32.

(in thousands of Russian rubles, unless otherwise indicated)

30. Share capital

As at December 31, 2018 and December 31, 2017 the authorised share capital consisted of 20 807 780 ordinary shares of RUB 500 each and 1 000 preference shares of RUB 500 each.

All ordinary shares are of the same class and bear one vote.

In 2018, PJSC MTS Bank repurchased 55 303 ordinary shares and 400 preference shares. The amount of the repurchase totaled RUB 77 285 thousand.

The table below shows the change in the number of shares outstanding for the years ended December 31, 2018 and December 31, 2017:

	Number of preference shares	Number of ordinary shares
December 31, 2016	**1 000**	**20 807 780**
Issue of shares	-	-
December 31, 2017	**1 000**	**20 807 780**
Issue of shares	-	-
Purchase of own shares	(400)	(55 303)
December 31, 2018	**600**	**20 752 477**

As at December 31, 2018 and December 31, 2017, share premium totaling RUB 7 200 940 thousand and RUB 7 200 940 thousand, respectively, represents an excess of contributions received over the nominal value of shares issued.

In 2017 the Group transferred share premium in the amount of RUB 11 886 449 thousand to cover accumulated loss.

31. Transferred financial assets

The Group lends and sells securities under agreements to repurchase (repos) and borrows and purchases securities under agreements to resell (reverse repos).

The securities lent or sold under agreements to repurchase are transferred to a third party in exchange for cash or other financial assets. The Group retains substantially all the risks and rewards in respect of these securities, which include credit risk and market risk, and therefore does not derecognise them. In addition, the Group recognises a financial liability in respect of cash or other financial assets received.

The Group may sell or re-pledge securities borrowed or purchased under agreements to resell, but has an obligation to return the securities (in case of sale), and the counterparty retains substantially all the risks and rewards of ownership. Consequently, the securities are not recognised by the Group, which instead recognises a separate asset for the cash received or other financial assets.

Details of transferred financial assets that are not derecognised in their entirety as at December 31, 2018 are disclosed below:

	Debt securities measured at amortised cost (Note 18)
As at December 31, 2018	
Carrying amount of the assets	2 282 563
Carrying amount of associated liabilities (loans received under repurchase agreements, Note 19)	2 001 262

As at December 31, 2018 securities received as a subordinated loan from the Deposit Insurance Agency amounting to RUB 3 538 731 thousand were transferred as collateral for repurchase transactions. The carrying amount of related liabilities amounted to RUB 3 313 441 thousand (Note 25).

(in thousands of Russian rubles, unless otherwise indicated)

32. Commitments and contingencies

In the normal course of business, the Group becomes a party to financial instruments with off-balance sheet risk in order to meet the needs of its customers. These instruments, involving varying degrees of credit risk, are not reflected in the consolidated statement of financial position.

The maximum credit risk exposure of the Group under contingent financial liabilities and loan commitments is equivalent to the contractual value of these instruments.

The Group applies the same credit policy for financial contingent liabilities as it does for on-balance credit operations.

As at December 31, 2018 and December 31, 2017, contingent liabilities comprise:

	December 31, 2018	December 31, 2017 (restated)
Credit related contingent liabilities		
Commitments on loans	18 691 785	16 050 855
Guarantees issued	10 810 017	5 580 449
Total credit related contingent liabilities	**29 501 802**	**21 631 304**
Less provision	(444 788)	(474 377)
Total contingent financial liabilities	**29 057 014**	**21 156 927**

Information about the movement of the provision for loan commitments and guarantees issued for the year ended December 31, 2018 is presented below:

	Stage 1	Stage 2	Stage 3	Acquired or created credit impaired	Total
January 1, 2018	**304 873**	**85 817**	**270 910**	**-**	**661 600**
Transfer to Stage 2	(9 168)	9 168	-	-	-
Net change in provisions for impairments	(94 584)	(70 048)	(52 180)	-	(216 812)
December 31, 2018	**201 121**	**24 937**	**218 730**	**-**	**444 788**

Information about the movement of the provision for commitments on loans and guarantees issued for the year ended December 31, 2017 is presented in Note 7.

Information on the maximum amount of credit risk on guarantees issued and commitments on loans is presented below:

	Stage 1	Stage 2	Stage 3	Total
Commitments on loans	18 156 239	525 035	10 511	18 691 785
Guarantees issued	10 030 826	350 797	428 394	10 810 017
Less provision	(201 121)	(24 937)	(218 730)	(444 788)
December 31, 2018	**27 985 944**	**850 895**	**220 175**	**29 057 014**

Extension of loans to corporate customers within credit line limits is approved by the Group on a case-by-case basis and depends on borrowers' financial performance, debt service and other conditions. As at December 31, 2018 and December 31, 2017, such unused credit lines amounted to RUB 8 980 650 thousand and RUB 10 335 233 thousand, respectively.

As at December 31, 2018, the Group had commitments to extend retail loans at the points of sale of the Group's partners in retail lending of RUB 549 090 thousand. Under the terms of the contracts, the actual transfer of funds will take place after the reporting date.

32. Commitments and contingencies (continued)

The Group also provides depositary services to its customers. As at December 31, 2018 and December 31, 2017, the Group had 2 666 764 687 and 628 177 428 customer securities, respectively, in its nominal holder accounts.

Legal proceedings. In December 2018, the Group was sued for the recovery of RUB 1 057 449 thousand to the bankrupt assets of the borrower declared insolvent (bankrupt). At the issue date of these financial statements, the proceedings have not been completed. The determination of the probability of satisfying the claims set forth in the statement of claim is not possible. The management of the Group assesses the risk of adverse outcome in the lawsuit as "medium". As at December 31, 2018, no provision for possible losses was booked.

In respect of other claims against the Group received from customers and counterparties the management of the Group is of the opinion that no material losses will be incurred other than those that were provided for in these consolidated financial statements.

***Taxation*.** Major part of the Group's business activity is carried out in the Russian Federation. The Russian business legislation continues to be subject to rapid changes. Management's interpretation of such legislation as applied to the activity of the Company may be challenged by the relevant regional and federal authorities. Recent events suggest that the tax authorities are taking a more assertive position in their interpretation of the legislation. As a result, the existing tax calculation methods may be challenged by future tax audits. Generally, taxpayers are subject to tax audits with respect to the three calendar years preceding the year of the audit. Under certain circumstances reviews may cover longer periods. Based on their interpretation of the tax legislation, management of the Group believes that all of the applicable taxes have been assessed. However, the relevant authorities may have differing interpretations, and the effects on the financial statements could be significant.

In 2018, the Tax Code of the Russian Federation and certain laws were amended to provide for, among other things, an increase in the base VAT rate to 20%. The 20% rate applies to sales of goods, work and services and property rights effective January 1, 2019. As VAT is not charged on banking operations, management does not expect a significant impact on the consolidated financial statements of the Group, with the exception of a corresponding increase in costs when purchasing goods and paying for services.

Operating environment. The Russian Federation displays certain characteristics of an emerging market. Emerging markets such as Russia are subject to different risks than more developed markets, including economic, political and social, and legal and legislative risks. Laws and regulations affecting businesses in the RF may change rapidly and may be subject to arbitrary interpretations. To a large extent, the future economic trends in Russia depend on fiscal and monetary policies adopted by the government, as well as developments in the legal, regulatory, and political environment.

Given that Russia produces and exports large volumes of oil and gas, the Russian economy is particularly sensitive to the prices of oil and gas on the world market. Following high volatility in natural resources prices, the ruble exchange rate and interest rates in 2017 and 2018 have been relatively stable. Political tensions in the region and new packages of sanctions imposed by the US and the European Union against a number of Russian officials, businessmen and organisations continue to have a negative impact on the Russian economy. The above-mentioned events impeded access of Russian businesses to the international capital markets, led to the growth of inflation, economic slowdown and other negative economic consequences. At the present it is difficult to determine the influence of these changes in economic environment on future business results and financial position of the Group.

There has continued to be increased economic challenges to the Russian consumers and corporates, which have led to higher defaults in the retail and commercial banking sector. This operating environment has a significant impact on the Group's operations and financial position. Management is taking necessary measures to ensure sustainability of the Group's operations. However, the future effects of the current economic situation are difficult to predict and management's current expectations and estimates could significantly differ from actual results.

(in thousands of Russian rubles, unless otherwise indicated)

33. Related party transactions

Transactions between the Bank and its subsidiaries, which are related parties of the Bank, have been eliminated on consolidation and are not disclosed in this note. The Group had the following transactions outstanding with related parties as at December 31, 2018 and 2017:

	December 31, 2018		December 31, 2017	
	Related party transactions	**Total category as per the financial statements caption**	**Related party transactions**	**Total category as per the financial statements caption**
Investments in securities	337 485	53 001 366	1 352 554	52 813 208
- the parent	-		243 145	
- entities with joint control or significant influence over the Group	254 483		5 026	
- entities under common control with the Group	83 002		1 104 383	
Due from banks	110 076	4 392 829	-	6 484 497
- entities under common control with the Group	110 076		-	
Gross loans to customers	2 557 356	81 834 490	4 353 849	66 030 819
- entities under common control with the Group	2 446 507		4 295 479	
- key management personnel of the entity or its parent	110 849		58 370	
Provisions for impairment losses on loans to customers	(29 739)	(9 263 274)	(53 460)	(8 412 305)
- entities under common control with the Group	(27 346)		(53 343)	
- key management personnel of the entity or its parent	(2 393)		(117)	
Investments in a joint venture	690 102	690 102	-	-
- entities under common control with the Group	690 102		-	
Derivative financial instruments, net	(190 481)	(145 085)	201 665	201 665
- entities under common control with the Group	(190 481)		201 665	
Other assets	366 852	1 910 116	439 766	1 574 263
- the parent	29 455		-	
- entities with joint control or significant influence over the Group	5		11 003	
- entities under common control with the Group	328 798		428 763	
- other related parties	8 594		-	
Provision for impairment of other assets	-	(519 849)	(363 228)	(846 871)
- entities under common control with the Group	-		(363 228)	
Due to banks and other financial institutions	44 110	7 749 869	41 435	1 254 992
- entities under common control with the Group	44 110		41 435	

(in thousands of Russian rubles, unless otherwise indicated)

33. Related party transactions (continued)

	December 31, 2018		December 31, 2017	
	Related party transactions	Total category as per the financial statements caption	Related party transactions	Total category as per the financial statements caption
Customer accounts	59 019 685	116 674 392	59 804 416	114 696 391
- the parent	13 248 275		3 734 018	
- entities with joint control or significant influence over the Group	6 404 409		12 395 769	
- entities under common control with the Group	7 902 616		12 947 408	
- key management personnel of the entity or its parent	28 929 991		29 167 341	
- other related parties	2 534 394		1 559 880	
Debt securities issued	318 755	1 717 129	39 882	2 073 655
- entities under common control with the Group	318 755		39 882	
Other liabilities	1 673 512	5 321 472	884 082	3 174 907
- the parent	217 975		-	
- entities with joint control or significant influence over the Group	364		406 964	
- entities under common control with the Group	119 213		81 834	
- key management personnel of the entity or its parent	1 335 871		393 618	
- other related parties	89		1 666	
Commitments on loans	600 700	18 691 785	254 027	16 050 855
- entities with joint control or significant influence over the Group	-		30 000	
- entities under common control with the Group	600 700		224 027	
Guarantees issued	820 862	10 810 017	1 113 189	5 580 449
- entities under common control with the Group	779 693		751 233	
- other related parties	41 169		361 956	
Guarantees received	2 146 108	17 984 333	2 440 714	12 691 823
- entities under common control with the Group	2 146 108		2 440 714	

The parent company as at December 31, 2017 and for 2017 is PJSC AFK Sistema. The parent company as at December 31, 2018 is PJSC MTS (through its 100% subsidiary Mobile TeleSystems B.V.). From January 1 to July 4, 2018, the parent company was PJSC AFK Sistema. From July 5 to December 31, 2018, the parent company was PJSC MTS (Note 1).

As at December 31, 2018, the Group has investments in units of open-end bond funds recognised within securities at fair value through profit or loss of RUB 8 806 425 thousand (as at December 31, 2017: RUB 7 752 208 thousand). The funds are managed and controlled by a related party.

During 2018, the Group acquired real estate properties from a related party for use in operating activities. As at December 31, 2018, these properties were recognised at fair value of RUB 325 218 thousand.

(in thousands of Russian rubles, unless otherwise indicated)

33. Related party transactions (continued)

The remuneration of directors and other members of key management was as follows:

	2018		2017	
	Related party transactions	**Total category as per the financial statements caption**	**Related party transactions**	**Total category as per the financial statements caption**
Key management compensation:	1 629 532	5 198 710	555 762	3 984 800
- short-term compensation	463 297		393 784	
- long-term compensation	1 166 235		161 978	

Included in the statement of profit and loss for the years ended December 31, 2018 and 2017 are the following amounts, which arose due to transactions with related parties:

	2018		2017	
	Related party transactions	**Total category as per the financial statements caption**	**Related party transactions**	**Total category as per the financial statements caption**
Continuing operations				
Interest income	440 762	15 867 721	483 450	14 030 724
- the parent	12 174		24 552	
- entities with joint control or significant influence over the Group	55 250		647	
- entities under common control with the Group	368 923		443 912	
- key management personnel of the entity or its parent	4 415		4 310	
- other related parties	-		10 029	
Interest expense	(3 193 066)	(6 235 698)	(3 165 153)	(6 443 992)
- the parent	(411 771)		(137 375)	
- entities with joint control or significant influence over the Group	(691 650)		(333 482)	
- entities under common control with the Group	(380 780)		(505 474)	
- key management personnel of the entity or its parent	(1 627 062)		(2 086 980)	
- other related parties	(81 803)		(101 842)	
Recovery of provision/(provision) for impairment losses on interest-bearing assets	23 526	(2 227 265)	130 500	(677 325)
- entities with joint control or significant influence over the Group	-		-	
- entities under common control with the Group	25 802		130 617	
- key management personnel of the entity or its parent	(2 276)		(117)	
- other related parties	-		-	
Net (loss)/gain on operations with derivative financial instruments	(754 145)	(455 955)	70 035	354 135
- the parent	(300 749)		-	
- entities under common control with the Group	(453 396)		70 035	

(in thousands of Russian rubles, unless otherwise indicated)

33. Related party transactions (continued)

	2018		2017	
	Related party transactions	**Total category as per the financial statements caption**	**Related party transactions**	**Total category as per the financial statements caption**
Net gains from operations with securities at fair value through profit or loss	113 720	976 543	-	69 517
- the parent	113 720		-	
Net (loss)/gain on foreign exchange operations	419 688	(58 954)	125 536	(656 511)
- the parent	443 436		180 016	
- entities with joint control or significant influence over the Group	(49 408)		(30 691)	
- entities under common control with the Group	25 162		(24 958)	
- other related parties	498		1 169	
Net loss recognised on disposal of subsidiaries	(15 261)	(15 261)	-	-
- entities under common control with the Group	(15 261)		-	
Fee and commission income	616 267	6 545 476	556 090	4 339 097
- the parent	162 222		6 275	
- entities with joint control or significant influence over the Group	109 312		204 140	
- entities under common control with the Group	335 862		334 217	
- key management personnel of the entity or its parent	2 837		3 805	
- other related parties	6 034		7 653	
Fee and commission expense	(1 495 852)	(4 526 822)	(872 470)	(2 960 251)
- the parent	(621 048)		-	
- entities with joint control or significant influence over the Group	(462 397)		(478 866)	
- entities under common control with the Group	(411 958)		(393 604)	
- other related parties	(449)			
Provision for losses on other transactions	(399)	9 603	-	(474 488)
- entities under common control with the Group	(588)		-	
- other related parties	189		-	
Other income	90 308	1 194 582	18 511	469 834
- the parent	1 906		15	
- entities with joint control or significant influence over the Group	1 974		3 956	
- entities under common control with the Group	29 532		12 782	
- key management personnel of the entity or its parent	55 058		1 028	
- other related parties	1 838		730	
Operating expense (net of staff cost)	(1 032 686)	(4 359 707)	(634 131)	(3 468 114)
- the parent	(495 335)		-	
- entities with joint control or significant influence over the Group	(379 560)		(517 929)	
- entities under common control with the Group	(111 757)		(116 202)	
- other related parties	(46 034)			
Discontinued operations				
(Loss)/profit from discontinued operations (Note 15)	-	-	(50 466)	(66 203)
- the parent	-		(50 466)	

34. Segment reporting

The Group separates operating segments based on its organisational structure. Operating segments are presented on the basis of management accounting records provided to the chief operating decision maker, Chairman of the Management Board. The segments whose revenue, financial result or assets are 10% or more of all the segments, are reported separately.

For management purposes, the Group is divided into the following operating segments:

- **Retail banking** – full range of banking services to mass, affluent and wealthy individuals, including customer current accounts, savings, deposits, investment savings products, custody, credit and debit cards, consumer loans and mortgages.
- **Corporate banking** – full range of banking services provided to large corporate customers, including, among others, direct debt facilities, current accounts, deposits, overdrafts, loan and other credit facilities and a variety of settlement and transactional services.
- **Investment banking** – comprises interbank lending and borrowings from banks, securities trading and brokerage in securities, repo transactions, foreign exchange services, issuance of domestic bonds and promissory notes, treasury functions.
- **Small and medium business (SMB)** – banking services provided to small and medium businesses and individual entrepreneurs, including direct debt facilities, current accounts, deposits, overdrafts, loan and other credit facilities and settlement and transaction services.
- **Other** – balances and/or income and expense items not allocated to any of the Group's business segments in the internal management reporting systems, as they are not initiated by any of the business units and represent part of the Group's routine headquarter activities.

Management reviews the results of each of the segments when making decisions about allocation of resources and assessing their performance.

(in thousands of Russian rubles, unless otherwise indicated)

34. Segment reporting (continued)

Segment information about these businesses comprises:

	Retail banking	Corporate banking	Investment banking	SMB	Other	2018
Interest income	8 510 681	2 620 228	4 531 972	204 840	-	15 867 721
Interest expense	(3 927 517)	(1 984 433)	(290 228)	(33 520)	-	(6 235 698)
Cross-segment revenue/(expenses)	1 891 703	302 288	(2 454 537)	260 546	-	-
Net interest income before provision for impairment losses on interest-bearing assets	**6 474 867**	**938 083**	**1 787 207**	**431 866**	**-**	**9 632 023**
(Provision)/recovery of provision for impairment losses on interest bearing assets	(1 875 488)	(412 750)	24 932	36 041	-	(2 227 265)
Net interest income	**4 599 379**	**525 333**	**1 812 139**	**467 907**	**-**	**7 404 758**
Net gains from operations with securities at fair value through profit or loss	-	-	976 543	-	-	976 543
Net loss on operations with derivative financial instruments	-	-	(455 955)	-	-	(455 955)
Net gain/(loss) from on foreign exchange operations	52 218	30 310	(155 146)	13 664	-	(58 954)
Fee and commission income	5 534 184	599 238	35 848	376 206	-	6 545 476
Fee and commission expense	(4 104 650)	(233 954)	(96 773)	(56)	(91 389)	(4 526 822)
Net loss recognised on disposal of subsidiaries	-	-	-	-	(15 261)	(15 261)
(Provision)/recovery of provision for losses on other transactions	(134 676)	262 087	-	(3 712)	(114 096)	9 603
Changes in fair value of investment property	38 801	(361 737)	-	-	(59 500)	(382 436)
Net loss on disposal of investment property	(59 277)	(63 369)	-	-	-	(122 646)
Revaluation of property and equipment	-	-	-	-	(7 688)	(7 688)
Other income	367 784	132 249	1 344	6 403	686 802	1 194 582
NET NON-INTEREST INCOME	**1 694 384**	**364 824**	**305 861**	**392 505**	**398 868**	**3 156 442**
OPERATING INCOME	**6 293 763**	**890 157**	**2 118 000**	**860 412**	**398 868**	**10 561 200**
OPERATING EXPENSE	(5 869 932)	(1 023 823)	(311 446)	(589 700)	(1 763 516)	(9 558 417)
PROFIT/(LOSS) BEFORE INCOME TAX	**423 831**	**(133 666)**	**1 806 554**	**270 712**	**(1 364 648)**	**1 002 783**
Income tax expense	-	-	-	-	(388 456)	(388 456)
NET PROFIT/(LOSS)	**423 831**	**(133 666)**	**1 806 554**	**270 712**	**(1 753 104)**	**614 327**
Depreciation of property and equipment and amortisation of intangible assets	510 418	52 678	11 019	72 443	-	646 558
TOTAL ASSETS	**47 535 872**	**23 542 412**	**65 332 217**	**1 492 932**	**13 399 058**	**151 302 491**
TOTAL LIABILITIES	**(72 613 603)**	**(40 225 322)**	**(10 233 685)**	**(4 280 256)**	**(4 876 684)**	**(132 229 550)**

(in thousands of Russian rubles, unless otherwise indicated)

34. Segment reporting (continued)

	Retail banking	Corporate banking	Investment banking	Small business	Other	2017
Interest income	7 179 863	2 694 737	3 910 232	245 892	-	14 030 724
Interest expense	(4 606 434)	(1 392 623)	(395 647)	(49 288)	-	(6 443 992)
Cross-segment revenue/(expenses)	2 709 924	(268 577)	(2 666 535)	225 188	-	-
Net interest income before provision for impairment losses on interest-bearing assets	**5 283 353**	**1 033 537**	**848 050**	**421 792**	**-**	**7 586 732**
(Provision)/recovery of provision for impairment losses on interest bearing assets	(1 500 480)	600 430	5 850	216 875	-	(677 325)
Net interest income	**3 782 873**	**1 633 967**	**853 900**	**638 667**	**-**	**6 909 407**
Net gains from operations with securities at fair value through profit or loss	-	-	69 517	-	-	69 517
Net gain on operations with derivative financial instruments	-	-	354 135	-	-	354 135
Net gain/(loss) on foreign exchange operations	55 103	40 604	(759 749)	7 531	-	(656 511)
Fee and commission income	3 416 765	558 577	36 185	327 558	12	4 339 097
Fee and commission expense	(2 599 340)	(187 587)	(93 591)	-	(79 733)	(2 960 251)
Net gain on available-for-sale financial assets	-	-	1 324	-	-	1 324
Provision for impairment losses on other transactions	(81 009)	(62 962)	-	-	(330 517)	(474 488)
Changes in fair value of investment property	(49 752)	(154 427)	-	-	-	(204 179)
Net loss on disposal of investment property	(13 192)	(60 495)	-	-	(16 110)	(89 797)
Revaluation of property and equipment	-	-	-	-	(30 118)	(30 118)
Other income	275 836	12 000	907	17 010	164 081	469 834
NET NON-INTEREST INCOME/(EXPENSE)	**1 004 411**	**145 710**	**(391 272)**	**352 099**	**(292 385)**	**818 563**
OPERATING INCOME/(EXPENSE)	**4 787 284**	**1 779 677**	**462 628**	**990 766**	**(292 385)**	**7 727 970**
OPERATING EXPENSE	(5 087 873)	(886 143)	(287 999)	(500 899)	(690 000)	(7 452 914)
(LOSS)/PROFIT BEFORE TAX	**(300 589)**	**893 534**	**174 629**	**489 867**	**(982 385)**	**275 056**
Income tax expense	-	-	-	-	(183 532)	(183 532)
NET (LOSS)/PROFIT	**(300 589)**	**893 534**	**174 629**	**489 867**	**(1 165 917)**	**91 524**
Depreciation of property and equipment and amortisation of intangible assets	416 300	42 021	7 221	58 209	-	523 751
TOTAL ASSETS	**33 754 935**	**22 061 084**	**73 026 418**	**1 766 288**	**11 843 351**	**142 452 076**
TOTAL LIABILITIES	**(71 665 794)**	**(39 188 514)**	**(3 371 502)**	**(4 280 256)**	**(2 720 100)**	**(121 226 166)**

The Group performs its continuing operations in the Russian Federation. Revenue received from non-resident counterparties constitutes an insignificant part of the Group's total revenue from continuing operations. After the sale of EWUB in 2017, all non-current assets of the Group are located in the Russian Federation.

(in thousands of Russian rubles, unless otherwise indicated)

35. Fair value of financial instruments

Fair value is defined as 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 following tables provide an analysis of financial assets and financial liabilities that are measured on a recurring basis at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable as at December 31, 2018 and December 31, 2017.

	Level 1	Level 2	Level 3	December 31, 2018
Financial assets				
Debt securities at fair value through profit and loss	13 680 312	-	-	**13 680 312**
Equity securities at fair value through profit and loss	-	8 806 425		**8 806 425**
Derivative financial instruments	-	228 062	-	**228 062**
Financial liabilities				
Derivative financial instruments	-	373 147	-	**373 147**

	Level 1	Level 2	Level 3	December 31, 2017
Financial assets				
Debt securities at fair value through profit and loss	16 246 713	-	-	**16 246 713**
Equity securities at fair value through profit and loss	-	3 054 164	-	**3 054 164**
Available-for-sale securities	357 121	4 698 044	1 104 383	**6 159 548**
Derivative financial instruments	-	244 519	-	**244 519**
Financial liabilities				
Derivative financial instruments	-	42 854	-	**42 854**

Excluded from the tables above were investments in equity securities of unlisted entities classified as available-for-sale securities. The fair value of such securities can not be measured reliably; therefore, such investments are stated at cost. As at December 31, 2017 the carrying amount of such investments amounted to RUB 6 696 thousand.

The description of valuation techniques and the description of the inputs used in the fair value measurement for financial instruments grouped into Level 2 at December 31, 2018 and December 31, 2017 are as follows:

	December 31, 2018 Fair value		Methodology estimations	Key initial data
	Assets	Liabilities		
Units of investment funds	8 806 425	-	Net fund asset value	Market quotes for instruments comprising fund assets
Options	228 062	373 147	Black-Scholes option pricing model	Expected volatility of the underlying asset
Total recurring fair value measurements at level 2	**9 034 487**	**373 147**		

(in thousands of Russian rubles, unless otherwise indicated)

35. Fair value of financial instruments (continued)

	December 31, 2017			
	Fair value		Methodology	Key initial
	Assets	Liabilities	estimations	data
Units of investment funds	7 752 208	-	Net fund asset value	Market quotes for instruments comprising fund assets
Options	244 519	42 854	Black-Scholes option pricing model	Expected volatility of the underlying asset
Total recurring fair value measurements at level 2	**7 996 727**	**42 854**		

As at December 31, 2017, equity securities measured at fair value through profit and loss (previously classified as available-for-sale securities) included in level 3 of the hierarchy, in the amount of RUB 1 104 383 thousand are the investments in EWUB shares. The fair value of investments was determined by an independent appraiser based on the analysis of EWUB's net assets value.

The fair values of financial assets and financial liabilities are determined as follows:

- The fair values of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices.
- Unquoted equities and debt securities classified as available-for-sale are valued using models that use both observable and unobservable data. The non-observable inputs to the models include assumptions regarding the future financial performance of the issuer, its risk profile, and economic assumptions regarding the industry and geographical jurisdiction in which the issuer operates.
- As there is no active secondary market in Russia (due from banks, loans to customers, deposits by banks and customers, promissory notes issued, subordinated debt, other borrowings and other financial assets and liabilities), there is no reliable market value available for this portfolio.
- For financial assets and liabilities that have a short term maturity (less than 3 months), it is assumed that the carrying amounts approximate to their fair value. This assumption is also applied to demand deposits and savings accounts without a maturity.
- Loans to customers have both variable and fixed interest rates. Due to the absence of an active secondary market for such loans and funds in the Russian Federation, their fair value cannot be measured reliably. The fair value of floating rate instruments is normally their carrying amount. Due to significant changes in market situation interest rates for loans and advances to customers and due from banks issued at fixed interest rates can be revised. Therefore interest rates for loans issued just before the reporting date do not differ significantly from interest rates for new credit instruments with similar credit risk and remaining maturity.
  If under the Group assessment interest rates for the loans issued before the reporting date differ significantly from current interest rates for similar credit instruments the fair value for these loans is estimated. The estimation is based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity. Discount rates used depend on currency, maturity of the instrument and credit risk of the counterparty.
- Liabilities carried at amortised cost. The fair value is based on quoted market prices, if available. The estimated fair value of fixed interest rate instruments with stated maturity, for which a quoted market price is not available, was estimated based on expected cash flows discounted at current interest rates for new instruments with similar credit risk and remaining maturity. The fair value of liabilities repayable on demand or after a notice period ("demandable liabilities") is estimated as the amount payable on demand, discounted from the first date that the amount could be required to be paid. Discount rates used were consistent with the Group's credit risk and also depend on currency and maturity of the instrument.
- The fair value of derivative instruments are based on discounted cash flow analysis, Black-Scholes option pricing model, other valuation methods and performed using the management's best estimates and applicable interest rates.

(in thousands of Russian rubles, unless otherwise indicated)

35. Fair value of financial instruments (continued)

Except as detailed in the following table, the management consider that the carrying amounts of financial assets and financial liabilities recognised in the consolidated statement of financial position and not measured at fair value on a recurring basis approximate their fair value.

	December 31, 2018		December 31, 2017	
	The carrying amount	**Fair value**	**Carrying amount**	**Fair value**
Financial assets				
Due from banks	4 392 829	4 392 829	6 484 497	6 484 497
Loans to customers	72 571 216	74 973 306	57 618 514	59 552 111
Securities at amortised cost	30 514 629	30 367 718	27 346 087	27 736 930
Financial liabilities				
Due to banks and other financial institutions	7 749 869	7 749 869	1 254 992	1 254 992
Customer accounts	116 674 392	116 635 779	114 696 391	114 718 470
Debt securities issued	1 717 129	1 725 151	2 073 655	2 134 968

The following tables provide an analysis of the fair value of financial instruments which differs from their carrying amount as at December 31, 2018 and 2017. There were no transfers between Levels during 2018 and 2017.

	Level 1	Level 2	Level 3	December 31, 2018
Financial assets				
Loans to customers	-	-	74 973 306	**74 973 306**
Debt securities measured at amortised cost	30 367 718	-	-	**30 367 718**
Financial liabilities				
Customer accounts	-	-	116 635 779	**116 635 779**
Debt securities issued	382 435	1 342 716	-	**1 725 151**

	Level 1	Level 2	Level 3	December 31, 2017
Financial assets				
Loans to customers	-	-	59 552 111	**59 552 111**
Debt securities measured at amortised cost	27 736 930	-	-	**27 736 930**
Financial liabilities				
Customer accounts	-	-	114 718 470	**114 718 470**
Debt securities issued	1 072 688	1 062 280	-	**2 134 968**

36. Capital management

The Group manages its capital in order to achieve the following objectives: (i) comply with capital requirements set by the Central Bank of RF (the CBR) and Basel recommendations; (ii) ensure that all entities in the Group are able to continue as a going concern.

The capital structure of the Group consists of debt, which includes subordinated debt, equity attributable to owners of the parent, comprising issued share capital, reserves and retained earnings as disclosed in the statement of changes in equity.

The Group’s overall capital risk management policy remains unchanged from 2017.

(in thousands of Russian rubles, unless otherwise indicated)

36. Capital management (continued)

The CBR requires that the banks comply with the minimum capital adequacy ratios of 8% calculated on the basis of the statutory financial statements of the banks. During the years ended September 30, 2018 and December 31, 2017 the Bank met the capital adequacy requirements established by the CBR. As at September 30, 2018 and December 31, 2017, the Bank's capital adequacy ratio in accordance with the CBR requirements was 11.9% and 14.9% respectively.

The table below presents the analysis of the sources of the Group's capital:

	December 31, 2018	December 31, 2017
Tier 1 capital		
Share capital	10 882 298	10 882 298
Treasury shares	(77 285)	-
Share premium	7 200 940	7 200 940
Retained earnings	1 005 421	2 472 303
Total Tier 1 capital (principal capital)	**19 011 374**	**20 555 541**
Tier 2 capital		
Investments available-for-sale revaluation reserve	-	614 370
Revaluation reserve for property and equipment	61 567	55 999
Subordinated loans	7 246 000	7 246 000
Total Tier 2 capital	**7 307 567**	**7 916 369**
Total equity	**26 318 941**	**28 471 910**

In November 2015, the Bank received a subordinated debt of RUB 7 246 000 thousand in the form of Federal Loan Bonds (OFZ) from the state corporation Deposit Insurance Agency (DIA). In accordance with the contract, the Bank should return the securities to the creditor at the end of the contract period. The Bank pays interest on the principal amount in the amount of comprehensive coupon income on OFZ plus fixed interest rate. In accordance with the contract in the reporting period, the Bank should have complied with certain covenants with respect to capital, loan portfolio, employee benefits. If the above conditions are not met, DIA may apply penalties to the Bank. The contract also includes certain restrictions on sale or repledge of the securities by the Bank. The transaction represents a securities lending transaction. The Group does not recognise the received securities and subordinated obligation to return them to the creditor in the consolidated statement of financial position of the Group. The obligation to return the securities received from DIA is subordinated with respect to other liabilities of the Group. The debt conditions meet the criteria for inclusion of the loan in Tier 2 capital in the amount limited to 50% of Tier 1 capital.

As at December 31, 2018 and December 31, 2017, the Group included in the computation of Tier 2 capital for Capital adequacy purposes the subordinated debts received, limited to 50% of Tier 1 capital. In the event of bankruptcy or liquidation of the Group, repayment of this debt is subordinate to the repayments of the Group's liabilities to all other creditors.

37. Risk management policies

Management of risk is fundamental to banking business and is an essential element of the Group's operations. The main risks inherent to the Group's operations: credit risk, liquidity risk, market risk.

The Group recognises that it is essential to have efficient and effective risk management processes in place. To enable this, the Group has established a risk management framework aimed to protect the Group from risk and allow it to achieve its performance objectives. Through the risk management framework, the Group manages the following risks.

37. Risk management policies (continued)

Credit risk. The Group takes on exposure to credit risk which is the risk that a counterparty will be unable to pay amounts in full when due. The Group controls the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to geographical and industry segments. Such risks are monitored on an ongoing basis and subject to an annual or more frequent review. Limits on the level of credit risk by product, borrower, group of borrowers and industry sector, including banks and brokers are described in the Credit Policies, which are approved by Management Boards, and are reviewed, on a regular basis. The credit risk exposure is monitored on a regular basis to ensure that the credit limits and credit worthiness guidelines established by the Group's risk management policy are not breached.

The Group monitors its loan portfolio on a regular basis. As well as ensuring that the borrower fulfills its obligations under each loan, the Group regularly reviews all of the available information on the borrower's activities. In particular, the Group obtains and analyses financial reports on a quarterly basis, regularly monitors the value of the underlying collateral for each loan. In relation to its loan portfolio, the Group also monitors the level of non-performing loans and the concentration of the loan portfolio per borrower, group of borrowers or industry.

The Group's maximum exposure to credit loss under contingent liabilities and commitments to extend credit, in the event of non-performance by the other party where all counterclaims, collateral or security prove valueless, is represented by the contractual amounts of those instruments.

The Group uses the same credit control and management policies in undertaking off-balance sheet commitments as it does for on-balance operations.
The Group has established a department that performs valuation and monitoring of collateral. When evaluating collateral, the Group adjusts the market value of the assets and the potential costs of sale.

***Significant increase in credit risk*.** As explained in Note 3 the Group monitors all financial assets that are subject to impairment requirements to assess whether there has been a significant increase in credit risk since initial recognition. If there has been a significant increase in credit risk the Group will measure the loss provision based on lifetime rather than 12-month ECL.

Internal ratings and credit risk categories. The Group uses a credit rating system to assess the level of credit risk for borrowers belonging to the corporate business segment and assessed on an individual basis. A credit rating is assigned based on the analysis of quantitative (debt load, profitability, liquidity and business activity) and qualitative (business experience, industry, region, size, credit history, cooperation experience with the Bank, etc.) borrowers' indicators. The rating scale includes 21 credit ratings ("CR"), which are further grouped for the purposes of credit risk management into the following categories of loan quality:

- Current loans – CR from 1 to 11 (correspond to the risk appetite of the Group);
- Loans requiring monitoring – CR from 12 to 20;
- Default loans – CP 21 (a problem asset with a 100% level of probability of default).

Loans to individuals assessed by the Group on an individual basis are grouped for the purposes of credit risk management into the following loan quality categories:

- Current loans – not overdue loans and loans overdue for less than 30 days with a low level of risk;
- Loans requiring monitoring – non-overdue loans issued in foreign currency; non-overdue restructured loans (amicable agreements); loans overdue from 30 to 90 days, and non-overdue loans of average credit quality;
- Default loans – loans that are overdue for more than 90 days, or that were defaulted.

Use of forecast information. While determining the probability of default (PD) and the size of expected credit losses, the Bank uses forecast information taking into account macroeconomic forecasts.

Loans to individuals and small businesses. While determining the expected credit losses on loans to individuals and loans to small and medium businesses, the Bank uses migration matrices for each product group. Intervals of days of delay (up to 30 days) and contracts without delay are the basis for the formation of migration matrices.

(in thousands of Russian rubles, unless otherwise indicated)

37. Risk management policies (continued)

To predict the likelihood of the loan transfers from the non-overdue state to the 1-30 days overdue interval (FER), the bank also uses a scoring model that takes into account the impact of macroeconomic indicators (GDP, inflation, currency exchange, etc.). The scoring model predicts the future value of FER using actual data of macroeconomic indicators and FER for the previous periods, between which dependencies are built based on econometric analysis. The scoring model is a statistical model built on the basis of the linear regression, using transformed macroeconomic indicators (GDP, inflation, exchange rates, etc.) to build it. The FER obtained as a result of the formation of migration matrices for each product group is adjusted by 10% modulus deviation, taking into account the received FER based on the scoring model.

Loans to corporate borrowers. The bank uses the PD values calculated by the model developed by an external consultant to calculate the probability of default of the companies in the corporate segment). The baseline values established by the Rosstat, Bank of Russia, Oxford Economics scenarios are used as forecast macroeconomic indicators.

Base scenario. The base scenario is based on the value of macroeconomic indicators presented in the base scenario of the Central Bank. If a range of values was presented as an estimate of the base scenario for this indicator, the arithmetic average of the two ends of this range was used for the calculation.

Negative scenario. Negative scenario is based on the value of macroeconomic indicators presented in the base scenario of the Central Bank forecast taking into account the worst variant. That is, if a range of values was presented as an estimate of the base scenario for this indicator, then the indicator value that is the most conservative for this range was used to calculate each of the indicators.

Alternative scenario. Alternative scenario is based on the value of macroeconomic indicators presented in the base scenario of the Central Bank forecast. If a range of values was presented as an estimate of the alternative scenario for this indicator, the arithmetic average of the two ends of this range was used for the calculation.

Foreign scenario. The foreign scenario is based on the value of macroeconomic indicators presented in the scenario of "Oxford Economics" macroeconomic forecast.

In accordance with the requirements of IFRS 9, the Bank calculates a weighted forecast of the probability of default, taking into account various scenarios of the PD "PIT" forecast with the following weights (the distribution of weights is updated by the Bank on the annual basis):

- Weight for the base forecast PD: 30%;
- Weight for the foreign (base) forecast PD: 30%;
- Weight for the negative scenario PD: 20%;
- Weight for the alternative scenario PD: 20%.

The model of the external consultant uses the "Forecast of real GDP growth" indicator as a macro-parameter, which takes into account the level of GDP and inflation. The values of this parameter for the next 3 years are presented below:

		Real GDP growth forecast quarterly			
Year	**Quarter**	**Base**	**Negative**	**Alternative**	**Foreign**
2019	1	1.78%	1.28%	2.08%	2.05%
2019	2	0.83%	0.33%	1.13%	0.87%
2019	3	1.59%	1.56%	1.89%	1.15%
2019	4	1.59%	1.56%	1.89%	1.38%
2020	1	2.05%	1.80%	2.05%	1.27%
2020	2	2.05%	1.80%	2.05%	1.21%
2020	3	2.05%	1.80%	2.05%	1.19%
2020	4	2.05%	1.80%	2.05%	1.20%
2021	1	2.50%	2.00%	2.50%	1.20%
2021	2	2.50%	2.00%	2.50%	1.20%
2021	3	2.50%	2.00%	2.50%	1.20%
2021	4	2.50%	2.00%	2.50%	1.21%

(in thousands of Russian rubles, unless otherwise indicated)

37. Risk management policies (continued)

***Maximum exposure of credit risk*.** The Group's maximum credit risk exposure may vary significantly depending on the individual risks inherent in specific assets and overall market risks.

The following table presents the maximum exposure to credit risk of balance sheet and off balance sheet financial assets. For financial assets the maximum exposure equals to a carrying value of those assets prior to any offset or collateral. For financial guarantees and other off-balance sheet contingent liabilities the maximum exposure to credit risk is the maximum amount the Group would have to pay if the guarantee was called on or in the case of commitments, if the loan amount was called on.

	Stage 1	Stage 2	Stage 3	Acquired or created credit impaired	Total	Collateral pledged
Balances with the Central Bank of RF	4 877 320	-	-	-	4 877 320	-
Due from banks	4 392 829	-	-	-	4 392 829	367 218
Debt securities measured at amortised cost	30 514 629	-	-	-	30 514 629	-
Loans to customers	67 228 990	3 935 114	1 401 652	5 460	72 571 216	29 073 630
Other financial assets	-	886 667	-	-	886 667	-
Guarantees issued	10 025 958	350 797	209 664	-	10 586 419	374 971
Commitments on loans	17 959 986	500 098	10 511	-	18 470 595	-

Collateral for due from banks (Note 19), and collateral for loans to customers is stated at minimum of fair value of collateral and carrying amount of loans (Note 20).

The banking industry is generally exposed to credit risk through its loans to customers and interbank deposits. With regard to the loans to customers, this risk exposure is concentrated within the Russian Federation. The exposure is monitored on a regular basis to ensure that the credit limits and credit worthiness guidelines established by the Group's risk management policy are not breached.

***Geographical concentration*.** The Assets and Liabilities Management Committee ("ALMC") exercises control over the risk in the legislation and regulatory arena and assesses its influence on the Group's activity. This approach allows the Group to minimise potential losses from the investment climate fluctuations in the RF.

The geographical concentration of assets and liabilities is set out below as at December 31, 2018 and 2017:

	Russian Federation	Non-OECD countries	OECD countries	December 31, 2018
FINANCIAL ASSETS				
Cash and balances with the Central Bank	8 685 806	-	-	8 685 806
Investments in securities	51 689 782	-	1 311 584	53 001 366
Due from banks	1 748 064	95 584	2 549 181	4 392 829
Loans to customers	72 533 919	37 297	-	72 571 216
Investments in a joint venture	690 102	-	-	690 102
Derivative financial instruments	228 062	-	-	228 062
Other financial assets	886 667	-	-	886 667
TOTAL FINANCIAL ASSETS	**136 462 402**	**132 881**	**3 860 765**	**140 456 048**
FINANCIAL LIABILITIES				
Due to banks and other financial institutions	7 705 744	6	44 119	7 749 869
Customer accounts	115 713 951	784 243	176 198	116 674 392
Debt securities issued	1 717 129	-	-	1 717 129
Derivative financial instruments	373 147	-	-	373 147
Obligations on securities return	393 541	-	-	393 541
Other financial liabilities	4 014 440	-	-	4 014 440
TOTAL FINANCIAL LIABILITIES	**129 917 952**	**784 249**	**220 317**	**130 922 518**

(in thousands of Russian rubles, unless otherwise indicated)

37. Risk management policies (continued)

	Russian Federation	Non-OECD countries	OECD countries	December 31, 2017
FINANCIAL ASSETS				
Cash and balances with the Central Bank	14 358 077	-	-	14 358 077
Investments in securities	52 813 208	-	-	52 813 208
Due from banks	3 623 604	135 391	2 725 502	6 484 497
Loans to customers	57 589 679	28 728	107	57 618 514
Derivative financial instruments	244 519	-	-	244 519
Other financial assets	167 607	-	-	167 607
TOTAL FINANCIAL ASSETS	**128 796 694**	**164 119**	**2 725 609**	**131 686 422**
FINANCIAL LIABILITIES				
Due to banks and other financial institutions	1 209 332	2 131	43 529	1 254 992
Customer accounts	113 937 964	654 588	103 839	114 696 391
Debt securities issued	2 073 655	-	-	2 073 655
Derivative financial instruments	42 854	-	-	42 854
Obligations on securities return	-	-	-	-
Other financial liabilities	1 925 734	-	-	1 925 734
TOTAL FINANCIAL LIABILITIES	**119 189 539**	**656 719**	**147 368**	**119 993 626**

Liquidity risk. Liquidity risk refers to the availability of sufficient funds to meet deposit withdrawals and other financial commitments associated with financial instruments as they actually fall due.

The ALMC controls these types of risks by means of maturity analysis, determining the Group's strategy for the next financial period. Current liquidity is managed by the Treasury Department, which deals in the money markets for current liquidity support and cash flow optimisation.

In order to manage liquidity risk, the Group performs daily monitoring of future expected cash flows on clients' and banking operations, which is a part of assets/liabilities management process.

Analysis of cash flow forecasts is the key tool used by the Group to monitor liquidity risk. Cash flow forecasts contain a detailed breakdown by maturity of all assets and liabilities based on agreements and commitments entered into by the Group. In order to better manage liquidity, the Group regularly requests from its major corporate customers a schedule of upcoming changes in their deposit and loan balances.

The Group aims to match the terms of loans and deposits. A daily analysis of mismatch between assets and liabilities is performed to monitor liquidity. A maximum gap is set and monitored for a liquidity deficit. In order to manage liquidity, the Group calculates the expected liquidity surplus/shortage for different periods of time, both on the basis of contractual terms of assets and liabilities and cash flow forecasts in the context of ordinary business activity. This approach assumes that customer behavior is consistent with the trends prevailing in the previous period, including the absence of extraordinary withdrawals of deposits and significant credit losses.

Stress testing is also carried out regularly based on the three hypothetical scenarios. The use of these scenarios provides the opportunity to analyse the impact of a combination of negative factors on the Group's liquidity position including the assessment of the survival period of the Group. The resulting assessment of the survival period is then compared to the minimum limits set by the internal regulations.

The following tables, based on the information provided to the management of the Group, reflect the structure of assets and liabilities in accordance with the contractual maturity, with the exception of trading securities at fair value through profit or loss (classified as up to 1 month) and cash placed in the Central Bank of the Russian Federation as obligatory reserve deposits (FOR). Obligatory reserve deposits are allocated by age pro rate to customer accounts.

(in thousands of Russian rubles, unless otherwise indicated)

37. Risk management policies (continued)

At the same time, the Group considers stable sources of financing as:

- OFZ loans received from the Deposit Insurance Agency, reflected on off-balance accounts, but recorded in the report as stable sources of financing with a maturity of up to 1 month (15% discount from the current market price was also applied to them);
- Investments into debt securities measured at amortised cost. Investments included in the CBR Lombard List, are adjusted for the 15% discount and charged for up to 1 month as stable sources of financing;
- Time deposits of individuals: part of the amounts of planned withdrawal of deposits is reflected in the article of stable sources of financing, as the Bank expects that they will be prolonged or replaced. Share is determined in accordance with a conservative estimate based on scenario modeling, and does not contradict historical statistics;
- Stable balances on customer accounts. Conservative estimate of customer accounts' stability was used to group customer balances into periods up to 1 year. The estimate is based on historical statistics of account behavior, as well as scenario modeling.

	Up to 1 month	1 month to 3 months	3 months - 1 year	1 year to 5 years	Over 5 years	Maturity undefined/ overdue	December 31, 2018
FINANCIAL ASSETS							
Investments in securities	13 791 358	4 233 173	10 838 318	14 032 254	1 299 838	-	44 194 941
Due from banks	476 745	-	-	-	-	-	476 745
Loans to customers	5 099 958	9 027 818	25 301 266	25 693 994	1 104 477	6 343 703	72 571 216
Total interest-bearing financial assets	**19 368 061**	**13 260 991**	**36 139 584**	**39 726 248**	**2 404 315**	**6 343 703**	**117 242 902**
Cash and balances with the Central Bank	8 227 394	60 547	384 494	13 371	-	-	8 685 806
Investments in securities	-	-	-	-	-	8 806 425	8 806 425
Investments in a joint venture	-	-	-	-	-	690 102	690 102
Due from banks	2 372 089	-	1 543 995	-	-	-	3 916 084
Derivative financial instruments	-	45 396	182 666	-	-	-	228 062
Other financial assets	522 268	334 612	25 000	336	-	4 451	886 667
Total financial assets	**30 489 812**	**13 701 546**	**38 275 739**	**39 739 955**	**2 404 315**	**15 844 681**	**140 456 048**
FINANCIAL LIABILITIES							
Due to banks and other financial institutions	1 260 000	7 701	-	-	-	-	1 267 701
Customer accounts	13 011 582	7 239 116	45 971 002	1 598 629	-	-	67 820 329
Debt securities issued	11 956	345 182	211 087	290 742	858 162	-	1 717 129
Total interest-bearing financial liabilities	**14 283 538**	**7 591 999**	**46 182 089**	**1 889 371**	**858 162**	**-**	**70 805 159**
Derivative financial instruments	-	44 879	328 268	-	-	-	373 147
Obligations on securities return	393 541	-	-	-	-	-	393 541
Due to banks and other financial institutions	6 482 168	-	-	-	-	-	6 482 168
Customer accounts	48 854 063	-	-	-	-	-	48 854 063
Other financial liabilities	1 621 926	541 231	1 851 283	-	-	-	4 014 440
Total financial liabilities	**71 635 236**	**8 178 109**	**48 361 640**	**1 889 371**	**858 162**	**-**	**130 922 518**
Liquidity gap	**(41 145 424)**	**5 523 437**	**(10 085 901)**	**37 850 584**	**1 546 153**		
Stable sources of funding	**40 688 918**	**(13 182 106)**	**22 666 893**	**(8 128 378)**	**(42 045 327)**		
Net liquidity gap	**(456 506)**	**(7 658 669)**	**12 580 992**	**29 722 206**	**(40 499 174)**		
Total liquidity gap	**(456 506)**	**(8 115 175)**	**4 465 817**	**34 188 023**	**(6 311 151)**		
Cumulative interest sensitivity gap	**5 084 523**	**10 753 515**	**711 010**	**38 547 887**	**40 094 040**		
Cumulative interest sensitivity gap as a percentage of total financial assets, %	**3.62%**	**7.66%**	**0.51%**	**27.44%**	**28.55%**		

(in thousands of Russian rubles, unless otherwise indicated)

37. Risk management policies (continued)

	Up to 1 month	1 month to 3 months	3 months - 1 year	1 year to 5 years	Over 5 years	Maturity undefined/ overdue	December 31, 2017 (restated)
FINANCIAL ASSETS							
Investments in securities	17 824 838	1 377 916	3 612 059	19 471 902	1 663 191	-	43 949 906
Due from banks	2 529 412	-	-	-	-	-	2 529 412
Loans to customers	1 935 856	6 150 808	21 899 018	16 706 452	7 612 392	3 313 988	57 618 514
Total interest-bearing financial assets	**22 290 106**	**7 528 724**	**25 511 077**	**36 178 354**	**9 275 583**	**3 313 988**	**104 097 832**
Cash and balances with the Central Bank	13 931 848	69 143	344 335	12 751	-	-	14 358 077
Investments in securities	-	-	3 054 164	-	-	5 809 138	8 863 302
Due from banks	2 778 848	-	1 176 237	-	-	-	3 955 085
Derivative financial instruments	-	-	244 519	-	-	-	244 519
Other financial assets	158 472	7 061	-	-	-	2 074	167 607
Total financial assets	**39 159 274**	**7 604 928**	**30 330 332**	**36 191 105**	**9 275 583**	**9 125 200**	**131 686 422**
FINANCIAL LIABILITIES							
Due to banks and other financial institutions	27 000	-	-	-	-	-	27 000
Customer accounts	14 764 170	9 074 924	45 193 683	1 673 568	-	-	70 706 345
Debt securities issued	31 948	10 354	365 961	758 296	907 096	-	2 073 655
Total interest-bearing financial liabilities	**14 823 118**	**9 085 278**	**45 559 644**	**2 431 864**	**907 096**	**-**	**72 807 000**
Derivative financial instruments	-	-	42 854	-	-	-	42 854
Due to banks and other financial institutions	1 227 992	-	-	-	-	-	1 227 992
Customer accounts	43 990 046	-	-	-	-	-	43 990 046
Other financial liabilities	790 047	94 189	1 041 498	-	-	-	1 925 734
Total financial liabilities	**60 831 203**	**9 179 467**	**46 643 996**	**2 431 864**	**907 096**	**-**	**119 993 626**
Liquidity gap	**(21 671 929)**	**(1 574 539)**	**(16 313 664)**	**33 759 241**	**8 368 487**		
Stable sources of funding	**48 515 696**	**34 858**	**20 265 110**	**(24 370 128)**	**(44 445 536)**		
Net liquidity gap	**26 843 767**	**(1 539 681)**	**3 951 446**	**9 389 113**	**(36 077 049)**		
Total liquidity gap	**26 843 767**	**25 304 086**	**29 255 532**	**38 644 645**	**2 567 596**		
Cumulative interest sensitivity gap	**7 466 988**	**5 910 434**	**(14 138 133)**	**19 608 357**	**27 976 844**		
Cumulative interest sensitivity gap as a percentage of total financial assets, %	**5.67%**	**4.49%**	**-10.74%**	**14.89%**	**21.25%**		

(in thousands of Russian rubles, unless otherwise indicated)

37. Risk management policies (continued)

Management believes that in spite of a substantial portion of customer accounts being on demand, diversification of these deposits by number and type of depositors, and the past experience of the Group would indicate that these customer accounts provide a stable source of funding for the Group. Customer accounts on demand are split into the groups by type of client and allocated per expected time of funds outflow on the basis of statistical data accumulated during the previous year.

Significant part of the Group's current accounts refers to related parties. Management believes that these accounts (including term deposits) will remain within the Group and support the Group's liquidity position.

Securities classified as available-for-sale financial assets and investments held to maturity are included in the analysis of the liquidity based on expected contractual maturities. Most of these categories securities are included in the Lombard list of the Central Bank of the Russian Federation and, if necessary, can be used to obtain financing in the form of repurchase agreements from the Central Bank of the Russian Federation.

The Group's 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.

Further analysis of the liquidity and interest rate risks is presented in the following tables. The amounts in the tables below are not the same as the amounts in the statement of financial position, as the tables include future aggregate undiscounted cash flows.

	Weighted average	Up to 1 month	1 month to 3 months	3 months - 1 year	1 year to 5 years	Over 5 years	December 31, 2018
Due to banks and other financial institutions	8%	1 262 363	7 754	-	-	-	1 270 117
Customer accounts	6%	13 175 802	7 951 020	47 490 225	1 643 601	-	70 260 648
Debt securities issued	9%	11 956	357 106	239 679	331 862	858 162	1 798 765
Total interest-bearing financial liabilities		**14 450 121**	**8 315 880**	**47 729 904**	**1 975 463**	**858 162**	**73 329 530**
Derivative financial instruments		-	-	373 147	-	-	373 147
Obligations on securities return		393 541	-	-	-	-	393 541
Due to banks and other financial institutions		6 482 168	-	-	-	-	6 482 168
Customer accounts		48 854 063	-	-	-	-	48 854 063
Other financial liabilities		1 621 925	541 231	1 851 284	-	-	4 014 440
Total financial liabilities		**71 801 818**	**8 857 111**	**49 954 335**	**1 975 463**	**858 162**	**133 446 889**

	Weighted average	Up to 1 month	1 month to 3 months	3 months - 1 year	1 year to 5 years	Over 5 years	December 31, 2017
Due to banks and other financial institutions	6%	27 042	-	-	-	-	27 042
Customer accounts	7%	14 462 150	9 492 942	47 293 059	1 739 715	-	72 987 866
Debt securities issued	10%	31 954	10 354	311 697	972 180	1 084 959	2 411 144
Total interest-bearing financial liabilities		**14 521 146**	**9 503 296**	**47 604 756**	**2 711 895**	**1 084 959**	**75 426 052**
Financial liabilities at fair value through profit or loss		-	-	42 854	-	-	42 854
Due to banks and other financial institutions		1 227 992	-	-	-	-	1 227 992
Customer accounts		43 990 046	-	-	-	-	43 990 046
Other financial liabilities		790 047	94 189	1 025 214	16 284	-	1 925 734
Total financial liabilities		**60 529 231**	**9 597 485**	**48 672 824**	**2 728 179**	**1 084 959**	**122 612 678**

(in thousands of Russian rubles, unless otherwise indicated)

37. Risk management policies (continued)

A maturity analysis for financial guarantees issued, commitments on loans and unused credit lines and contracted capital expenditure is presented in the following tables.

	Up to 1 month	1 month to 3 months	3 months - 1 year	1 year to 5 years	Over 5 years	December 31, 2018
Guarantees issued	438 865	292 021	2 564 383	7 510 775	3 973	10 810 017
Commitments on loans	934 589	1 869 179	5 607 536	10 280 482	-	18 691 786
Total contingent liabilities	**1 373 454**	**2 161 200**	**8 171 919**	**17 791 257**	**3 973**	**29 501 803**

	Up to 1 month	1 month to 3 months	3 months - 1 year	1 year to 5 years	Over 5 years	December 31, 2017
Guarantees issued	260 718	1 340 646	375 838	3 599 804	3 443	5 580 449
Commitments on loans	802 543	1 605 086	4 815 257	8 827 970	-	16 050 856
Total contingent liabilities	**1 063 261**	**2 945 732**	**5 191 095**	**12 427 774**	**3 443**	**21 631 305**

Market risk. Market risk covers interest rate risk, currency risk and other pricing risks to which the Group is exposed. There have been no material changes as to the way the Group manages these risks or the risks it is exposed to. At the same time, the Group somewhat extended the range of measurement techniques which are used by the Risk Management Department to assess these types of risks, and the composition and contents of management reports presented to the Group's management bodies.

The Limit Committee of MTS Bank sets stop-loss limits on securities portfolios and foreign currency operations, and limits on open foreign currency positions. The open foreign currency position limits are fully in compliance with the requirements of the CBRF. Compliance with the market risk limits of MTS Bank is monitored on a daily basis.

Interest rate sensitivity**.** Interest rate sensitivity analysis was performed with two different methods. For the analysis of trading securities (except for valued at amortised cost) and derivative financial instruments the Basis point value method was used (hereinafter, BPV100), which reflects changes in fair value of current security position in response to changes in interest rates by 100 basis points.

For other financial instruments sensitive to changes in interest rates, the interest risk of the bank book was calculated. For this purpose, the risk-based income method (Earnings at risk, hereinafter referred to as "EaR100") was used, showing the sensitivity of the annual net interest income in case of a parallel shift in interest rates by 100 basis points assuming a static balance. The banking book interest rate risk includes:

- The risk resulting from the mismatch of assets and liabilities maturities (interest rate repricing) sensitive to interest rate changes;
- Basic risk resulting from a mismatch in the degree of interest rate sensitivity of assets and liabilities with similar maturity (repricing period);
- Risk of early repayment (repricing) of interest rate sensitive assets and liabilities.

(in thousands of Russian rubles, unless otherwise indicated)

37. Risk management policies (continued)

The following table presents a sensitivity analysis of interest rate risk. The level of these changes is determined by the management and is contained within the risk reports provided to key management personnel.

	December 31, 2018	December 31, 2018	December 31, 2017	December 31, 2017
Change in interest rates, bps, BPV100	100	(100)	100	(100)
Change in fair value of securities	(232 105)	232 105	(318 292)	318 292
Change in interest rates of banking book, bps, EaR100	100	(100)	100	(100)
Change in annual net interest income of banking book	(72 661)	72 661	(223 096)	223 096

Currency risk. Currency risk is defined as the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Group is exposed to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows.

The following table presents a sensitivity analysis of interest rate risk, which has been determined based on "reasonably possible changes in the risk variable". The level of these changes is determined by the management and is contained within the risk reports provided to key management personnel.

Information on financial assets and liabilities of the Group, excluding assets and liabilities on derivative financial instruments and spot transactions with currencies as at December 31, 2018 is as follows:

	RUB	USD	EUR	Other currencies	December 31, 2018
Cash and balances with the Central Bank	8 476 144	138 226	67 589	3 847	8 685 806
Investments in securities	49 623 403	2 997 313	380 650	-	53 001 366
Due from banks	1 984 343	1 951 848	382 976	73 662	4 392 829
Loans to customers	70 842 061	1 728 792	363	-	72 571 216
Investments in a joint venture	690 102	-	-		690 102
Other financial assets	872 217	4 840	5 913	-	882 970
Total non-derivative financial assets	**132 488 270**	**6 821 019**	**837 491**	**77 509**	**140 224 289**
Due to banks and other financial institutions	7 702 055	25 787	22 027	-	7 749 869
Customer accounts	105 029 762	9 807 798	1 767 986	68 846	116 674 392
Debt securities issued	1 715 392	1 737	-	-	1 717 129
Obligations on securities return	393 541	-	-	-	393 541
Other financial liabilities	3 969 821	10 252	25 208	159	4 005 440
Total non-derivative financial liabilities	**118 810 571**	**9 845 574**	**1 815 221**	**69 005**	**130 540 371**
Financial assets less financial liabilities	**13 677 699**	**(3 024 555)**	**(977 730)**	**8 504**	

As at December 31, 2018, the amount of assets and liabilities on spot transactions excluded from the table above amounted to RUB 3 697 thousand and RUB 9 000 thousand, respectively.

(in thousands of Russian rubles, unless otherwise indicated)

37. Risk management policies (continued)

The detailed position by currency for spot transactions as at December 31, 2018 is presented in the table below:

	RUB	USD	EUR	Other currencies	December 31, 2018
Accounts receivable on spot deals	3 654 143	4 223 812	4 529 249	20	12 407 224
Accounts payable on spot deals	(7 808 548)	(1 028 256)	(3 575 723)	-	(12 412 527)
Net position for spot deals	**(4 154 405)**	**3 195 556**	**953 526**	**20**	**(5 303)**

Derivative financial instruments. Transactions using the derivative financial instruments ("derivative instruments") include swaps and forward contracts linked to interest rates and currencies. Derivative instruments are defined as contracts or agreements, the value of which is calculated based on the cost of assets stipulated within the contract or agreement that do not require any initial net investment or require investment in small amount and with respect to which the calculation is made as at the future date.

The following table presents further analysis of currency risk by types of derivative financial instruments as at December 31, 2018:

	RUB	USD	EUR	Other currencies	December 31, 2018
Accounts receivable on derivative contracts	182 666	45 396	-	-	228 062
Accounts payable on derivative contracts	(328 268)	(44 879)	-	-	(373 147)
NET DERIVATIVE FINANCIAL INSTRUMENTS POSITION	**(145 602)**	**517**	**-**	**-**	**(145 085)**

As at December 31, 2017, the Group's breakdown of non-derivative financial assets and liabilities by currencies is presented in the table below:

	RUB	USD	EUR	Other currencies	December 31, 2017
Cash and balances with the Central Bank	14 115 291	117 382	112 457	12 947	14 358 077
Investments in securities	48 842 762	3 684 008	286 438	-	52 813 208
Due from banks	3 797 921	1 594 863	1 036 902	54 811	6 484 497
Loans to customers	56 033 576	1 060 376	524 562	-	57 618 514
Other financial assets	167 577	30	-	-	167 607
Total non-derivative financial assets	**122 957 127**	**6 456 659**	**1 960 359**	**67 758**	**131 441 903**
Due to banks and other financial institutions	1 235 956	9 715	7 195	2 126	1 254 992
Customer accounts	101 424 442	10 344 864	2 859 724	67 361	114 696 391
Debt securities issued	2 072 215	1 440	-	-	2 073 655
Other financial liabilities	1 925 608	82	44	-	1 925 734
Total non-derivative financial liabilities	**106 658 221**	**10 356 101**	**2 866 963**	**69 487**	**119 950 772**
Financial assets less financial liabilities	**16 298 906**	**(3 899 442)**	**(906 604)**	**(1 729)**	

As at December 31, 2017, the amount of assets and liabilities on spot transactions excluded from the table above amounted to RUB 37 thousand and RUB 882 thousand, respectively.

(in thousands of Russian rubles, unless otherwise indicated)

37. Risk management policies (continued)

The detailed position by currency for spot transactions as at December 31, 2017 is presented in the table below:

	RUB	USD	EUR	Other currencies	December 31, 2017
Accounts receivable on spot deals	362 853	4 377 615	-	-	4 740 468
Accounts payable on spot deals	(4 378 156)	(363 158)	-	-	(4 741 314)
Net position for spot deals	**(4 015 303)**	**4 014 457**	**-**	**-**	**(846)**

The following table presents analysis of currency risk by types of derivative financial instrument contracts as at December 31, 2017:

	RUB	USD	EUR	Other currencies	December 31, 2017
Accounts receivable on derivative contracts	244 519	-	-	-	244 519
Accounts payable on derivative contracts	(42 854)	-	-	-	(42 854)
NET DERIVATIVE FINANCIAL INSTRUMENTS POSITION	**201 665**	**-**	**-**	**-**	**201 665**

In accordance with IFRS 7, foreign currency risk is computed for each functional currency separately. The functional currency of the banking Group is Russian Ruble.

As at December 31, 2018, the Group’s foreign currency long position of the Group (functional currency – Russian ruble) was RUB 171 518 thousand for US dollars. As at December 31, 2018, the Group’s foreign currency short position of the Group was RUB 24 204 thousand for Euro.

As at December 31, 2017, the Group’s foreign currency long position of the Group (functional currency – Russian ruble) was RUB 115 015 thousand for US dollars. As at December 31, 2017, the Group’s foreign currency short position of the Group was RUB 906 604 thousand for Euro.

Currency risk sensitivity. The following table details the Group’s sensitivity to increase and decrease in the USD and EUR against the RUB. This sensitivity rate was used when reporting foreign currency risk internally to key management personnel and represents management’s assessment of the possible change in foreign currency exchange rates as at December 31, 2018 and 2017. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the end of the period for the specified change in foreign currency rates. The sensitivity analysis includes external loans as well as loans to foreign operations within the Group where the denomination of the loan is in a currency other than the currency of the lender or the borrower.

Impact on net profit and equity based on asset values as at December 31, 2018 and 2017:

	December 31, 2018		December 31, 2017	
	RUB/USD 30.00%	**RUB/USD -30.00%**	**RUB/USD 30.00%**	**RUB/USD -30.00%**
Impact on profit/(loss) before income tax	69 281	(69 281)	50 440	(50 440)
Impact on equity	55 425	(55 425)	40 352	(40 352)

	RUB/EUR 30.00%	RUB/EUR -30.00%	RUB/EUR 30.00%	RUB/EUR -30.00%
Impact on profit/(loss) before income tax	(7 261)	7 261	(271 981)	271 981
Impact on equity	(5 809)	5 809	(217 585)	217 585

37. Risk management policies (continued)

Limitations of sensitivity analysis. The sensitivity tables demonstrate the effect of a change in a key assumption while other assumptions remain unchanged. In reality, there is a correlation between the assumptions and other factors. It should also be noted that these sensitivities are non-linear, and impacts should not be interpolated or extrapolated from these results.

The sensitivity analyses do not take into consideration that the Group's assets and liabilities are actively managed. Additionally, the financial position of the Group may vary at the time that any actual market movement occurs. For example, the Group's financial risk management strategy aims to manage the exposure to market fluctuations. As investment markets move past various trigger levels, management actions could include selling investments, changing investment portfolio allocation and taking other protective action. Consequently, the actual impact of a change in the assumptions may not have any impact on the liabilities, whereas assets are held at market value on the balance sheet. In these circumstances, the different measurement bases for liabilities and assets may lead to volatility in stockholder equity.

Other limitations in the above sensitivity analyses include the use of hypothetical market movements to demonstrate potential risk that only represent the Group's view of possible near-term market changes that cannot be predicted with any certainty; Another limitation relates to the assumption that all interest rates move in an identical fashion.

Price risk. Price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices whether those changes are caused by factors specific to the individual security or its issuer or factors affecting all securities traded in the market.

The Group manages price risk through periodic estimation of potential losses that could arise from adverse changes in market conditions and establishing and maintaining appropriate stop-loss limits and margin and collateral requirements.

In 2018, the Group's policy was aimed at minimizing the price risk which arises from stock market instruments. There have been no changes in the Group policy since 2017.

38. Subsequent events

On February 12, 2019, PJSC MTS acquired 39.48% of shares of PJSC MTS Bank from PJSC FC Sistema through its 100% subsidiary Mobile TeleSystems B.V.

As a result of the transaction, the share of PJSC MTS in the capital of MTS Bank increased from 55.24% to 94.72% (including the share of PJSC MGTS in the amount of 0.24%), while the share of direct ownership of PJSC JSFC Sistema in the capital of MTS Bank, respectively, decreased to 5.0%

In March 2019 the Group placed 350 subordinated certificated interest-bearing non-convertible bonds with mandatory centralized storage, with par value of RUB 10 000 000 each, without specific maturity. The bonds were placed by closed subscription and can be repaid at the Group's discretion.