Home Credit and Finance Bank

Consolidated Financial Statements
for the year ended 31 December 2018

Contents

KPMG

Independent Auditors' Report

To the Participants and the Council of OOO "Home Credit and Finance Bank"

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of OOO "Home Credit and Finance Bank" (the "Bank") and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2018, the consolidated statements of profit or loss, comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

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

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 *Auditors' Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the independence requirements that are relevant to our audit of the consolidated financial statements in the Russian Federation and with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the requirements in the Russian Federation and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

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

Expected credit losses ('ECL') for loans to customers

Please refer to the Notes 3 (g) (vi), 13 and 24 (d) in the consolidated financial statements.

The key audit matter	How the matter was addressed in our audit
Loans to individuals represent 75% of assets and are stated net of allowance for expected credit losses ('ECL') that is estimated on a regular basis and is sensitive to assumptions used. From 1 January 2018 as a result of adoption of IFRS 9 *'Financial Instruments'*, the Group has implemented a ECL estimation model through the application of mathematical methods using historical information on payments, applying professional judgment and subjective assumptions. Due to the significance of loans to individuals and the related estimation uncertainty, this is considered a key audit matter.	We analyzed the key aspects of the Group's methodology and policies related to ECL estimate in terms of compliance with the requirements of IFRS 9, with the involvement of our own specialists in financial risks management. We tested the design and operating effectiveness of controls over completeness and accuracy of data inputs into ECL calculation models, timely reflection of delinquency events and loan repayments in the underlying systems and allocation of loans into stages. We agreed input data to supporting documents on a sample basis. We assessed predictive capability of the Group's methodology by analysing models validation results. We also assessed whether the consolidated financial statements disclosures appropriately reflect the Group's exposure to credit risk.

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 IFRS, 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.

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

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional 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 auditors' 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 auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.

— Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

— Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with 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 communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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

Report of findings from procedures performed in accordance with the requirements of Federal Law No 395-1, dated 2 December 1990, *On Banks and Banking Activity*

Management is responsible for the Group's compliance with mandatory ratios and for maintaining internal controls and organizing risk management systems in accordance with the requirements established by the Bank of Russia.

In accordance with Article 42 of Federal Law No 395-1, dated 2 December 1990 *On Banks and Banking Activity* (the "Federal Law"), we have performed procedures to examine:

— the Group's compliance with mandatory ratios as at 1 January 2019 established by the Bank of Russia; and

— whether the elements of the Group's internal control and organization of its risk management systems comply with the requirements established by the Bank of Russia.

These procedures were selected based on our judgment, and were limited to the analysis, inspection of documents, comparison of the Bank's internal policies, procedures and methodologies with the applicable requirements established by the Bank of Russia, and recalculations, comparisons and reconciliations of numerical data and other information.

Our findings from the procedures performed are reported below.

— Based on our procedures with respect to the Group's compliance with the mandatory ratios established by the Bank of Russia, we found that the Group's mandatory ratios, as at 1 January 2019, were within the limits established by the Bank of Russia.

  We have not performed any procedures on the accounting records maintained by the Group, other than those which we considered necessary to enable us to express an opinion as to whether the Group's consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2018, and its consolidated financial performance and its consolidated cash flows for the year 2018 in accordance with the International Financial Reporting Standards.

— Based on our procedures with respect to whether the elements of the Group's internal control and organization of its risk management systems comply with the requirements established by the Bank of Russia, we found that:

  - as at 31 December 2018, the Bank's internal audit function was subordinated to, and reported to, the Council, and the risk management function was not subordinated to, and did not report to, divisions taking relevant risks in accordance with the regulations and recommendations issued by the Bank of Russia;

- the Bank's internal documentation, effective on 31 December 2018, establishing the procedures and methodologies for identifying and managing the Group's significant credit, operational, market, interest rate, legal, liquidity and reputational risks, and for stress-testing, was approved by the authorised management bodies of the Bank in accordance with the regulations and recommendations issued by the Bank of Russia;

- as at 31 December 2018, the Bank maintained a system for reporting on the Group's significant credit, operational, market, interest rate, legal, liquidity and reputational risks, and on the Group's capital;

- the frequency and consistency of reports prepared by the Bank's risk management and internal audit functions during 2018, which cover the Group's credit, operational, market, interest rate, legal, liquidity and reputational risk management, was in compliance with the Bank's internal documentation. The reports included observations made by the Bank's risk management and internal audit functions as to their assessment of the effectiveness of the Group's procedures and methodologies, and recommendations for improvement;

- as at 31 December 2018, the Council and Executive Management of the Bank had responsibility for monitoring the Group's compliance with the risk limits and capital adequacy ratios established in the Bank's internal documentation. In order to monitor the effectiveness of the Group's risk management procedures and their consistent application during 2018, the Council and Executive Management of the Bank periodically discussed the reports prepared by the risk management and internal audit functions, and considered the proposed corrective actions.

Procedures with respect to elements of the Group's internal control and organization of its risk management systems were performed solely for the purpose of examining whether these elements, as prescribed in the Federal Law and as described above, comply with the requirements established by the Bank of Russia.

The engagement partner on the audit resulting in this independent auditors' report is:

Акционерное общество ОГРН 1027700125628 КПМГ KPMG * МОСКВА *

Shevarenkov E.V.

JSC "KPMG"

Moscow, Russia

26 March 2019

	Note	2018 MRUB	2017 MRUB
Interest income calculated using effective interest rate	4	53,816	47,833
Interest expense	4	(17,836)	(17,094)
Net interest income		**35,980**	**30,739**
Fee and commission income	5	12,727	12,200
Fee and commission expense	6	(4,335)	(2,922)
Net fee and commission income		**8,392**	**9,278**
Other operating (loss)/income, net	7	(1,227)	162
Operating income		**43,145**	**40,179**
Impairment losses	8	(4,222)	(2,514)
General administrative expenses	9	(21,629)	(19,824)
Operating expenses		**(25,851)**	**(22,338)**
Profit before tax		**17,294**	**17,841**
Income tax expense	10	(3,485)	(3,596)
Profit for the year		**13,809**	**14,245**

The consolidated financial statements as set out on pages 8 to 85 were approved by the Board of Management on 26 March 2019.

Chairman of the Board of Management

Y. Andresov

Chief Financial Officer

I. Kolikova

The consolidated statement of profit or loss is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements.

	2018 MRUB	2017 MRUB
Profit for the year, recognised in consolidated statement of profit or loss	**13,809**	**14,245**
Other comprehensive income/(loss) that is or may be reclassified subsequently to profit or loss		
Revaluation reserve for investment securities:		
- net change in fair value, net of tax	(806)	29
- net change in fair value transferred to profit or loss, net of tax	727	(15)
- changes of expected credit loss allowance, net of tax	46	-
Effect of foreign currency translation	319	(344)
Other comprehensive income/(loss) for the year, net of tax	**286**	**(330)**
Total comprehensive income for the year	**14,095**	**13,915**

Chairman of the Board of Management

Y. Andresov

Chief Financial Officer

I. Kolikova

The consolidated statement of comprehensive income is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements.

ASSETS	Note	2018 MRUB	2017 MRUB
Cash and cash equivalents	11	28,965	23,040
Placements with banks and other financial institutions	12	5,193	3,464
Loans to customers	13	245,354	208,249
Positive fair value of derivative instruments	25	144	-
Investment securities	14	35,910	48,810
incl. pledged under repo agreements		*2,622*	*6,658*
Assets classified as held for sale		212	217
Property, equipment and intangible assets	15	7,459	7,160
Investment in associate		228	108
Current income tax receivable		5	516
Deferred tax asset	22	2,750	3,146
Other assets	16	1,570	1,500
Total assets		**327,790**	**296,210**

LIABILITIES AND EQUITY	Note	2018 MRUB	2017 MRUB
Liabilities			
Debt securities issued	17	9,127	3,838
Subordinated debt	18	11,150	22,847
Due to banks and other financial institutions	20	15,561	17,148
Current accounts and deposits from customers	21	222,090	192,943
Negative fair value of derivative instruments	25	54	16
Current income tax liability		238	106
Other liabilities	23	6,484	6,439
Total liabilities		**264,704**	**243,337**
Equity			
Charter capital		4,406	4,406
Other capital contributions		10,631	10,631
Revaluation reserve for investment securities		15	23
Translation reserve		(981)	(1,300)
Retained earnings		49,015	39,113
Total equity		**63,086**	**52,873**
Total liabilities and equity		**327,790**	**296,210**

Chairman of the Board of Management

Y. Andresov

Chief Financial Officer

I. Kolikova

The consolidated statement of financial position is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements.

	Attributable to equity holders of the Group					
MRUB	**Charter capital**	**Other capital contributions**	**Revaluation reserve for financial assets available for sale**	**Translation reserve**	**Retained earnings**	**Total**
Balance at 1 January 2017	**4,406**	**10,631**	**9**	**(956)**	**29,707**	**43,797**
Profit for the year	-	-	-	-	14,245	14,245
Revaluation reserve for financial assets available for sale:						
- net change in fair value, net of tax	-	-	29	-	-	29
- net change in fair value transferred to profit or loss, net of tax	-	-	(15)	-	-	(15)
Effect of foreign currency translation	-	-	-	(344)	-	(344)
Total comprehensive income/(loss) for the year	-	-	14	(344)	14,245	13,915
Dividends declared and paid	-	-	-	-	(4,839)	(4,839)
Balance at 31 December 2017	**4,406**	**10,631**	**23**	**(1,300)**	**39,113**	**52,873**

	Attributable to equity holders of the Group					
MRUB	**Charter capital**	**Other capital contributions**	**Revaluation reserve for investment securities**	**Translation reserve**	**Retained earnings**	**Total**
Balance at 31 December 2017	**4,406**	**10,631**	**23**	**(1,300)**	**39,113**	**52,873**
Impact of adopting IFRS 9 as at 1 January 2018, net of tax (see Note 3)	-	-	25	-	(1,491)	(1,466)
Restated balance as at 1 January 2018	**4,406**	**10,631**	**48**	**(1,300)**	**37,622**	**51,407**
Profit for the year	-	-	-	-	13,809	13,809
Revaluation reserve for investment securities:						
- net change in fair value, net of tax	-	-	(806)	-	-	(806)
- net change in fair value transferred to profit or loss, net of tax	-	-	727	-	-	727
- changes of expected credit loss allowance, net of tax	-	-	46	-	-	46
Effect of foreign currency translation	-	-	-	319	-	319
Total comprehensive income/(loss) for the year	-	-	(33)	319	13,809	14,095
Dividends declared and paid	-	-	-	-	(2,416)	(2,416)
Balance at 31 December 2018	**4,406**	**10,631**	**15**	**(981)**	**49,015**	**63,086**

Chairman of the Board of Management

Y. Andresov

Chief Financial Officer

I. Kolikova

The consolidated statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements.

	Note	2018 MRUB	2017 MRUB
Cash flow from operating activities			
Interest received		56,105	50,899
Interest paid		(17,524)	(17,129)
Fees and commissions received		12,768	12,138
Fees and commissions paid		(4,558)	(2,903)
Net receipts/(payments) from foreign exchange transactions		336	(978)
Other operating income received		88	78
Administrative and other operating expenses paid		(19,432)	(17,641)
Income tax paid		(2,150)	(2,641)
Cash flows from operating activities before changes in operating assets and liabilities		**25,633**	**21,823**
Changes in operating assets and liabilities			
Net (increase)/decrease in placements with banks and other financial institutions		(1,714)	3,837
Net increase in loans to customers		(43,346)	(43,715)
Net decrease/(increase) in investment securities		12,461	(26,887)
Net decrease/(increase) in other assets		102	(97)
Net increase in current accounts and deposits from customers		27,791	37,530
Net (decrease)/increase in due to banks and other financial institutions		(2,364)	10,367
Net increase in other liabilities		16	12
Net cash from operating activities		**18,579**	**2,870**
Cash flows used in investing activities			
Dividends from associate		125	200
Proceeds from sale of property and equipment		16	281
Acquisition of property, equipment and intangible assets		(2,067)	(1,405)
Net cash used in investing activities		**(1,926)**	**(924)**
Cash flows used in financing activities			
Proceeds from the issue of debt securities		5,106	2,666
Repayments of subordinated debt		(14,210)	(225)
Dividends paid		(2,416)	(4,839)
Net cash used in financing activities		**(11,520)**	**(2,398)**
Net increase/(decrease) in cash and cash equivalents		5,133	(452)
Effect of exchange rate changes on cash and cash equivalents		791	370
Effect of changes in expected credit losses allowance on cash and cash equivalents		1	-
Cash and cash equivalents at the beginning of the year	11	23,040	23,122
Cash and cash equivalents at the end of the year	11	**28,965**	**23,040**

Chairman of the Board of Management

Y. Andresov

Chief Financial Officer

I. Kolikova

The consolidated statement of cash flows is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements.

1. Description of the Group

OOO "Home Credit and Finance Bank" (the "Bank") was established in the Russian Federation as a Limited Liability Company and was granted its banking licence in 1990. In 2002 the Bank was acquired by Home Credit Group. On 13 October 2011 the Bank received General Banking Licence #316 from the Central Bank of Russia (the "CBR"). The Bank together with its subsidiaries is further referred to as the Group.

Registered office

8/1 Pravda st
Moscow 125040
Russian Federation

Participants	**Country of incorporation**	**Ownership interest (%)**	
		2018	**2017**
Home Credit B.V.	The Netherlands	99.99	99.99
Home Credit International a.s.	Czech Republic	0.01	0.01

The ultimate controlling owner is Petr Kellner, who exercises control over the Group through PPF Group N.V. registered in the Netherlands.

Consolidated subsidiaries	**Country of incorporation**	**Ownership interest (%)**	
		2018	**2017**
Financial Innovations (LLC)	Russian Federation	100.00	100.00
Bank Home Credit (SB JSC)	Kazakhstan	100.00	100.00
Eurasia Capital S.A.	Luxemburg	see below	see below
Eurasia Structured Finance No.3 B.V.	The Netherlands	see below	see below
Eurasia Structured Finance No.4 B.V.	The Netherlands	see below	see below

Eurasia Capital S.A., Eurasia Structured Finance No.3 B.V. and Eurasia Structured Finance No.4 B.V. are special purpose entities established to facilitate the Group's issues of debt securities and subordinated debt.

Associate	**Country of incorporation**	**Ownership interest (%)**	
		2018	**2017**
Equifax Credit Services (LLC)	Russian Federation	25.00	25.00

Council		**Board of Management**	
Jiri Smejc	Chairman	Yuriy Andresov	Chairman
Irina Kolikova	Deputy Chairman	Artem Aleshkin	Deputy Chairman
Galina Vaisband	Member	Aleksandr Antonenko	Deputy Chairman
Yuly Tai	Member	Martin Schaffer	Deputy Chairman
		Sergey Shcherbakov	Deputy Chairman
		Olga Egorova	Member

Principal activities

The activities of the Group are regulated by the CBR and the activities of the Subsidiary Bank Joint-Stock Company "Home Credit and Finance Bank" (Bank Home Credit (SB JSC)) are regulated by the National Bank of the Republic of Kazakhstan (the "NBRK"). The principal activity of the Group is the provision of the full range of banking products and services to individual customers across the Russian Federation and the Republic of Kazakhstan such as lending, deposit taking, saving and current accounts service and maintenance, payments, debit cards issuance and maintenance, Internet-banking, payroll and other banking services.

The loans are offered to existing and new customers across the Russian Federation and the Republic of Kazakhstan via a national wide distribution network comprising variable channels: own banking offices, points of sale at retailers, Russian Post branches, Kazakh Post branches and other third parties.

1. Description of the Group (continued)

As at 31 December 2018 the Bank's distribution network comprised the head office in Moscow and 6 branches in Ufa, Rostov-on-Don, Saint-Petersburg, Novosibirsk, Khabarovsk, Nizhniy Novgorod, 225 standard banking offices, 3,593 loan offices, 78 regional centres, 2 representative offices and over 98 thousand points of sale in the Russian Federation. As at 31 December 2018 the ATM network comprised 697 ATMs and payment terminals across the Russian Federation.

As at 31 December 2018 the distribution network in Kazakhstan comprised 45 standard banking offices, 9,744 loan offices and points of sale, 260 Kazakhstan post offices and 530 ATMs and payment terminals across the country.

2. Basis of preparation

The consolidated financial statements for the year ended 31 December 2018 comprise the Bank and its subsidiaries.

(a) Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs), including International Accounting Standards (IASs), promulgated by the International Accounting Standards Board (IASB) and interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) of the IASB.

(b) Basis of measurement

The consolidated financial statements are prepared on the historical cost or amortised historical cost basis except that financial instruments at fair value through profit or loss and financial assets at FVOCI are measured at fair value. Non-financial assets and liabilities are valued at historic cost are restated for the effects of inflation as described in Note 3 (e).

(c) Presentation and functional currency

The national currency of the Russian Federation is the Russian Rouble ("RUB"). Management determined functional currency of the Bank and all of its subsidiaries, except Bank Home Credit (SB JSC), to be the RUB as it reflects the economic substance of the majority of underlying events and circumstances of the Group. The functional currency of Bank Home Credit (SB JSC) is Kazahstan Tenge ("KZT"). The RUB is the Group’s presentation currency for the purposes of these consolidated financial statements. Financial information presented in RUB is rounded to the nearest million unless otherwise stated.

(d) Business environment

The Group’s operations are primarily located in the Russian Federation and the Republic of Kazakhstan. Consequently, the Group is exposed to the economic and financial markets of the Russian Federation and the Republic of Kazakhstan, which display emerging-market characteristics. Legal, tax and regulatory frameworks continue to be developed, but are subject to varying interpretations and frequent changes that, together with other legal and fiscal impediments, contribute to the challenges faced by entities operating in the Russian Federation and the Republic of Kazakhstan.

Starting in 2014, the United States of America, the European Union and some other countries have imposed and gradually expanded economic sanctions against a number of Russian individuals and legal entities. The imposition of the sanctions has led to increased economic uncertainty, including more volatile equity markets, a depreciation of the Russian rouble, a reduction in both local and foreign direct investment inflows and a significant tightening in the availability of credit. As a result, some Russian entities may experience difficulties accessing the international equity and debt markets and may become increasingly dependent on state support for their operations. The longer-term effects of the imposed and possible additional sanctions are difficult to determine.

2. Basis of preparation (continued)

The consolidated financial statements reflect management's assessment of the impact business environment of the Russian Federation and the Republic of Kazakhstan on the operations and the financial position of the Group. The future business environment may differ from management's assessment.

(e) Use of estimates and judgments

Management makes a number of estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare these consolidated financial statements. Actual results could differ from those estimates. In particular, information about significant areas of estimation, uncertainty and critical judgments made by management in preparing these consolidated financial statements is described in the following:

- Loan impairment - Notes 3(g)(vi) and 13;
- Estimates of fair values of financial instruments - Note 24 (h);
- Fee and commission income from insurance - Note 3(p).

3. Significant accounting policies

If not stated otherwise, the accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements and by all Group entities.

(a) Changes in accounting policies and presentation since 1 January 2018

The Group has adopted IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers from 1 January 2018.

A number of other new standards are also effective from 1 January 2018 but they do not have a material effect on the Group's financial statements.

Due to transition method chosen by the Group in applying IFRS 9, comparative information throughout these financial statements has not generally been restated to reflect this requirements.

IFRS 15 Revenue from Contracts with Customers (effective from 1 January 2018)

The Group has applied IFRS 15 at 1 January 2018. Given the nature of the Group's operations, this standard has immaterial impact on the Group's financial statements.

IFRS 9 Financial Instruments (effective from 1 January 2018)

IFRS 9 sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39 Financial Instruments: Recognition and Measurement. The requirements of IFRS 9 represent a significant change from IAS 39. The new standard brings fundamental changes to the accounting for financial assets and to certain aspects of the accounting for financial liabilities.

The Group has adopted IFRS 9 as issued by the IASB in July 2014 with a date of transition of 1 January 2018 and early adopted amendments. The Group did not early adopt any of IFRS 9 in previous periods.

As permitted by the transitional provisions of IFRS 9, the Group elected not to restate comparative figures. Any adjustments to the carrying amounts of financial assets and liabilities at the date of transition were recognised in the opening retained earnings and other reserves of the current period. Consequently, for notes disclosures, the consequential amendments to IFRS 7 disclosures have also only been applied to the current period. The comparative period notes disclosures repeat those disclosures made in the prior year.

3. Significant accounting policies (continued)

The adoption of IFRS 9 has resulted in changes in the accounting policies for recognition, classification and measurement of financial assets and financial liabilities and impairment of financial assets. IFRS 9 also significantly amends other standards dealing with financial instruments such as IFRS 7 "Financial Instruments: Disclosures". Set out below are disclosures relating to the impact of the adoption of IFRS 9 on the Group. Further details of the specific IFRS 9 accounting policies applied in the current period (as well as the previous IAS 39 accounting policies applied in the comparative period) are described below.

The following table summarises the impact, net of tax, of transition to IFRS 9 on the opening balance of reserves and retained earnings:

MRUB	
Revaluation reserve	
Recognition of expected credit losses on investment securities under IFRS 9	(31)
Related tax	6
Impact at 1 January 2018	**(25)**
Expected credit losses	
Recognition of expected credit losses on financial assets at amortised cost and loan commitments under IFRS 9	(1,833)
Related tax	367
Impact at 1 January 2018	**(1,466)**

(i) Classification and measurement of financial instruments

The measurement category and the carrying amount of financial assets and liabilities in accordance with IAS 39 and IFRS 9 at 1 January 2018 are compared as follows:

	IAS 39		**IFRS 9**	
MRUB (unaudited)	**Measurement category**	**Carrying amount**	**Measurement category**	**Carrying amount**
Financial assets				
Cash and cash equivalents	Loans and receivables	23,040	Amortised cost	23,039
Placements with banks and other financial institutions	Loans and receivables	3,464	Amortised cost	3,458
Loans to customers	Loans and receivables	208,249	Amortised cost	206,425
Investment securities	Available-for-sale	48,810	FVOCI	48,810
Other assets	Loans and receivables	1,500	Amortised cost	1,499

Neither the classification nor the measurement of Financial liabilities were affected by the adoption of IFRS 9 compared to classification and measurement as they were under IAS 39.

(ii) Reconciliation of statement of financial position balances form IAS 39 to IFRS 9

The Group performed a detailed analysis of its business models for managing financial assets and analysis of their cash flow characteristics.

Please refer to Note 3(g)(i) for more detailed information regarding the new classification requirements of IFRS 9.

3. Significant accounting policies (continued)

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

MRUB	IAS 39 carrying amount at 31 December 2017	Remeasurement: change of ECL	IFRS 9 carrying amount at 1 January 2018
Financial assets			
Amortised cost			
Cash and cash equivalents:			
Opening balance under IAS 39	23,040		
Remeasurement: ECL allowance		(1)	
Closing balance under IFRS 9			23,039
Placements with banks and other financial institutions			
Opening balance under IAS 39	3,464		
Remeasurement: ECL allowance		(6)	
Closing balance under IFRS 9			3,458
Loans to customers:			
Opening balance under IAS 39	208,249		
Remeasurement: ECL allowance		(1,824)	
Closing balance under IFRS 9			206,425
Other assets			
Opening balance under IAS 39	1,500		
Remeasurement: ECL allowance		(1)	
Closing balance under IFRS 9			1,499
Total financial assets measured at amortised cost	**236,253**	**(1,832)**	**234,421**

MRUB	IAS 39 carrying amount at 31 December 2017	Reclassification	IFRS 9 carrying amount at 1 January 2018
Fair value through other comprehensive income (FVOCI)			
Available-for-sale			
Opening balance under IAS 39	48,810	-	-
Reclassification to "Investment securities (IFRS 9)"	-	(48,810)	-
Investment securities			
Reclassification from "Financial assets available for sale (IAS 39)"		48,810	-
Closing balance under IFRS 9	-	-	48,810
Total investment securities	**48,810**	**-**	**48,810**

3. Significant accounting policies (continued)

(iii) Reconciliation of impairment allowance balance from IAS 39 to IFRS 9

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

MRUB (unaudited) Measurement category	Loss allowance under IAS 39/ Provision under IAS 37	Remeasure-ment	Expected credit losses under IFRS 9
Loans and receivables (IAS 39)/Financial assets at amortised cost (IFRS 9)			
Cash and cash equivalents	-	1	**1**
Placements with banks and other financial institutions	-	6	**6**
Loans to customers	10,518	1,824	**12,342**
Other assets	7	1	**8**
	10,525	**1,832**	**12,357**
AFS (IAS 39)/Financial assets at FVOCI (IFRS 9)			
Investment securities	-	31	**31**
	-	**31**	**31**
Loans commitments and financial guarantee			
Provisions for credit losses from loan commitments	-	1	**1**
	-	**1**	**1**
TOTAL	**10,525**	**1,864**	**12,389**

(b) Basis of consolidation

(i) Business combinations

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group.

The Group measures goodwill at the acquisition date as the fair value of the consideration transferred (including the fair value of any previously-held equity interest in the acquiree if the business combination is achieved in stages) and the recognised amount of any non-controlling interest in the acquiree, less the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed. When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

The Group elects on transaction-by-transaction basis whether to measure non-controlling interests at fair value, or at their proportionate share of the recognsied amount of the identifiable net assets of the acquiree, at the acquisition date.

Any contingent consideration payable is measured at fair value at the acquisition date. If the contingent consideration is classified as equity, then it is not remeasured and settlement is accounted for within equity. Otherwise subsequent changes in the fair value of the contingent consideration are recognised in profit or loss.

Transaction costs, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

3. Significant accounting policies (continued)

(ii) Subsidiaries

Subsidiaries are investees controlled by the Group. The Group controls an investee when it is exposed to, or has rights to, variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. In particular the Group consolidates investees that it controls on the basis of de facto circumstances. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

(iii) Associates

Associates are those enterprises in which the Group has significant influence, but not control, over the financial and operating policies. The consolidated financial statements include the Group's share of the total recognised gains and losses of associates on an equity accounted basis, from the date that significant influence effectively commences until the date that significant influence effectively ceases. When the Group's share of losses exceeds the Group's interest in the associate, that interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred obligations in respect of the associate.

(iv) Structured entities

A structured entity is an entity designed so that its activities are not governed by way of voting rights. In assessing whether the Group has power over such investees in which it has an interest, the Group considers factors such as the purpose and design of the investee; its practical ability to direct the relevant activities of the investee; the nature of its relationship with the investee; and the size of its exposure to the variability of returns of the investee.

(v) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised gains arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with associates are eliminated to the extent of the Group's interest in the enterprise. Unrealised gains arising from transactions with associates are eliminated against the investment in the associate. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

(vi) Acquisitions and disposals of non-controlling interests

The Group accounts for the acquisitions and disposals of non-controlling interests as transactions with equity holders in their capacity as equity holders. 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 parent.

(c) Non-controlling interests

Non-controlling interests are the equity in a subsidiary not attributable, directly or indirectly, to the Group.

Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from the equity attributable to equity holders of the Group. Non-controlling interests in profit or loss and total comprehensive income are separately disclosed in the consolidated statements of profit or loss and comprehensive income.

(d) Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of the Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the reporting period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value is determined.

3. Significant accounting policies (continued)

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Foreign currency differences arising on retranslation are recognised in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments unless the difference is due to impairment in which case foreign currency differences that have been recognised in other comprehensive income are reclassified to profit or loss; a financial liability designated as a hedge of the net investment in a foreign operation to the extent that the hedge is effective; or qualifying cash flow hedges to the extent that the hedge is effective, which are recognised in other comprehensive income.

(e) Inflation accounting

The Russian Federation ceased to be hyperinflationary with effect from 1 January 2003 and accordingly, no adjustments for hyperinflation are made for periods subsequent to this date. The hyperinflation-adjusted carrying amounts of equity items as at 31 December 2002 became carrying amounts as at 1 January 2003 for the purpose of subsequent accounting.

(f) Cash and cash equivalents

The Group considers cash, nostro accounts, amounts receivable under reverse repurchase agreements, and term placements with the CBR and the NBRK, banks and other financial institutions due within one month to be cash and cash equivalents. The minimum reserve deposits with the CBR and the NBRK are not considered to be cash equivalents due to restrictions on its withdrawability.

(g) Financial assets and liabilities

(i) Recognition

Financial assets and liabilities are recognized in the statement of financial position when the Group becomes a party to the contractual provisions of the instrument. For regular purchases and sales of financial assets, the Group’s policy is to recognize them using settlement date accounting. Any change in the fair value of an asset to be received during the period between the trade date and the settlement date is accounted for in the same way as if the Group used trade date accounting.

(ii) Classification and measurement

Policy applicable since 1 January 2018

Financial assets

IFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics (SPPI criterion).

IFRS 9 includes three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). It eliminates the existing IAS 39 categories of held-to-maturity, loans and receivables and available-for-sale.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

-it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
-its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

A financial asset is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVTPL:
-it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
-its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

3. Significant accounting policies (continued)

On initial recognition of an equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in fair value in OCI. This election is made on an investment-by-investment basis.

All financial assets not classified as measured at amortised cost or FVOCI as described above are measured at FVTPL. In addition, on initial recognition the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

A financial asset is classified into one of these categories on initial recognition. See (vi) for the transition requirements relating to classification of financial assets.

Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of IFRS 9 are not separated. Instead, the hybrid financial instrument as a whole is assessed for classification.

Business model assessment

The Group made an assessment of the objective of the business model in which a financial asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information that was considered included:

-the stated policies and objectives for the portfolio and the operation of those policies in practice, including whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of assets;
-how the performance of the portfolio is evaluated and reported to the Group's management;
-the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
-how managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
-the frequency, volume and timing of sales in prior periods, the reasons for such sales and expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Group's stated objective for managing the financial assets is achieved and how cash flows are realised.

Financial assets that are held for trading and those that are managed and whose performance is evaluated on a fair value basis will be measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

Assessment whether contractual cash flows are solely payments of principal and interest (SPPI criterion)

For the purposes of this assessment, "principal" is defined as the fair value of the financial asset on initial recognition. "Interest" is defined as consideration for the time value of money, for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as a profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Group will consider the contractual terms of the instrument. This will include assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Group was considered:

-contingent events that would change the amount and timing of cash flows;
-leverage features;
-prepayment and extension terms;
-terms that limit the Group's claim to cash flows from specified assets – e.g. non-recourse asset arrangements; and
-features that modify consideration for the time value of money – e.g. periodic reset of interest rates.

3. Significant accounting policies (continued)

All of the Group's retail loans and certain fixed-rate corporate loans contain prepayment features.
A prepayment feature is consistent with the SPPI criterion if the prepayment amount substantially represents unpaid amounts of principal and interest on the principal amount outstanding, which may include reasonable compensation for early termination of the contract.

In addition, a prepayment feature is treated as consistent with this criterion if a financial asset is acquired or originated at a premium or discount to its contractual par amount, the prepayment amount substantially represents the contractual par amount plus accrued (but unpaid) contractual interest (which may also include reasonable compensation for early termination), and the fair value of the prepayment feature is insignificant on initial recognition.

Reclassification

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Group changes its business model for managing financial assets. The Group should reclassify financial assets if the Group changes its business model for managing those financial assets. Such changes are expected to be very infrequent. Such changes are determined by the Group's senior management as a result of external or internal changes and must be significant to the Group's operations and demonstrable to external parties. Accordingly, a change in the Group's business model will occur only when the Group either begins or ceases to perform an activity that is significant to its operations; for example, when the Group has acquired, disposed of or terminated a business line.

Financial liabilities are not reclassified subsequent to their initial recognition.

Financial liabilities

<u>Policy applicable from 1 January 2018</u>

IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities.

The Group derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognised at fair value. The difference between the carrying amount of the financial liability derecognised and consideration paid is recognised in profit or loss. Consideration paid includes non-financial assets transferred, if any, and the assumption of liabilities, including the new modified financial liability.

If the modification of a financial liability is not accounted for as derecognition, then the amortised cost of the liability is recalculated by discounting the modified cash flows at the original effective interest rate and the resulting gain or loss is recognised in profit or loss. For floating-rate financial liabilities, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of the modification. Any costs and fees incurred are recognised as an adjustment to the carrying amount of the liability and amortised over the remaining term of the modified financial liability by re-computing the effective interest rate on the instrument.

<u>Policy applicable before 1 January 2018</u>

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than those that the Group intends to sell immediately or in the near term, those that the Group upon initial recognition designates as at fair value through profit or loss, or those where its initial investment may not be substantially recovered, other than because of credit deterioration. Financial assets and liabilities at fair value through profit or loss are financial assets or liabilities that are classified as held for trading or those which are upon initial recognition designated by the entity as at fair value through profit or loss. Trading instruments include those that the Group principally holds for the purpose of short-term profit taking and derivative contracts that are not designated as effective hedging instruments.

3. Significant accounting policies (continued)

The Group designates financial assets and liabilities at fair value through profit or loss where either the assets or liabilities are managed, evaluated and reported internally on a fair value basis or the designation eliminates or significantly reduces an accounting mismatch which would otherwise arise or the asset or liability contains an embedded derivative that significantly modifies the cash flows that would otherwise be required under the contract. Financial assets and liabilities at fair value through profit or loss are not reclassified subsequent to initial recognition.

(iii) Fair value measurement

The Group measures fair values using the fair value hierarchy, which reflects the significance of the inputs used in making the measurements. For more details refer to Note 24(h).

Fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments the Group determines fair values using valuation techniques.

Valuation techniques include a comparison with similar instruments for which market observable prices exist, the net present value and discounted cash flow models and other valuation models. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other premiums used in estimating discount rates, bond and equity prices, foreign currency exchange rates, equity and equity index prices and expected price volatilities and correlations. The objective of valuation techniques is to arrive at a fair value determination that reflects the price of the financial instrument at the reporting date that would have been determined by market participants acting at arm’s length.

Where discounted cash flow techniques are used, estimated future cash flows are based on management’s best estimates and the discount rate is a market related rate at the reporting date for an instrument with similar terms and conditions. Where pricing models are used, inputs are based on market related measures at the reporting date.

The fair value of debt securities available for sale is based on their quoted market price. Fair value of derivative contracts that are not exchange traded is estimated using an arbitrage pricing model, the key parameters of which are the relevant foreign exchange rates and interbank interest rates prevailing at the reporting date.

The Group recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

(iv) Amortized cost measurement principles

The amortized cost of a financial asset or liability is the amount in which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between the initial amount recognized and the maturity amount, net of any relevant impairment.

(v) Gains and losses on subsequent measurement

Gains and losses on financial instruments classified as at fair value through profit or loss are recognized in profit or loss. Net gains or net losses on items at fair value through profit or loss exclude interest or dividend income.

Gains and losses on financial instruments classified at fair value through other comprehensive income are recognized in other comprehensive income (except for impairment losses and foreign exchange gains and losses) until the asset is derecognized, at which time the cumulative gain or loss previously recognized in other comprehensive income is reclassified to profit or loss.

For financial assets and liabilities carried at amortized cost, a gain or loss is recognized in profit or loss when the financial asset or liability is derecognized or impaired, and through the amortization process.

3. Significant accounting policies (continued)

(vi) Identification and measurement of impairment

Policy applicable since 1 January 2018

IFRS 9 replaces the "incurred loss" model in IAS 39 with the "expected credit loss" model. This model is forward-looking and it eliminates the threshold for the recognition of expected credit losses, so that it is no longer necessary for a trigger event to have occurred before credit losses are recognised. Consequently, more timely information is required to be provided about expected credit losses.

Under IAS 39, an entity may only consider losses that arise from past events and current conditions. The effects of possible future credit loss events could not be considered, even when they were expected. IFRS 9 broadens the information that an entity may consider when determining its ECLs. Specifically, IFRS 9 allows an entity to base its measurement of ECLs on reasonable and supportable information that is available without undue cost or effort, and that includes historical, current and forecast information.

The new impairment model applies to the following financial instruments that are not measured at FVTPL:
-financial assets that are debt instruments;
-lease receivables; and
-loan commitments and financial guarantee contracts issued (previously, impairment was measured under IAS 37 Provisions, Contingent Liabilities and Contingent Assets).

Under IFRS 9, no impairment loss is recognised on equity investments.

IFRS 9 requires a loss allowance to be recognised at an amount equal to either 12-month ECLs or lifetime ECLs. Financial instruments for which a 12-month ECL is recognised are referred to as ‘Stage 1’ financial instruments. Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument, whereas 12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date. Financial instruments for which a lifetime ECL is recognised are referred to as ‘Stage 2’ financial instruments (if the credit risk has increased significantly since initial recognition, but the financial instruments are not credit-impaired) and ‘Stage 3’ financial instruments (if the financial instruments are credit-impaired).

In accordance with IFRS 9, the Group recognises loss allowances at an amount equal to lifetime ECLs for a financial instrument, if the credit risk on that financial instrument has increased significantly since initial recognition — whether assessed on an individual or collective basis — considering all reasonable and supportable information. If, at the reporting date, the credit risk on a financial instrument has not increased significantly since initial recognition, an entity measures the loss allowance for that financial instrument at an amount equal to 12-month expected credit losses.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses and is measured as follows:
-financial assets that are not credit-impaired at the reporting date: the present value of all cash shortfalls – i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive;
-financial assets that are credit-impaired at the reporting date: the difference between the gross carrying amount and the present value of estimated future cash flows;
-undrawn loan commitments: the present value of the difference between the contractual cash flows that are due to the Group if the commitment is drawn and the cash flows that the Group expects to receive from this commitment; and
-financial guarantee contracts: the present value of the expected payments to reimburse the holder less any amounts that the Group expects to recover.

Financial assets that are credit-impaired are defined by IFRS 9 in a similar way to financial assets that are impaired under IAS 39.

3. Significant accounting policies (continued)

Definition of default

Under IFRS 9, the Group considers a financial asset to be in default when there is available information that:
-the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or
-the borrower is more than 90 days past due on the respective significant credit obligation to the Group. Overdrafts are considered past due once the customer has breached an advised limit or been advised of a limit that is smaller than the current amount outstanding.

In assessing whether a borrower is in default, the Group considers indicators that are:
-qualitative: e.g. breaches of covenant;
-quantitative: e.g. overdue status; and
-based on data developed internally and obtained from external sources (e.g. insolvency or bankruptcy loan registers).

Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances.

Credit risk grades

The Group allocates each exposure to a credit risk grade based on a variety of data that is determined to be predictive of the risk of default and applying experienced credit judgement. The Group uses these grades in identifying significant increases in credit risk under IFRS 9. Credit risk grades are defined using qualitative and quantitative factors that are indicative of the risk of default. These factors may vary depending on the nature of the exposure and the type of borrower.

Each exposure is allocated to a credit risk grade on initial recognition based on available information about the borrower. Exposures are subject to ongoing monitoring, which may result in an exposure being moved to a different credit risk grade.

Credit risk grades and client's score are primary inputs into the determination of the probability of default (PD) development for exposures. The Group collects performance and default information about its credit risk exposures analysed by jurisdiction, by type of product and borrower and by credit risk grading.

The Group employs statistical models to analyse the data collected and generate estimates of the remaining lifetime PD of exposures and how these are expected to change as a result of the passage of time.

Determining whether credit risk has increased significantly

Under IFRS 9, when determining whether the credit risk (i.e. risk of default) on a financial instrument has increased significantly since initial recognition, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort, including both quantitative and qualitative information and analysis consisting - based on availability and complexity - of the Group's historical experience, expert credit assessment and forward-looking information.

The criteria may vary by portfolio and include a backstop based on delinquency in accordance with IFRS 9. As a backstop, and as required by IFRS 9, the Group considers that a significant increase in credit risk occurs no later than when an asset is more than 30 days past due. The Group determines days past due by counting the number of days since the earliest elapsed due date in respect of which full payment – subject to materiality threshold – has not been received.

The Group primarily identifies whether a significant increase in credit risk has occurred for an exposure by comparing:
-the remaining lifetime probability of default (PD) as at the reporting date; with
-the remaining lifetime PD for this point in time that was estimated on initial recognition of the exposure adjusted where relevant for changes in prepayment expectation.

3. Significant accounting policies (continued)

The Group will deem the credit risk of a particular exposure to have increased significantly since initial recognition if the remaining PD is determined to have increased more than is defined for respective risk grade – since initial recognition.

Assessing whether credit risk has increased significantly since initial recognition of a financial instrument requires identifying the date of initial recognition of the instrument. For certain revolving facilities (e.g. credit cards and overdrafts), the date when the facility was firstly used could be a long time ago. Modifying the contractual terms of a financial instrument may also affect this assessment.

In certain instances, using its expert credit judgement and, where possible, relevant historical experience, the Group may determine that an exposure has undergone a significant increase in credit risk if particular qualitative factors indicate so and those indicators may not be fully captured by its quantitative analysis on a timely basis.

The Group monitors the suitability of the criteria used to identify significant increases in credit risk by regular reviews to confirm that results of assessment are compliant with IFRS 9 and internal guidelines and settings.

Modified financial assets

The contractual terms of a loan may be modified for a number of reasons, including changing market conditions, customer retention and other factors not related to a current or potential credit deterioration of the customer. If the terms of a financial asset are modified, the Group evaluates whether the cash flows of the modified loans are substantially different. If the cash flows are substantially different (referred to as "substantial modification"), then the contractual rights to cash flows from the existing loans are deemed to have expired. In this case, the existing loans are derecognised and a new loans are recognised at fair value.

Under IFRS 9, when the terms of a financial asset are modified due to borrowers financial difficulties and the modification does not result in derecognition, the determination of whether the asset's credit risk has increased significantly should reflect comparison of:
-the remaining lifetime PD at the reporting date based on the modified terms; with
-the remaining PD estimated based on data on initial recognition and terms of the original contract.

The Group renegotiates loans to customers in financial difficulties (referred to as "forbearance activities") to maximise collection opportunities and minimise the risk of default. Under the Group's forbearance policy, loan forbearance is granted on a selective basis if the debtor is currently in default on its debt or if there is a high risk of default, there is evidence that the debtor made all reasonable efforts to pay under the original contractual terms and the debtor is expected to be able to meet the revised terms.

The revised terms usually include extending the maturity, changing the timing of interest payments and amending the terms of loan covenants.

Generally, forbearance is a qualitative indicator of default and credit impairment and expectations of forbearance are relevant to assessing whether there is a significant increase in credit risk.

Following forbearance, a customer needs to demonstrate consistently good payment behaviour over a period of time before the exposure is no longer considered to be in default/credit-impaired or the PD is considered to have decreased such that the loss allowance reverts to being measured at an amount equal to 12-month ECLs.

Inputs into measurement of ECLs

The key inputs into the measurement of ECLs are – in general – the following variables:
-PD;
-loss given default (LGD); and
-exposure at default (EAD).

These parameters are derived – alone or together – from internally developed statistical models based on own historical data or derived from available market data.

3. Significant accounting policies (continued)

For retail portfolio PD and EAD is usually estimated together using statistical models (stochastic Markov chain, Gross Roll Rate model) based on internally compiled data. Where it is available, market data may also be used to derive the PD for large corporate counterparties where there is not enough internally available data for statistical modelling.

LGD is estimated based on the history of recovery rates of claims against defaulted counterparties. It is calculated on a discounted cash flow basis using the effective interest rate as the discounting factor. For loans secured by retail property, loan-to-value (LTV) ratios are likely to be a key parameter in determining LGD and models will consider the structure, collateral, seniority of the claim, and recovery costs of any collateral that is integral to the financial asset.

For retail overdraft and credit card facilities and certain corporate revolving facilities that include both a loan and an undrawn commitment component, the Group measures ECLs over a period when the Group's ability to demand repayment and cancel the undrawn commitment does not limit the Group's exposure to credit losses to the contractual notice period. These facilities do not have a fixed term or repayment structure and are managed on a collective basis. The Group can cancel them with immediate effect but this contractual right is not enforced in the normal day-to-day management, but only when the Group becomes aware of an increase in credit risk at the facility level. This period is estimated taking into account the credit risk management actions that the Group expects to take and that serve to mitigate ECLs. These include a reduction in limits and cancellation of the facility.

Where modelling of a parameter is carried out on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics, such as:
-instrument type;
-credit risk;
-collateral type;
-date of initial recognition;
-remaining term to maturity.

The groupings is subject to regular review to ensure that exposures within a particular group remain appropriately homogeneous.

For portfolios in respect of which the Group has limited historical data, external benchmark information is used to supplement the internally available data. The portfolios for which external benchmark information represents a significant input into measurement of ECL are as follows.

MRUB		**External benchmarks used**
Exposure as at 31 December 2018		**PD**
Placements with banks and other financial institutions	5,193	Moody's default study
Investment securities	35,910	Moody's default study
Other assets	1,570	Moody's default study

Forward-looking information

Under IFRS 9, the Group incorporates forward-looking information into assessment of whether the credit risk of an instrument has increased significantly since initial recognition and – where possible – as part of measurement of ECLs. External information used may include economic data and forecasts published by governmental bodies and monetary authorities.

The Group uses – based on data availability and credibility of sources – an analysis of historical data to estimate relationships between macro-economic variables and credit risk and credit losses. The key external drivers include variables such as interest rates, GDP growth rates.

3. Significant accounting policies (continued)

Policy applicable before 1 January 2018

The Group has developed a provisioning policy, which describes in detail the procedures and methodology of the impairment measurement, and a write-off policy. The impairment measurement is dealt with as follows:

The Group assesses on a regular basis whether there is objective evidence that financial assets not carried at fair value through profit or loss are impaired. Financial assets are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the assets, and that the loss event has an impact on the future cash flows on the asset that can be estimated reliably.

Objective evidence that financial assets are impaired includes:
• default or delinquency by a debtor;
• restructuring of an amount due to the Group on terms that the Group would not consider otherwise;
• indications that a debtor or issuer will enter bankruptcy;
• adverse changes in the payment status of borrowers or issuers;
• the disappearance of an active market for a security because of financial difficulties; or
• observable data indicating that there is a measurable decrease in the expected cash flows from a group of financial assets.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial assets, whether significant or not, it includes the assets in a group of financial assets with similar risk characteristics and collectively assesses them for impairment. Financial assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss on a financial asset has been incurred, the amount of the loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows including amounts recoverable from guarantees and collateral discounted at the financial asset's original effective interest rate. Contractual cash flows and historical loss experience adjusted on the basis of relevant observable data that reflect current economic conditions provide the basis for estimating expected cash flows. Financial assets with a short duration are not discounted.

In some cases the observable data required to estimate the amount of an impairment loss on a financial asset may be limited or no longer fully relevant to current circumstances. This may be the case when a borrower is in financial difficulties and there is little available historical data relating to similar borrowers. In such cases, the Group uses its experience and judgment to estimate the amount of any impairment loss.

Loans and receivables with renegotiated terms are those that have been restructured due to deterioration in the borrower's financial position. In respect of some of these loans, the Group makes concessions that it would not otherwise consider. Restructuring is one of indicators of an asset's impairment.

All impairment losses in respect of financial assets are recognized in the consolidated statement of profit or loss and are only reversed if a subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognized. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount of the asset that would have been determined, net of amortization, if no impairment loss had been recognized.

The write-off policy of the Group requires that the outstanding amount of a loan shall be written off if there is any instalment overdue for 361 or more days. However, the loan shall remain in the company's balance sheet even after 361 days of non-payment if it is probable that the loan will be sold in a near future, or significant recoveries are expected. In such case, the loan outstanding amount shall be derecognized at the moment of the sale or later as soon as no significant recoveries are expected.

3. Significant accounting policies (continued)

(vii) Derecognition

The Group derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognized separately as asset or liability.

The Group derecognizes a financial liability when its contractual obligations are discharged or cancelled or expire.

(viii) Offsetting

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when there is a legally enforceable right to set off the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

(ix) Securitization

For securitized financial assets, the Group considers both the degree of transfer of risks and rewards on assets transferred to another entity and the degree of control exercised by the Group over the other entity.

When the Group, in substance, controls the entity to which financial assets have been transferred, the entity is included in these consolidated financial statements and the transferred assets are recognized in the consolidated statement of financial position.

When the Group has transferred financial assets to another entity, but has retained substantially all of the risks and rewards relating to the transferred assets, the transferred assets are recognized in the consolidated statement of financial position.

When the Group transfers substantially all the risks and rewards relating to the transferred assets to an entity that it does not control, the assets are derecognized from the consolidated statement of financial position.

If the Group neither transfers nor retains substantially all the risks and rewards relating to the transferred assets, the assets are derecognized if the Group has not retained control over the assets.

(x) Repurchase and reverse repurchase agreements

Securities sold under sale and repurchase agreements are accounted for as secured financing transactions, with the securities retained in the statement of financial position and the counterparty liability included in amounts due to banks, other financial institutions and holding companies or to customers, as appropriate. The difference between the sale and repurchase price represents interest expense and is recognized in the consolidated statement of profit or loss over the terms of the agreement.

Securities purchased under agreements to resell are recorded as due from banks and other financial institutions or from customers as appropriate. The difference between the sale and repurchase considerations is recognized on an accrual basis over the period of the transaction and is included in interest income.

(xi) Derivative financial instruments

The Group uses derivative financial instruments to hedge its exposure to foreign exchange and interest rate risk arising from financing activities. However, not all instruments qualify for hedge accounting in accordance with IAS 39/IFRS 9. For derivative instruments where hedge accounting is not applied, any gain or loss on derivatives is recognized immediately in the consolidated statement of comprehensive income as net gains/losses on financial assets and liabilities.

3. Significant accounting policies (continued)

(xii) Hedge accounting

Policy applicable since 1 January 2018

IFRS 9 requires the Group to ensure that hedge accounting relationships are aligned with the Group's risk management objectives and strategy and to apply a more qualitative and forward-looking approach to assessing hedge effectiveness. IFRS 9 also introduces new requirements on rebalancing hedge relationships and prohibiting voluntary discontinuation of hedge accounting.

When initially applying IFRS 9, the Group chose as its accounting policy to continue to apply the hedge accounting requirements of IAS 39 instead of the requirements in Chapter 6 of IFRS 9.

(h) Intangible assets and goodwill

(i) Goodwill and negative goodwill

Goodwill arising on an acquisition represents the excess of the cost of the acquisition over the Group's interest in the fair value of the net identifiable assets and liabilities of the acquiree. When the excess is negative (negative goodwill), it is recognized immediately in profit and loss. Goodwill is stated at cost less accumulated impairment losses.

In respect of associates, the carrying amount of any goodwill is included in the carrying amount of the investment in the associate.

(ii) Other intangible assets

Intangible assets acquired by the Group are stated at cost less accumulated amortization and accumulated impairment losses. Expenditure on internally generated goodwill and brands is recognized in the consolidated statement of profit or loss as an expense as incurred.

(iii) Amortization

Amortisation is charged to the consolidated statement of profit or loss on a straight line basis over the estimated useful lives of intangible assets. Goodwill is not amortised; other intangible assets are amortised from the date the asset is available for use. The estimated useful lives are as follows:

Software 1 - 10 years
Licenses 1 - 10 years

(i) Property and equipment

(i) Owned assets

Items of property and equipment are stated at cost less accumulated depreciation (refer below) and accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost for self-constructed assets includes the cost of materials, direct labour and an appropriate proportion of production overheads.

Where an item of property and equipment comprises major components having different useful lives, they are accounted for as separate items of property and equipment.

(ii) Leased assets

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Equipment acquired by way of finance lease is stated at an amount equal to the lower of its fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation (refer below) and accumulated impairment losses.

3. Significant accounting policies (continued)

Property and equipment used by the Group under operating leases, whereby the risks and benefits relating to ownership of the assets remain with the lessor, are not recorded in the Group's statement of financial position. Payments made under operating leases to the lessor are charged to the consolidated statement of profit or loss over the period of the lease.

(iii) Subsequent expenditure

Expenditure incurred to replace a component of an item of property and equipment that is accounted for separately, including major inspection and overhaul expenditure, is capitalized. Other subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the item of property and equipment and its cost can be measured reliably. All other expenditure is recognized in the consolidated statement of profit or loss as an expense as incurred.

(iv) Depreciation

Depreciation is charged to the consolidated statement of profit or loss on a straight line basis over the estimated useful lives of the individual assets. Property and equipment are depreciated from the date the asset is available for use. The depreciation methods, useful lives and residual values, if not insignificant, are reassessed annually. If a significant technical improvement is made to an asset during the year, its useful life and residual value are reassessed at the time a technical improvement is recognized.

The estimated useful lives of significant items of property and equipment are as follows:

IT equipment	2-5 years
Vehicles	3-5 years
Furniture	2-5 years
Leasehold improvements	2-5 years
Buildings	10-50 years

(j) Impairment of non-financial assets

The carrying amounts of the Group's non-financial assets, other than deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated.

The recoverable amount of other non-financial assets is the greater of their fair value less costs to sell and 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 an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognized when the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount.

3. Significant accounting policies (continued)

All impairment losses in respect of non-financial assets are recognized in the consolidated statement of profit or loss and reversed only if there has been a change in the estimates used to determine the recoverable amount. Any impairment loss reversed is only reversed to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized. An impairment loss in respect of goodwill is not reversed. On disposal of a subsidiary, the amount of goodwill that is attributable to the subsidiary is included in the determination of the profit or loss on disposal.

(k) Provisions

A provision is recognized in the statement of financial position if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is significant, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

A provision for restructuring is recognised when the Group has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been announced publicly. Future operating costs are not provided for.

(l) Other payables

Accounts payable arise when the Group has a contractual obligation to deliver cash or another financial asset. Accounts payable are measured at amortized cost, which is normally equal to their nominal or repayment value.

(m) Financial guarantees

A financial guarantee is a contract that requires the Group to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument. Financial guarantee liabilities are included within other liabilities.

(n) Equity

According to the Charter of the Bank a participant of a Limited Liability Company has the right to withdraw from the company unilaterally. In such event the Bank has a liability to pay the participant its pro rata share of the Bank' net assets calculated in accordance with the Russian Accounting Standards.

This puttable financial instrument includes the obligation of the Bank to redeem participant's interest, however, management believes that exception conditions according to IAS 32 *Financial Instruments: Presentation* apply, including the total expected cash flows attributable to the instrument over its life are based substantially on change in recognized net assets calculated in accordance with IFRS, due to the fact that they are not significantly different from the Bank's net assets calculated in accordance with the Russian Accounting Standards.

As the result the Group presents charter capital, other capital contributions, revaluation reserve for financial assets available for sale, cash flow hedge reserve, retained earnings and translation reserve as equity.

(o) Interest income and expense

<u>Policy applicable from 1 January 2018</u>

Effective interest rate

Interest income and expense are recognised in the consolidated statement of profit or loss using the effective interest method. The "effective interest rate" is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to:

- The gross carrying amount of the financial asset; or
- The amortised cost of the financial liability.

3. Significant accounting policies (continued)

When calculating the effective interest rate for financial instruments other than purchased or originated credit-impaired assets, the Group estimates future cash flows considering all contractual terms of the financial instrument, but not Expected Credit Loss (hereafter "ECL"). For purchased or originated credit-impaired financial assets, a credit adjustment effective interest rate is calculated using estimated future cash flows including ECL.

The calculation of the effective interest rate includes transaction costs and fees and points paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or financial liability.

Amortised cost and gross carrying amount

The "amortised cost" of a financial asset or liability is the amount at which the financial asset or financial liability is measured on initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount and the maturity amount and, for financial assets, adjusted for any expected credit loss allowance (or impairment allowance before 1 January 2018).

The "gross carrying amount of a financial asset" is the amortised cost of a financial asset before adjustment for any expected credit loss allowance.

Calculation of interest income and expense

The effective interest rate of a financial asset or financial liability is calculated on initial recognition of a financial asset or a financial liability. In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired) or to the amortised cost of the liability. The effective interest rate is revised as a result of periodic re-estimation of cash flows of floating rate instruments to reflect movements in market rates of interest. The effective interest rate is also revised for fair value hedge adjustments at the date amortisation of the hedge adjustments begins.

However, for financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortised cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

For financial assets that were credit-impaired on initial recognition, interest income is calculated by applying the credit-adjusted effective interest rate to the amortised cost of the asset. The calculation of interest income does not revert to a gross basis, even if the credit risk of the asset improves.

Policy applicable before 1 January 2018

Interest income and expense are recognised in the consolidated statement of profit or loss as they accrue, taking into account the effective rate of the asset/liability or an applicable floating rate. Interest income and expense include the amortisation of any discount or premium or other differences between the initial carrying amount of an interest bearing instrument and its amount at maturity calculated on an effective interest basis.

(p) Fee and commission income

Fees and commission income and expenses that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate.

A contract with a customer that results in a recognised financial instrument in the Group's financial statements may be partially in the scope of IFRS 9 and partially in the scope of IFRS 15. If this is the case, then the Group first applies IFRS 9 to separate and measure the part of the contract that is in the scope of IFRS 9 and then applies IFRS 15 to the residual.

Other fees and commission income and expense relate mainly to transaction and service fees, which are recognized as the services are rendered or received.

3. Significant accounting policies (continued)

The Group acts as an agent for insurance providers offering their insurance products to consumer loan borrowers. Commission income from insurance represents commissions for such agency services received by the Group from such partners. It is not considered to be integral to the overall profitability of consumer loans because it is determined and recognized based on the Group's contractual arrangements with the insurance provider rather than with the borrower, the borrowers have a choice whether to purchase the policy, the interest rates for customers with and without the insurance are the same. The Group does not participate on the insurance risk, which is entirely borne by the partner. Commission income from insurance is recognized in profit or loss when the Group provides the agency service to the insurance company.

(q) Penalty fees

Penalty income is recognized in the consolidated statement of profit or loss when penalty is charged to a customer, taking into account its collectability.

(r) Operating lease payments

Payments made under operating leases are recognized in the consolidated statement of profit or loss on a straight-line basis over the term of the lease. Granted lease incentives are recognized as an integral part of the total lease expense.

(s) Employee benefits

Short-term employee benefits are expensed as the related service is provided. A liability is recognized for the amount expected to be paid if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

The governments of the countries the Group operates in are responsible for providing pensions and retirement benefits to the Group's employees. A regular contribution linked to employees' salaries is made by the Group to the governments to fund the national pension plans. Payments under these pension schemes are charged as expenses as they fall due.

(t) Taxation

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the consolidated statement of profit or loss except to the extent that it relates to items recognised in other comprehensive income or equity, in which case it is recognised in other comprehensive income or equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities are recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax assets and liabilities are not recognised for the following temporary differences: goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit and temporary differences related to investments in subsidiaries where the parent is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets are recognised for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. Future taxable profits are determined based on the reversal of relevant taxable temporary differences. If the amount of taxable temporary differences is insufficient to recognise a deferred tax asset in full, then future taxable profits, adjusted for reversals of existing temporary differences, are considered, based on the business plans for individual subsidiaries in the Group. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised; such reductions are reversed when the probability of future taxable profits improves.

3. Significant accounting policies (continued)

Unrecognised deferred tax assets are reassessed at each reporting date and recognised to the extent that it has become probable that future taxable profits will be available against which they can be used.

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

The measurement of deferred tax assets and liabilities reflects the tax consequences that would follow 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 tax assets and liabilities are offset if there is a legally enforceable right to offset current tax assets and liabilities, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

In accordance with the tax legislation of the Russian Federation, tax losses and current tax assets of a company in the Group may not be set off against taxable profits and current tax liabilities of other Group companies. In addition, the tax base is determined separately for each of the Group's main activities and, therefore, tax losses and taxable profits related to different activities cannot be offset.

In determining the amount of current and deferred tax the Group takes into account the impact of uncertain tax positions and whether additional taxes, penalties and late-payment interest may be due. The Group believes that its accruals for tax liabilities are adequate for all open tax years based on its assessment of many factors, including interpretations of tax law and prior experience. This assessment relies on estimates and assumptions and may involve a series of judgments about future events. New information may become available that causes the Group to change its judgment regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact the tax expense in the period that such a determination is made.

(u) Segment reporting

An operating segment is a component of a Group that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses related to transactions with other components of the same Group); whose operating results are regularly reviewed by the chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

(v) Standards, interpretations and amendments to published standards that are not yet effective and are relevant for the Group's financial statements

A number of new standards, amendments to standards and interpretations were not yet effective as of 31 December 2018 and have not been applied in preparing these consolidated financial statements. Of these pronouncements, potentially the following will have an impact on the Group's operations. The Group plans to adopt these pronouncements when they become effective. The Group is in the process of analysing the likely impact on its financial statements.

IFRS 16 Leases (effective from 1 January 2019)

In January 2016 IASB issued a new Standard on leases. The standard requires companies to bring most leases on-balance sheet, recognising new assets and liabilities. IFRS 16 eliminates the classification of leases as either operating or finance for lessees and, instead, introduces a single lessee accounting model. This model reflects that leases result in a company obtaining the right to use an asset (the 'lease asset') at the start of the lease and, because most lease payments are made over time, also obtaining financing. As a result, the new Standard requires lessees to account for all of their leases in a manner similar to how finance leases were treated applying IAS 17. IFRS 16 includes two exemptions from recognising assets and liabilities for (a) short-term leases (i.e. leases of 12 months or less) and (b) leases of low-value items (such as personal computers).

3. Significant accounting policies (continued)

Applying IFRS 16, a lessee will:

- recognise lease assets (as a separate line item or together with property, plant and equipment) and lease liabilities in the balance sheet;
- recognise depreciation of lease assets and interest on lease liabilities in the income statement; and
- present the amount of cash paid for the principal portion of the lease liability within financing activities, and the amount paid for the interest portion within either operating or financing activities, in the cash flow statement.

Amendments to IFRS 9 Financial Instruments: Prepayment Features with Negative Compensation (effective from 1 January 2019)

In October 2017 IASB issued amendments to IFRS 9 "Prepayment Features with Negative Compensation“. These amendments enable entities to measure at amortised cost some prepayable financial assets with so-called negative compensation.

These amendments are not expected to have significant impact on the Group’s financial statements.

Amendments to IAS 28 Investments in Associates and Joint Ventures: Long-term Interests in Associates and Joint Ventures (effective from 1 January 2019)

The amendments to IAS 28 *Investments in Associates and Joint Ventures* clarify that companies’ account for long-term interests in an associate or joint venture – to which the equity method is not applied – using IFRS 9.

These amendments are not expected to have significant impact on the Group’s financial statements.

Annual Improvements to IFRS Standards 2015-2017 Cycle (effective from 1 January 2019)

In February 2018 the IASB published Annual Improvements to IFRSs 2014-2016 Cycle as part of the annual improvements process to make non-urgent but necessary amendments to IFRS. The new cycle of improvements contains amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23.

These amendments are not expected to have significant impact on the Group’s financial statements.

IFRIC 23 Uncertainty over Income Tax Treatments (effective from 1 January 2019)

IFRIC 23 clarifies the accounting for income tax treatments that have yet to be accepted by tax authorities, whilst also aiming to enhance transparency. Under IFRIC 23, the key test is whether it is probable that the tax authority will accept the entity’s chosen tax treatment. If it is probable that the tax authorities will accept the uncertain tax treatment then the tax amounts recorded in the financial statements are consistent with the tax return with no uncertainty reflected in measuring current and deferred taxes. Otherwise, the taxable income (or tax loss), tax bases and unused tax losses shall be determined in a way that better predicts the resolution of the uncertainty, using either the single most likely amount or expected (sum of probability weighted amounts) value. An entity must assume the tax authority will examine the position and will have full knowledge of all the relevant information.

The Group currently analyses the possible impact on its consolidated financial statements.

Amendments to References to Conceptual Framework (effective from 1 January 2020)

The IASB decided to revise the Conceptual Framework because some important issues were not covered and some guidance was unclear or out of date. The revised Conceptual Framework, issued by the IASB in March 2018, includes a new chapter on measurement; guidance on reporting financial performance; improved definitions of an asset and a liability, and guidance supporting these definitions; and clarifications in important areas, such as the roles of stewardship, prudence and measurement uncertainty in financial reporting.

The IASB also updated references to the Conceptual Framework in IFRS Standards by issuing Amendments to References to the Conceptual Framework in IFRS Standards. This was done to support transition to the revised Conceptual Framework for companies that develop accounting policies using the Conceptual Framework when no IFRS Standard applies to a particular transaction.

The Group does not expect these amendments to have a significant impact on its consolidated financial statements.

4. Interest income calculated using effective interest rate and interest expense

	2018 MRUB	2017 MRUB
Interest income calculated using EIR		
Loans to individuals	50,423	44,021
Investment securities	2,241	1,935
Amounts receivable under reverse repurchase agreements	491	421
Placements with banks and other financial institutions	417	903
Loans to corporations	244	553
	53,816	**47,833**
Interest expense		
Current accounts and deposits from customers	14,785	13,690
Subordinated debt	1,426	2,258
Due to banks and other financial institutions	793	768
Debt securities issued	556	304
Amounts payable under repurchase agreements	276	74
	17,836	**17,094**

5. Fee and commission income

	2018 MRUB	2017 MRUB
Insurance agent commissions	6,786	7,531
Cash operations	1,638	1,035
Customer payments processing and account maintenance	1,621	1,405
Contractual penalties from customers	1,392	1,222
Fees from retailers	1,049	600
Pension agent commissions	40	230
Other	201	177
	12,727	**12,200**

The fee and commission income from contracts with customers in the scope of IFRS 15 is measured based on the consideration specified in a contract with a customer. The Group recognises revenue related to transactions at the point in time when the transaction takes place.

The Group provides insurance agent services to retail customers (insurance policies) under the framework agreement concluded between the Group and insurance company. The Group acts as an insurance agent and offers customers insurance policies on behalf of the insurance company. The Group is paid an agency fee proportionate to premiums subscribed. There are two types of contracts with retail customers: (1) purchase of an insurance policy along with a loan, payment for the policy is made using cash obtained under a loan agreement and (2) purchase an insurance policy on its own. Insurance policy purchase is voluntary. Revenue related to transactions is recognised at the point in time when the transaction takes place.

6. Fee and commission expense

	2018 MRUB	2017 MRUB
Payments to the Deposit Insurance Agency	1,336	759
Cash transactions	1,226	603
Customer payments processing and account maintenance	811	737
Credit bureau	429	512
State duties	187	246
Other	346	65
	4,335	**2,922**

7. Other operating (loss)/income, net

	Note	2018 MRUB	2017 MRUB
Net income/(loss) on spot transactions and currency derivatives		487	(101)
Share of the profit of associate		245	171
Net gain on early redemption of subordinated debt		21	4
Gain from sale of loans	13	-	2
Net gain on interest rate derivatives		-	1
Net realised (loss)/gain on disposal of investment securities		(849)	79
Loss from foreign exchange revaluation of financial assets and liabilities		(1,179)	(41)
Other		48	47
		(1,227)	**162**

8. Impairment losses

	Note	2018 MRUB	2017 MRUB
POS loans	13	2,024	1,851
Cash loans	13	1,555	(267)
Loans to corporations	13	718	287
Investment securities	14	56	-
Other assets	16	45	230
Credit card loans	13	29	491
Cash and cash equivalents		(1)	-
Car loans	13	-	(1)
Placements with banks and other financial institutions	12	(5)	-
Property, equipment and intangible assets	15	(69)	-
Mortgage loans	13	(130)	(77)
		4,222	**2,514**

9. General administrative expenses

	Note	2018 MRUB	2017 MRUB
Personnel related expenses		10,524	9,922
Payroll related taxes		2,212	1,961
Depreciation and amortisation	15	1,725	1,683
Professional services		1,152	707
Information technology		1,111	1,065
Occupancy	27	1,097	1,047
Advertising and marketing		1,065	982
Telecommunication and postage		981	904
Repairs and maintenance		858	809
Taxes other than income tax		300	223
Travel expenses		205	184
Other		399	337
		21,629	**19,824**

10. Income tax expense

MRUB	2018	2017
Current tax expense	(2,862)	(1,932)
Deferred tax expense	(623)	(1,664)
	(3,485)	**(3,596)**

Reconciliation of effective tax rate

MRUB	2018	2017
Profit before tax	**17,294**	**17,841**
Income tax expense using the applicable tax rate 20%	(3,459)	(3,568)
Non-deductible costs	(125)	(68)
Income taxed at lower tax rates	99	40
	(3,485)	**(3,596)**

The tax effects relating to components of other comprehensive income comprise:

	2018			2017		
MRUB	**Amount before tax**	**Tax benefit**	**Amount net of tax**	**Amount before tax**	**Tax expense**	**Amount net of tax**
Net change in fair value of investment securities	(41)	8	(33)	18	(4)	14
	(41)	**8**	**(33)**	**18**	**(4)**	**14**

11. Cash and cash equivalents

	2018 **MRUB**	**2017** **MRUB**
Nostro accounts with the CBR	5,500	6,320
Amounts receivable under reverse repurchase agreements	5,104	9,007
Cash	4,431	4,822
Placements with banks and other financial institutions due within one month	3,256	1,562
Other Russian non-banking financial institutions	*1,914*	-
OECD banks	*1,019*	*1,283*
Largest 50 Russian banks	*3*	*3*
Other	*320*	*276*
Nostro accounts with the NBRK	2,542	913
Placements with the NBRK	8,132	416
	28,965	**23,040**

Placements with banks and other financial institutions shown above comprise nostro accounts.

As at 31 December 2018 amounts receivable under reverse repurchase agreements are represented by counterparties with Moody's rating from Baa3 to Ba3. As at 31 December 2018 fair value of securities pledged under reverse repurchase agreements equals MRUB 6,020 (2017: MRUB 9,294).

As at 31 December 2018 placements with banks and other financial institutions due within one month are represented by counterparties with Moody's rating from A1 to Ba3.

All cash and cash equivalent balances are classified in 12-month ECL category.

No cash and cash equivalents are credit-impaired or past due.

12. Placements with banks and other financial institutions

	2018 MRUB	2017 MRUB
Placements with MasterCard, VISA and MIR	2,205	1,823
Minimum reserve deposit with the CBR	1,513	1,328
Minimum reserve deposit with the NBRK	960	312
Term deposits with banks and other financial institutions due after one month	516	1
Expected credit losses allowance	(1)	-
	5,193	**3,464**

The minimum reserve deposit with the CBR is a mandatory non-interest bearing deposit calculated in accordance with regulations issued by the CBR whose withdrawability is restricted.

In accordance with regulations issued by the NBRK, minimum reserve requirements are calculated as a percentage of particular Bank Home Credit's (SB JSC) liabilities. Bank Home Credit (SB JSC) is required to comply with these requirements by maintaining average cash in local currency and nostro accounts with the NBRK equal or in excess of the average minimum requirements.

Placements with MasterCard, VISA and MIR are security deposits whose withdrawability is restricted.

As at 31 December 2018 term deposits with bank and other financial institutions due after one month are represented by OECD non-banking financial institutes.

Movements in the impairment allowance are as follows:

MRUB	**Note**	**2018**
Balance at 31 December 2017		**-**
Impact of adopting IFRS 9 as at 1 January (see Note 3)		6
Restated balance as at 1 January 2018		**6**
Net recovery	8	(5)
Balance at 31 December 2018		**1**

The following table sets out information about the credit quality of placements with banks and other financial institutions using Moody's ratings as at 31 December 2018:

	31 December 2018	
MRUB	**Stage 1**	**Total**
Placements with banks and other financial institutions		
Rated A3 to A1	2,201	**2,201**
Rated from Ba3 to Ba1	2,924	**2,924**
Rated from Caa2 to B1	69	**69**
	5,194	**5,194**
Expected credit losses	**(1)**	**(1)**
Carrying amount	**5,193**	**5,193**

13. Loans to customers

	2018 MRUB	2017 MRUB
Cash loans	157,085	120,854
POS loans	75,305	74,731
Credit card loans	20,127	17,382
Loans to corporations	4,367	3,880
Mortgage loans	1,516	1,920
Impairment allowance	(13,046)	(10,518)
	245,354	**208,249**

The Group provides point-of-sale loans ("POS loans") for any purpose including household goods, services and other purposes. Cash loans and credit cards are issued for general purposes.

The significant changes in the gross carrying amount of the loans to customers for the year ended 31 December 2018 are further explained below:

	2018			
MRUB	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Loans to customers – gross carrying amount				
Balance at 1 January	**186,850**	**22,220**	**9,697**	**218,767**
Transfer to Stage 1	1,789	(1,789)	-	**-**
Transfer to Stage 2	(22,344)	22,351	(7)	**-**
Transfer to Stage 3	(6,665)	(3,625)	10,290	**-**
New financial assets originated	174,262	-	-	**174,262**
Financial assets that have been fully repaid	(114,211)	(11,410)	(1,255)	**(126,876)**
Write-offs	-	-	(9,360)	**(9,360)**
Unwinding of discount on present value of expected credit losses	-	-	269	**269**
Effect of foreign currency translation	1,176	93	69	**1,338**
Balance at 31 December	**220,857**	**27,840**	**9,703**	**258,400**

The following table sets out information about the credit quality of loans to customers measured at amortised cost for the year ended 31 December 2018:

	31 December 2018			
MRUB	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Cash loans				
Not overdue	129,753	17,930	-	147,683
Overdue less than 30	800	2,374	-	3,174
Overdue 31-90 days	-	1,765	-	1,765
Overdue 91-360 days	-	-	4,463	4,463
Total gross portfolio	**130,553**	**22,069**	**4,463**	**157,085**
Expected credit losses	**(1,876)**	**(1,641)**	**(3,333)**	**(6,850)**
Carrying amount	**128,677**	**20,428**	**1,130**	**150,235**

13. Loans to customers (continued)

	31 December 2018			
MRUB	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
POS loans				
Not overdue	66,462	3,657	-	70,119
Overdue less than 30	734	790	-	1,524
Overdue 31-90 days	-	903	-	903
Overdue 91-360 days	-	-	2,759	2,759
Total gross portfolio	**67,196**	**5,350**	**2,759**	**75,305**
Expected credit losses	**(1,004)**	**(574)**	**(2,107)**	**(3,685)**
Carrying amount	**66,192**	**4,776**	**652**	**71,620**

	31 December 2018			
MRUB	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Credit card loans				
Not overdue	17,972	47	-	18,019
Overdue less than 30	637	6	-	643
Overdue 31-90 days	-	351	-	351
Overdue 91-360 days	-	-	1,114	1,114
Total gross portfolio	**18,609**	**404**	**1,114**	**20,127**
Expected credit losses	**(115)**	**(202)**	**(857)**	**(1,174)**
Carrying amount	**18,494**	**202**	**257**	**18,953**

	31 December 2018		
MRUB	**Stage 1**	**Stage 3**	**Total**
Loans to corporations			
Not overdue	3,243	-	3,243
Overdue less than 30	-	-	-
Overdue 31-90 days	-	-	-
Overdue 91-360 days	-	1,124	1,124
Total gross portfolio	**3,243**	**1,124**	**4,367**
Expected credit losses	**(25)**	**(1,124)**	**(1,149)**
Carrying amount	**3,218**	**-**	**3,218**

	31 December 2018			
MRUB	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Mortgage loans				
Not overdue	1,232	-	-	1,232
Overdue less than 30	24	-	-	24
Overdue 31-90 days	-	17	-	17
Overdue 91-360 days	-	-	119	119
Overdue more than 360	-	-	124	124
Total gross portfolio	**1,256**	**17**	**243**	**1,516**
Expected credit losses	**(32)**	**(6)**	**(150)**	**(188)**
Carrying amount	**1,224**	**11**	**93**	**1,328**

13. Loans to customers (continued)

The following table sets out information about the credit quality of loans to customers measured at amortised cost in accordance with IAS 39 requirements as at 31 December 2017:

	31 December 2017		
MRUB	**Gross**	**Impairment**	**Carrying amount**
Loans to individuals			
Cash loans			
Not overdue	112,354	(421)	111,933
Overdue less than 90 days	4,621	(1,428)	3,193
Overdue 91-360 days	3,879	(3,196)	683
Total	**120,854**	**(5,045)**	**115,809**
POS loans			
Not overdue	69,944	(314)	69,630
Overdue less than 90 days	2,318	(660)	1,658
Overdue 91-360 days	2,469	(2,032)	437
Total	**74,731**	**(3,006)**	**71,725**
Credit card loans			
Not overdue	14,789	(126)	14,663
Overdue less than 90 days	1,179	(461)	718
Overdue 91-360 days	1,414	(1,160)	254
Total	**17,382**	**(1,747)**	**15,635**
Mortgage loans			
Not overdue	1,495	(30)	1,465
Overdue less than 90 days	36	(10)	26
Overdue 91-360 days	183	(90)	93
Overdue more than 360 days	206	(161)	45
Total	**1,920**	**(291)**	**1,629**
Loans to corporations			
Not past due	3,067	-	3,067
Not past due, but impaired	813	(429)	384
Total	**3,880**	**(429)**	**3,451**

13. Loans to customers (continued)

The following table provides the average size of loans granted and the average contractual term by type of loans as at 31 December:

	2018		2017	
	Size TRUB	**Term Months**	**Size TRUB**	**Term Months**
Cash loans	132.4	36	183.4	47
POS loans	57.5	19	38.0	18

	2018			2017		
	Min. monthly payment* %	**Average credit limit TRUB**	**Term Months**	**Min. monthly payment* %**	**Average credit limit TRUB**	**Term Months**
Credit cards	5%	59	60	5%	66	60

* Minimum monthly payment out of the outstanding principal balance on the respective credit card plus other charges.

31 December 2018 the average loan-to-value ratio for mortgage loans was 50% (31 December 2017: 52%).

Analysis of collateral

The following table provides the analysis of loan portfolio by type of collateral as at 31 December:

	2018		2017	
	Portfolio MRUB	**% of loan portfolio**	**Portfolio MRUB**	**% of loan portfolio**
Real estate	4,760	2	4,610	2
Equity securities	-	-	1,190	1
No collateral	253,640	98	212,967	97
Total	**258,400**		**218,767**	

The amounts shown in the table above represent the gross amount of the loans, and do not necessarily represent the fair value of the collateral.

Mortgage loans are secured by underlying housing real estate. Credit card loans, cash loans and POS loans are not secured.

As at 31 December 2018 loans to corporations included secured loans with the total carrying amount of MRUB 3,144 collateralised with mortgages of MRUB 5,600. Loan-to-value ratio of 41% (as at 31 December 2017: MRUB 3,451 collateralised with mortgages of MRUB 5,600 and equity securities of MRUB 1,216, loan-to-value ratio of 59%).

Overdue mortgage loans with a gross value of MRUB 284 (31 December 2017: MRUB 426) are secured by collateral with a fair value of MRUB 576 (31 December 2017: MRUB 817). For the remaining overdue loans to customers with a gross value of MRUB 17,670 (31 December 2017: MRUB 15,880) there is no collateral.

Collateral does not have a significant effect on the amount of loan impairment allowance.

13. Loans to customers (continued)

As at 31 December 2018 repossessed collateral for mortgage loans amounted to MRUB 212 (31 December 2017: MRUB 217).

	2018		**2017**	
	NPLs MRUB	**Provision coverage %**	**NPLs MRUB**	**Provision coverage %**
Cash loans	4,463	153	3,879	130
POS loans	2,759	134	2,469	122
Credit card loans	1,114	105	1,414	124
Mortgage loans	243	77	389	75
Loans to corporations	1,124	102	-	-
Total	**9,703**	**134**	**8,151**	**137**

Non-performing loans are defined by the Group as loans and receivables overdue for more than 90 days. Loans and receivables, except for mortgage and car loans, overdue for more than 360 days are written off. Mortgage and car loans and receivables overdue over 720 days are written off. Some of the loans written off can be subsequently sold. Since 1 January 2018 NPL includes loans in stage lifetime ECL credit-impaired.

During the year ended 31 December 2017 the Group sold performing mortgage loans with the gross value of MRUB 145 for MRUB 147. The gain of MRUB 2 is recognised in other operating income, net. During the year ended 31 December 2018 - none (Note 7).

The Group estimated the impairment on loans to customers in accordance with the accounting policy as described in Note 3(g)(vi). The key assumptions used in estimating impairment losses are as follows:
- future loan migration and collection experience will be consistent with recent experience;
- unsecured loans which borrowers are unable to repay in full can be partially recovered through collection of 7-10% of the loans' outstanding principal balances including sale of the loans to collection agencies in RUB and of 21-25% in KZT ;
- mortgage loans which borrowers are unable to repay in full can be partially recovered through the sale of collateral for 40% of the loans' outstanding principal balances.

At the end of 2014 the Group launched loan restructuring aimed at managing customer relationships and maximising collection opportunities. For impairment assessment purposes, such renegotiated loans are kept in the same category of assets as at the date of restructuring unless within a defined period of time borrowers fail to comply with the renegotiated terms or instead prove their performance under new conditions in which case they are treated as non-delinquent. If loan hasn't been in compliance – then it is transferred to the bucket it would have been in if no restructuring was made. As at 31 December 2018 renegotiated loans to retail customers amounted to MRUB 3,582 (31 December 2017: MRUB 4,269).

Changes in collection estimates could affect the impairment losses recognised. For example, to the extent that estimated future cash flows of loans differ by plus/minus one percent, the loan impairment allowance as at 31 December 2018 would be MRUB 2,454 lower/higher (31 December 2017: MRUB 2,082).

13. Loans to customers (continued)

Analysis of movements in impairment allowance

Movements in the loan impairment allowance by classes of loans to customers for the year ended 31 December 2018 were as follows:

		2018			**2017**
MRUB	**Stage 1**	**Stage 2**	**Stage 3**	**Total**	**Total**
Balance at 1 January	**2,929**	**2,737**	**6,676**	**12,342**	**15,401**
Transfers:					
Transfer to Stage 1	129	(129)	-	-	-
Transfer to Stage 2	(321)	326	(5)	-	-
Transfer to Stage 3	(91)	(342)	433	-	-
Net remeasurement of loss allowance	(2,062)	(178)	3,988	1,748	2,284
New financial assets originated	2,448	-	-	2,448	-
Loans recovered which previously were written off	-	-	5,543	5,543	5,706
Write-offs	-	-	(9,360)	(9,360)	(12,813)
Unwinding of discount on present value of expected credit losses	-	-	269	269	-
Effect of foreign currency translation	20	9	27	56	(60)
Balance at 31 December	**3,052**	**2,423**	**7,571**	**13,046**	**10,518**

14. Investment securities

	Note	2018 MRUB	2017 MRUB
Quoted debt securities			
Unpledged		**33,288**	**42,152**
Government and government-owned institutions		30,359	24,823
Leading Russian oil and gas companies		-	11,702
Largest 50 Russian banks		-	4,098
Other		2,929	1,529
Pledged as collateral under sale and repurchase agreements	20	**2,622**	**6,658**
Government and government-owned institutions		2,622	2,539
Leading Russian oil and gas companies		-	4,119
		35,910	**48,810**

Investments securities are measured at FVOCI. As at 31 December 2018 expected credit loss allowance for investment securities of MRUB 35,587 is measured at an amount equal to 12-month ECL and expected credit loss allowance for investment securities of MRUB 323 is measured at an amount equal to lifetime ECL not credit-impaired.

The following table shows reconciliation from the opening to the closing balances of the expected credit loss allowance:

MRUB	**2018**		
Investment securities	**12-month ECL**	**Lifetime ECL not credit-impaired**	**Total**
Balance at 31 December 2017	**-**	**-**	**-**
Impact of adopting IFRS 9 as at 1 January 2018 (see Note 3)	**31**	**-**	**31**
Transfers:			
Transfer from Stage 1 to Stage 2	(76)	76	**-**
Net remeasurement of loss allowance	(85)	-	**(85)**
New financial assets purchased	177	-	**177**
Financial assets that have been derecognised	(36)	-	**(36)**
Balance at 31 December	**11**	**76**	**87**

The following table sets out information about the credit quality of investment securities using Moody's ratings as at 31 December 2018:

	31 December 2018		
MRUB	**12-month ECL**	**Lifetime ECL not credit-impaired**	**Total**
Investment securities			
Rated from Aa3- to Aa1+	1,708	-	**1,708**
Rated Baa	31,926	-	**31,926**
Rated from Ba3 to Ba1	1,477	-	**1,477**
Rated from Caa3 to B1	476	-	**476**
Not rated	-	323	**323**
	35,587	**323**	**35,910**
Expected credit losses	**(5)**	**(76)**	**(81)**
Carrying amount	**35,582**	**247**	**35,829**
Carrying amount – fair value	**35,587**	**323**	**35,910**

15. Property, equipment and intangible assets

Movements in property, equipment and intangible assets for the year ended 31 December 2018 are as follows:

MRUB	Land and buildings	Vehicles	Furniture	Leasehold improvements	Computers and equipment	Intangible assets	Total
Cost							
Balance at 1 January	4,819	188	688	745	4,533	7,741	18,714
Additions	3	29	106	166	543	1,198	2,045
Disposals	-	(19)	(67)	(71)	(433)	(278)	(868)
Effect of foreign currency translation	3	2	8	8	16	61	98
Balance at 31 December	**4,825**	**200**	**735**	**848**	**4,659**	**8,722**	**19,989**
Accumulated depreciation and amortisation							
Balance at 1 January	1,527	100	458	337	4,073	5,059	11,554
Depreciation and amortisation charge	96	23	70	123	270	1,143	1,725
Disposals	-	(13)	(65)	(69)	(413)	(238)	(798)
Effect of foreign currency translation	-	1	4	4	10	30	49
Balance at 31 December	**1,623**	**111**	**467**	**395**	**3,940**	**5,994**	**12,530**
Net book value at 1 January	**3,292**	**88**	**230**	**408**	**460**	**2,682**	**7,160**
Net book value at 31 December	**3,202**	**89**	**268**	**453**	**719**	**2,728**	**7,459**

15. Property, equipment and intangible assets (continued)

Movements in property, equipment and intangible assets for the year ended 31 December 2017 are as follows:

MRUB	Land and buildings	Vehicles	Furniture	Leasehold improvements	Computers and equipment	Intangible assets	Total
Cost							
Balance at 1 January	5,160	169	660	822	4,508	6,928	18,247
Additions	5	55	104	48	313	895	1,420
Effect of foreign currency translation	(4)	(3)	(9)	(9)	(46)	(65)	(136)
Disposals	(342)	(33)	(67)	(116)	(242)	(17)	(817)
Balance at 31 December	**4,819**	**188**	**688**	**745**	**4,533**	**7,741**	**18,714**
Accumulated depreciation and amortisation							
Balance at 1 January	1,510	109	453	293	4,010	4,073	10,448
Depreciation and amortisation charge	103	23	67	155	306	1,029	1,683
Effect of foreign currency translation	(1)	(1)	(4)	(4)	(9)	(30)	(49)
Disposals	(85)	(31)	(58)	(107)	(234)	(13)	(528)
Balance at 31 December	**1,527**	**100**	**458**	**337**	**4,073**	**5,059**	**11,554**
Net book value at 1 January	**3,650**	**60**	**207**	**529**	**498**	**2,855**	**7,799**
Net book value at 31 December	**3,292**	**88**	**230**	**408**	**460**	**2,682**	**7,160**

Movements in the impairment allowance are as follows:

	2018 MRUB	**2017 MRUB**
Balance at 1 January	**69**	**84**
Net charge	(69)	-
Amounts related to offices closed	-	(15)
Balance at 31 December	**-**	**69**

16. Other assets

	2018 MRUB	2017 MRUB
Settlements with suppliers	1,060	971
Taxes other than income tax	285	306
Prepaid expenses	61	94
Accrued income	11	29
Other	165	107
Impairment allowance	(12)	(7)
	1,570	**1,500**

As at 31 December 2018 the impairment allowances for other assets are measured at an amount equal to 12-month ECL.
Movements in the impairment allowance are as follows:

MRUB	Note	2018	2017
Balance at 31 December		**7**	**5**
Impact of adopting IFRS 9 as at 1 January (see Note 3)		1	-
Restated balance as at 1 January (unaudited)		**8**	**5**
Net charge	8	45	230
Write-off		(41)	(228)
Balance at 31 December		**12**	**7**

17. Debt securities issued

	Maturity	Coupon rate	2018 MRUB	2017 MRUB
Unsecured KZT bond issue 2 of MKZT 6,769	February 2019	Fixed, 9.50%	1,265	1,206
Unsecured KZT bond issue 3 of MKZT 10,000	May 2020	Fixed, 15.00%	1,829	1,753
Unsequred KZT bond issue 4 of MKZT 8,000	October 2019	Fixed, 12.50%	1,475	879
Unsecured KZT bond issue 5 of MKZT 9,600	December 2022	Fixed, 13.00%	1,745	-
Unsecured KZT bond issue 6 of MKZT 15,696	December 2021	Fixed, 13.00%	2,813	-
			9,127	**3,838**

In February 2014 the Group issued the unsecured KZT denominated bond issue 2 with a fixed coupon rate which is valid until the final maturity.

In May 2017 the Group issued the unsecured KZT denominated bond issue 3 with a fixed coupon rate which is valid until the final maturity.

In October 2017 the Group issued the unsecured KZT denominated bond issue 4 with a fixed coupon rate which is valid until the final maturity.

In December 2018 the Group issued the unsecured KZT denominated bonds issue 5 and issue 6 with a fixed coupon rate which is valid until the final maturity.

18. Subordinated debt

	Maturity	Coupon rate	2018 MRUB	2017 MRUB
Loan participation notes issue of MUSD 500	April 2020/ April 2018*	Fixed, 9.38%	-	13,138
Loan participation notes issue of MUSD 200	April 2021/ April 2019*	Fixed, 10.50%	11,150	9,709
			11,150	**22,847**

**Repayment date/Early redemption option date*

In October 2012 the Group issued MUSD 500 of subordinated seven and a half year loan participation notes at the fixed rate of 9.38% through Eurasia Capital S.A. The terms of the loan agreement include a call option executable on 24 April 2018 ("the reset date"). After the reset date the interest rate is determined as two year US treasuries rate + 862.4 b.p. The proceeds from the issue were used to grant a subordinated loan to the Bank. In November 2012 the issue was registered with the CBR. In April 2018 the Group fully repaid loan participation notes issue at par with the prior consent of the CBR. The amount of early redemption was MUSD 221.

In October 2013 the Group issued the MUSD 200 of Basel III compliant tier 2 seven and a half year loan participation notes at the fixed rate of 10.50% through Eurasia Capital S.A. The proceeds from the issue were used to grant a subordinated loan to the Bank. The terms of the loan agreement include a call option executable on 17 April 2019 ("the reset date"). After the reset date the interest rate is determined as two year US treasuries rate + 903 b.p. In November 2013 the issue was registered with the CBR. As at 31 December 2018 the Group bought back the loan participation notes with a par value of MUSD 43.

19. Reconciliation of movements of liabilities to cash flows arising from financing activities

	Liabilities		
	Subordinated borrowings	**Debt securities issued**	**Total**
Balance at 1 January 2018	**22,847**	**3,838**	**26,685**
Changes from financing cash flows			
Proceeds from debt securities issued	-	5,106	5,106
Repayment of subordinated borrowings	(14,210)	-	(14,210)
Total changes from financing cash flows	**(14,210)**	**5,106**	**(9,104)**
The effect of changes in foreign exchange rates	2,796	259	3,055
Other changes			
Capitalised borrowing costs	21	-	21
Interest expense	1,405	556	1,961
Interest paid	(1,709)	(632)	(2,341)
Balance at 31 December 2018	**11,150**	**9,127**	**20,277**

19. Reconciliation of movements of liabilities to cash flows arising from financing activities (continued)

	Liabilities		
	Subordinated borrowings	**Debt securities issued**	**Total**
Balance at 1 January 2017	**24,279**	**1,257**	**25,536**
Changes from financing cash flows			
Proceeds from debt securities issued	-	2,666	2,666
Repayment of subordinated borrowings	(225)	-	(225)
Total changes from financing cash flows	**(225)**	**2,666**	**2,441**
The effect of changes in foreign exchange rates	(1,041)	(136)	(1,177)
Other changes			
Capitalised borrowing costs	4	-	4
Interest expense	2,254	304	2,558
Interest paid	(2,424)	(253)	(2,677)
Balance at 31 December 2017	**22,847**	**3,838**	**26,685**

20. Due to banks and other financial institutions

	2018 MRUB	**2017 MRUB**
Unsecured loans	12,181	10,943
Secured loans	2,470	6,114
Other balances	910	91
	15,561	**17,148**

As at 31 December 2018 the Group pledged and transferred investment securities with a carrying amount of MRUB 2,622 (Note 14) as collateral for secured loans that had recourse only to the transferred assets. These financial assets might be repledged or resold by counterparties in the absence of any default by the Group, but the counterparty had an obligation to return the securities when the contract matures. The Group determined that it retained substantially all the risks and rewards related to these securities and therefore did not derecognise them. The fair value of the transferred investment securities and related secured loans was equal to MRUB 2,622 (31 December 2017: MRUB 6,658).

21. Current accounts and deposits from customers

	2018 MRUB	2017 MRUB
Retail		
Term deposits	150,977	143,097
Current accounts and demand deposits	58,338	43,458
Certificates of deposit	1,386	147
	210,701	186,702
Corporate		
Term deposits	10,909	5,923
Current accounts and demand deposits	480	318
	11,389	6,241
	222,090	**192,943**

During the year ended 31 December 2018 the Group issued to individuals unsecured 1-year bank certificates of deposit with a total nominal value of MRUB 1,386, which bear a fixed rate of 14-16% per annum paid at maturity (31 December 2017: 1-year bank certificates of deposit with a total nominal value of MRUB 147, which bear a fixed rate of 16% per annum paid at maturity)

22. Deferred tax asset and liability

The Group's applicable tax rate for deferred tax is 20% (2017: 20%). Temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes give rise to a net deferred tax asset as at 31 December 2018 and as at 31 December 2017. The deductible temporary differences do not expire under the current tax legislation.

	Assets		Liabilities		Net	
MRUB	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**
Loans to customers	2,138	2,305	-	-	2,138	2,305
Investment securities	1	66	-	-	1	66
Property, equipment and intangible assets	-	-	(533)	(460)	(533)	(460)
Other assets	294	329	(18)	(46)	276	283
Subordinated debt	6	12	-	-	6	12
Due to banks and other financial institutions	13	13	-	-	13	13
Current accounts and deposits from customers	8	-	-	(1)	8	(1)
Negative fair value of derivative instruments	-	4	(18)	-	(18)	4
Other liabilities	859	924	-	-	859	924
Net deferred tax asset					**2,750**	**3,146**

22. Deferred tax asset and liability (continued)

Movements in temporary differences during the years ended 31 December 2018 and 31 December 2017 are presented as follows:

MRUB	**31 December 2017**	**Impact of adopting IFRS 9 as at 1 January 2018**	**Recognised in profit or loss**	**Recognised in other comprehensive income**	**Translation reserve**	**31 December 2018**
Loans to customers	2,305	322	(493)	-	4	2,138
Investment securities	66	6	(79)	8	-	1
Property, equipment and intangible assets	(460)	-	(70)	-	(3)	(533)
Other assets	283	-	(5)	-	(2)	276
Subordinated debt	12	-	(6)	-	-	6
Due to banks and other financial institutions	13	-	(1)	-	1	13
Current accounts and deposits from customers	(1)	-	9	-	-	8
Negative fair value of derivative instruments	4	-	(22)	-	-	(18)
Other liabilities	924	-	(70)	-	5	859
	3,146	**328**	**(737)**	**8**	**5**	**2,750**

MRUB	**1 January 2017**	**Recognised in profit or loss**	**Recognised in other comprehensive income**	**Translation reserve**	**31 December 2017**
Loans to customers	4,253	(1,945)	-	(3)	2,305
Positive fair value of derivative instruments	(4)	4	-	-	-
Investment securities	116	(46)	(4)	-	66
Property, equipment and intangible assets	(570)	107	-	3	(460)
Other assets	372	(91)	-	2	283
Subordinated debt	(17)	29		-	12
Due to banks and other financial institutions	28	(14)	-	(1)	13
Current accounts and deposits from customers	(1)	-	-	-	(1)
Negative fair value of derivative instruments	8	(4)	-	-	4
Other liabilities	633	296	-	(5)	924
	4,818	**(1,664)**	**(4)**	**(4)**	**3,146**

23. Other liabilities

	2018 MRUB	2017 MRUB
Settlements with suppliers	2,867	2,613
Accrued employee compensation	1,813	2,276
Provision for return of insurance agent commission	856	756
Other taxes payable	414	377
Accrued payments to the Deposits Insurance Agency	286	204
Provision for litigations	19	20
Provision for restructuring	7	38
Provisions for credit losses from loan commitments	1	-
Other	221	155
	6,484	**6,439**

Movements in the provision for return of insurance agent commission were as follows:

	2018 MRUB	2017 MRUB
Balance at 1 January	**756**	**475**
Net charge	2,734	2,041
Amounts returned	(2,634)	(1,760)
Balance at 31 December	**856**	**756**

Movements in the provision for litigations were as follows:

	2018 MRUB	2017 MRUB
Balance at 1 January	**20**	**69**
Net charge/(recovery)	9	(31)
Amounts used	(10)	(18)
Balance at 31 December	**19**	**20**

Movements in the provision for restructuring are as follows:

	2018 MRUB	2017 MRUB
Balance at 1 January	**38**	**51**
Net recovery	(31)	-
Amounts related to offices closed	-	(13)
Balance at 31 December	**7**	**38**

23. Other liabilities (continued)

Movements in provisions for credit losses from loan commitments are as follows:

	MRUB
Balance at 31 December 2017	**-**
Impact of adopting IFRS 9 as at 1 January 2018 (see Note 3)	1
Restated balance as at 1 January 2018	**1**
Net charge	-
Effect of foreign currency translation	1
Balance at 31 December	**1**

As at 31 December 2018 impairment allowances for credit losses from loan commitments are measured at an amount equal to 12-month ECL.

24. Risk management, corporate governance and internal control

(a) Corporate governance framework

The Bank is established as a limited liability company in accordance with Russian law. The supreme governing body of the Bank is the general participants' meeting that is called for annual or extraordinary meetings. The general participants' meeting makes strategic decisions on the Bank's operations.

The general participants' meeting elects the Council. The Council is responsible for overall governance of the Bank's activities.

Russian legislation and the charter of the Bank establish lists of decisions that are exclusively approved by the general participants' meeting and that are approved by the Council. The Composition of the Council is presented in Note 1.

General activities of the Bank are managed by the sole executive body of the Bank (Chief Executive Officer), and collective executive body of the Bank (Board of Management). The Council elects the Board of Management. The executive bodies of the Bank are responsible for implementation of decisions of the general participants' meeting and the Council of the Bank. Executive bodies of the Bank report to the Council of the Bank and to the general participants' meeting. The composition of the Board of Management is presented in Note 1.

(b) Internal control policies and procedures

The Council and the Board of Management have responsibility for the development, implementation and maintaining of internal controls in the Group that are appropriate for the scale and nature of operations.

The purpose of internal controls system is to ensure:
- proper and comprehensive risk assessment and management
- proper business and accounting and financial reporting functions, including proper authorization, processing and recording of transactions
- completeness, accuracy and timeliness of accounting records, managerial information, regulatory reports, etc.
- reliability of IT-systems, data and systems integrity and protection
- prevention of fraudulent or illegal activities, including misappropriation of assets
- compliance with laws and regulations including anti-money laundering.

Management is responsible for identifying and assessing risks, designing controls and monitoring their effectiveness. Management monitors the effectiveness of the Bank’s internal controls and periodically introduces additional controls or modifies existing controls as considered necessary.

24. Risk management, corporate governance and internal control (continued)

The Group developed a system of standards, policies and procedures to ensure effective operations and compliance with relevant legal and regulatory requirements, including the following areas:
• requirements for appropriate segregation of duties, including the independent authorization of transactions
• requirements for the recording, reconciliation and monitoring of transactions
• compliance with regulatory and other legal requirements
• documentation of controls and procedures
• requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified
• requirements for the reporting of operational losses and proposed remedial action
• development of contingency plans
• training and professional development
• ethical and business standards and
• risk mitigation, including insurance where this is effective.

There is a hierarchy of requirements for authorization of transactions depending on their size and complexity. A significant portion of operations are automated and the Group put in place a system of

The internal control system of the Bank comprises:
• the Council
• the Chief Executive officer and the Board of Management
• the Chief Accountant
• the risk management function
• the security function, including IT-security
• the human resource function
• the internal audit function
• the internal control (compliance) service
• other employees, division and functions that are responsible for compliance with the established standards, policies and procedures, including:
- heads of branches and heads of business-units
- business processes managers
- division responsible for compliance with anti-money laundering requirements
- professional securities market participant controller – an executive office and a division responsible for compliance with the requirements for securities market participants
- the legal officer – an employee and a division responsible for compliance with the legal and regulatory requirements
- other employees/divisions with control responsibilities.

The main responsibilities of internal audit function include the following:

• audit and efficiency assessment of the system of internal control as a whole, fulfillment of the decisions of key management structures
• audit of efficiency of methodology of assessment of banking risks and risk management procedures, regulated by internal documents in credit organisation (methods, programmes, rules and procedures for banking operations and transactions, and for the management of banking risks)
• audit of reliability of internal control system over automated information systems
• audit and testing of fairness, completeness and timeliness of accounting and reporting function and the reliability (including the trustworthiness, fullness and objectivity) of the collection and submission of financial information
• audit of applicable methods of safekeeping the credit organisation's property
• assessment of economic reasonability and efficiency of operations and other deals
• audit of internal control processes and procedures
• audit of internal control service and risk management service.

24. Risk management, corporate governance and internal control (continued)

Internal control service conducts compliance activities focused primarily on regulatory risks faced by the Group.

The main functions of internal control (compliance) service include the following:

• identification of compliance risks and regulatory risks
• monitoring of events related to regulatory risk, including probability of occurrence and quantitative assessment of its' consequences
• monitoring of regulatory risk
• preparation of recommendations on regulatory risk management
• coordination and participation of design of measures to decrease regulatory risk
• monitoring of efficiency of regulatory risk management
• participation in preparation of internal documents on regulatory risk management, anti-corruption, compliance with corporate behaviour rules, code of professional ethics and minimisation of conflicts of interest
• analysis of dynamics of clients' complaints
• analysis of economic reasonableness of agreements with suppliers
• participation in interaction with authorities, self-organized organisations, associations and financial market

Compliance with Group standards is supported by a program of periodic reviews undertaken by Internal Audit. The Internal Audit function is independent from management and reports directly to the Council. The results of Internal Audit reviews are discussed with relevant business process managers, with summaries submitted to the Council and senior management of the Group.

Russian legislation, including the Federal Law dated 2 December 1990 No 395-1 *On banks and banking activity,* Direction of the CBR dated 1 April 2014 No 3223-U *On requirement to head of risk management service, head of internal control service, head of internal audit service of the credit organisation* establish the professional qualifications, business reputation and other requirements for members of the Council, Board of Management, Heads of internal audit service, internal control service and risk management service and other key management personnel. All members of the Bank's governing and management bodies meet with these requirements.

Legislation of Kazakhstan, including the Law dated 31 August 1995 No 2444 *On banks and banking activity in the Republic of Kazakhstan*, establishes the professional qualifications, business reputation and other requirements for members of the Board of Directors, Management Board, and other key management personnel. All members of the Bank Home Credit (SB JSC)'s governing and management bodies comply with these requirements.

Management believes that the Group complies with the CBR and the NBRK requirements related to risk management and internal control systems, including requirements related to the internal audit function, and that risk management and internal control systems are appropriate for the scale, nature and complexity of operations.

(c) Risk management policies and procedures

Management of risk is fundamental to the business of banking and forms an essential element of the Group's operations. The major (significant) risks faced by the Group are those related to market risk, credit risk, liquidity risk, and operational, legal and reputational risks.

The risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations. The Group has developed a system of reporting on significant risks and capital.

24. Risk management, corporate governance and internal control (continued)

As at 31 December 2017, the Bank's internal documentation establishing the procedures and methodologies for identification, managing and stress-testing the Group's significant risks, was approved by the authorized management bodies of the Bank in accordance with regulations and recommendations issued by the CBR.

The Board of Management is responsible for monitoring and implementing risk mitigation measures, and ensuring that the Group operates within established risk parameters. The Head of the Risk Department (Chief Risk Officer) is responsible for the overall risk management and compliance functions, ensuring the implementation of common principles and methods for identifying, measuring, managing and reporting both financial and non-financial risks. He reports directly to the Chairman of the Board of Management. The Risk Department is not subordinate to, and does not report to, divisions accepting relevant risks.

The Council and management bodies of the Bank have responsibility for controlling the Group's compliance with risk limits and capital adequacy ratios as established by the Group's internal documentation. With the view of controlling effectiveness of the Group's risk management procedures and their consistent application the Council and management bodies of the Bank periodically receive reports prepared by the internal audit function and the Risk department, discuss the contents of these reports and consider proposed corrective actions.

Both external and internal risk factors are identified and managed throughout the organisation. Particular attention is given to identifying the full range of risk factors and determining the level of assurance over current risk mitigation procedures. Apart from the standard credit and market risk analysis, the Risk Department monitors financial and non-financial risks by holding regular meetings with operational units in order to obtain expert judgments in their respective areas of expertise.

The Group has exposure to the following risks from its use of financial instruments:

- credit
- market
- liquidity
- operational.

The Board of Management has overall responsibility for the establishment and oversight of the risk management framework. The Board has established the Credit Committee and the Asset and Liability Committee ("ALCO"), which are responsible for developing and monitoring risk management policies in their specified areas. Both committees report regularly to the Board of Management on their activities.

In compliance with the Group's internal documentation the Risk Department and internal audit function frequently prepare reports, which cover the Group's significant risks management. The reports include observations as to assessment of the effectiveness of the Group's procedures and methodologies, and recommendations for improvement.

The Group calculates mandatory ratios on a daily basis in accordance with the requirement of the CBR. As at 31 December 2018 and 31 December 2017 the mandatory ratios were in compliance with limits set by the CBR.

(d) Credit risk

Credit risk is the risk of financial loss occurring as a result of default by a borrower or counterparty on their obligation to the Group. The majority of the Group's exposure to credit risk arises in connection with the provision of consumer financing to private individual customers, which is the Group's principal business. As the Group's loan portfolio consists of a large amount of loans with relatively low outstanding amounts, the loan portfolio does not comprise any significant individual items.

The Group has developed policies and procedures for the management of credit exposures, including credit scoring of customers, guidelines to limit portfolio concentration and the establishment of a credit department which actively monitors the Group's credit risk.

24. Risk management, corporate governance and internal control (continued)

The maximum exposure to credit risk is generally reflected in the carrying amounts of financial assets in the consolidated statement of financial position and unrecognised contractual commitment amounts. The impact of possible netting of assets and liabilities to reduce potential credit exposure is not significant.

The Bank's management is responsible for the compliance of the banking group, wherein the Bank is the parent credit institution, with the requirements of the CBR in respect of mandatory ratios, including the banking group's maximum risk exposure ratio per borrower or group of related borrowers (N21); the banking group's maximum risk exposure to large credit risks ratio (N22).

N21 ratio regulates the credit risk of the banking group, wherein the Bank is the parent credit institution, in respect of a borrower or a group of related borrowers and sets the maximum ratio of the banking group's total credit claims (excluding unconsolidated participants of the banking group) to the borrower or group of related borrowers to the banking group's own funds.

N22 ratio regulates the total exposure to large credit risks of the banking group, wherein the Bank is the parent credit institution, and sets the maximum ratio of the banking group's total exposure to large credit risks (excluding unconsolidated participants of the banking group) to the banking group's own funds.

The structure of the banking group, wherein the Bank is the parent credit institution, is determined in accordance with the requirements of the Direction of the CBR dated 03 December 2015 No 509-P *Calculation of own funds, mandatory ratios and open currency position limits for banking groups* and may differ from the Group structure determined in accordance with IFRS requirements.

The Bank was in compliance with the mandatory ratios in respect of the banking group's credit risk as at 31 December 2018 and 31 December 2017.

Offsetting financial assets and financial liabilities

The disclosures set out in the tables below include financial assets and financial liabilities that:
• are offset in the Group's statement of financial position or
• are subject to an enforceable master netting arrangement or similar agreement that covers similar financial instruments, irrespective of whether they are offset in the statement of financial position.

The similar agreements include derivative clearing agreements, global master repurchase agreements, and global master securities lending agreements. Similar financial instruments include derivatives, sales and repurchase agreements, reverse sale and repurchase agreements. Financial instruments such as loans and deposits are not disclosed in the table below unless they are offset in the statement of financial position.

The Group's derivative transactions that are not transacted on the exchange are entered into under International Derivative Swaps and Dealers Association Master Netting Agreements. In general, under such agreements the amounts owed by each counterparty that are due on a single day in respect of transactions outstanding in the same currency under the agreement are aggregated into a single net amount being payable by one party to the other. In certain circumstances, for example when a credit event such as a default occurs, all outstanding transactions under the agreement are terminated, the termination value is assessed and only a single net amount is due or payable in settlement transactions.

The Group's sale and repurchase and reverse sale and repurchase transactions are covered by Global Master Repurchase Agreements and similar agreements with terms similar to those of International Derivative Swaps and Dealers Association Master Netting Agreements.

The above International Derivative Swaps and Dealers Association Master Netting Agreements and similar master netting arrangements do not meet the criteria for offsetting in the consolidated statement of financial position.

The Group receives and accepts collateral in the form of cash and marketable securities in respect of sale and repurchase, and reverse sale and repurchase agreements.

24. Risk management, corporate governance and internal control (continued)

Such collateral is subject to the standard industry terms of the Global Master Repurchase Agreements. This means that securities received/given as collateral can be pledged or sold during the term of the transaction, but must be returned on maturity of the transaction. The terms also give each counterparty the right to terminate the related transactions upon the counterparty's failure to post collateral.

The table below shows financial assets and financial liabilities subject to offsetting, enforceable master netting arrangements and similar arrangements as at 31 December 2018:

				Related amount not offset in the consolidated statement of financial position		
MRUB	**Gross amount of recognised financial asset/liability**	**Gross amount of recognised financial asset/liability offset in the consolidated statement of financial position**	**Net amount of financial asset/liability presented in the consolidated statement of financial position**	**Financial instruments**	**Cash collateral received**	**Net amount**
Derivative instruments	144	-	144	(144)	-	-
Reverse sale and repurchase agreements	5,104	-	5,104	(5,104)	-	-
Total financial assets	**5,248**	**-**	**5,248**	**(5,248)**	**-**	**-**
Derivative instruments	54	-	54	(54)	-	-
Sale and repurchase agreements	2,470	-	2,470	(2,470)	-	-
Total financial liabilities	**2,524**	**-**	**2,524**	**(2,524)**	**-**	**-**

The table below shows financial assets and financial liabilities subject to offsetting, enforceable master netting arrangements and similar arrangements as at 31 December 2017:

				Related amount not offset in the consolidated statement of financial position		
MRUB	**Gross amount of recognised financial asset/liability**	**Gross amount of recognised financial asset/liability offset in the consolidated statement of financial position**	**Net amount of financial asset/liability presented in the consolidated statement of financial position**	**Financial instruments**	**Cash collateral received**	**Net amount**
Reverse sale and repurchase agreements	9,007	-	9,007	(9,007)	-	-
Total financial assets	**9,007**	**-**	**9,007**	**(9,007)**	**-**	**-**
Derivative instruments	16	-	16	(16)	-	-
Sale and repurchase agreements	6,114	-	6,114	(6,114)	-	-
Total financial liabilities	**6,130**	**-**	**6,130**	**(6,130)**	**-**	**-**

24. Risk management, corporate governance and internal control (continued)

The gross amounts of financial assets and financial liabilities and their net amounts as presented in the consolidated statement of financial position that are disclosed in the above tables are measured in the consolidated statement of financial position on the following basis:

- derivative assets and liabilities – fair value
- assets and liabilities resulting from sale and repurchase agreements, reverse sale and repurchase agreements – amortised cost.

The table below reconciles the "Net amounts of financial assets and financial liabilities presented in the consolidated statement of financial position", as set out above, to the line items presented in the consolidated statement of financial position as at 31 December 2018.

MRUB	Net amount	Line item in the consolidated statement of financial position	Carrying amount in the consolidated statement of financial position	Financial asset/liability not in the scope of offsetting disclosure	Note
Derivative instruments	144	Positive fair value of derivative instruments	144	-	25
Reverse sale and repurchase agreements	5,104	Cash and cash equivalents	28,965	23,861	11
Derivative instruments	54	Negative fair value of derivative instruments	54	-	25
Sale and repurchase agreements	2,470	Due to banks and other financial institutions	15,561	13,091	20

The table below reconciles the "Net amounts of financial assets and financial liabilities presented in the consolidated statement of financial position", as set out above, to the line items presented in the consolidated statement of financial position as at 31 December 2017.

MRUB	Net amount	Line item in the consolidated statement of financial position	Carrying amount in the consolidated statement of financial position	Financial asset/liability not in the scope of offsetting disclosure	Note
Reverse sale and repurchase agreements	9,007	Cash and cash equivalents	23,040	14,033	11
Derivative instruments	16	Negative fair value of derivative	16	-	25
Sale and repurchase agreements	6,114	Due to banks and other financial institutions	17,148	11,034	20

(e) Market risk

Market risk is the risk that changes in interest rates or foreign exchange rates will affect the Group's income or the value of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters.

The majority of the Group's exposure to market risk arises in connection with the funding of operations with liabilities denominated in foreign currencies, and to the extent the interest rate repricing structure of interest bearing assets differs from that of liabilities.

24. Risk management, corporate governance and internal control (continued)

Overall authority for market risk is vested in ALCO. Market risk limits are approved by ALCO based on recommendations of the Risk Department’s Market Risk Management Division.

The Group manages its market risk by setting open position limits in relation to financial instrument, interest rate maturity and currency positions and stop-loss limits which are monitored on a regular basis and reviewed and approved by ALCO.

In addition, the Group uses a wide range of stress tests to model the financial impact of a variety of exceptional market scenarios on individual trading portfolios and the Group’s overall position. Stress tests provide an indication of the potential size of losses that could arise in extreme conditions. The stress tests carried out by the Group include: risk factor stress testing, where stress movements are applied to each risk category and ad hoc stress testing, which includes applying possible stress events to specific positions.

The management of interest rates risk component of market risk, by monitoring the interest rate gap is supplemented by monitoring the sensitivity of net interest margin to various standard and non-standard interest rate scenarios.

(i) Exposure to equity price risk

Equity price risk is the risk that the value of equity instruments will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual instrument or factors affecting all instruments traded in the market. Equity price risk arises when the Group takes a long or short position in a financial instrument.

The Group's exposure to equity price risk is insignificant as its securities portfolio comprises an insignificant part of total assets. As at 31 December 2018 and 31 December 2017 the Group did not have open positions in equity securities.

(ii) Exposure to interest rate risk

Interest rate risk is measured by the extent to which changes in market interest rates impact margins and net interest income. To the extent the term structure of interest bearing assets differs from that of liabilities, net interest income will increase or decrease as a result of movements in interest rates.

Interest rate risk is managed by increasing or decreasing positions within limits specified by management. These limits restrict the potential effect of movements in interest rates on current earnings and on the value of interest sensitive assets and liabilities.

24. Risk management, corporate governance and internal control (continued)

Effective interest rates and repricing analysis

The following table indicates effective interest rates for interest-earning financial assets and interest-bearing financial liabilities at the reporting date and the periods in which they reprice.

	2018							2017						
MRUB	**Effective interest rate**	**Less than 3 months**	**3 to 12 months**	**1 to 2 years**	**2 to 5 years**	**More than 5 years**	**Total**	**Effective interest rate**	**Less than 3 months**	**3 to 12 months**	**1 to 2 years**	**2 to 5 years**	**More than 5 years**	**Total**
Interest-earning financial assets														
RUB interest-earning financial assets														
Cash and cash equivalents	8.1%	3,049	-	-	-	-	3,049	8.0%	1,766	-	-	-	-	1,766
Loans to customers														
Loans to corporations	8.5%	-	99	-	-	-	99	17.0%	761	-	-	-	-	761
Loans to individuals	22.4%	45,012	76,665	42,057	28,177	1,592	193,503	22.9%	37,613	70,843	37,692	23,903	1,857	171,908
Investment securities	7.8%	31,926	203	-	400	-	32,529	8.7%	33,732	438	460	-	205	34,835
USD interest-earning financial assets														
Cash and cash equivalents	3.4%	2,055	-	-	-	-	2,055	5.6%	7,241	-	-	-	-	7,241
Placements with banks and other financial institutions	7.4%	69	-	-	-	-	69	-	-	-	-	-	-	-
Loans to customers														
Loans to corporations	6.0%	132	78	2,909	-	-	3,119	6.0%	55	65	86	2,484	-	2,690
Loans to individuals	11.5%	20	44	35	44	115	258	12.7%	25	53	42	53	139	312
Investment securities	1.9%	8	1,708	-	315	-	2,031	6.7%	11,407	2,568	-	-	-	13,975
KZT interest-earning financial assets														
Cash and cash equivalents	8.3%	8,132	-	-	-	-	8,132	9.3%	416	-	-	-	-	416
Loans to customers														
Loans to individuals	36.9%	9,507	21,950	11,748	5,170	-	48,375	32.3%	7,984	14,658	6,909	3,027	-	32,578
Investment securities	10.6%	-	-	476	874	-	1,350	-	-	-	-	-	-	-
EUR interest-earning financial assets														
Placements with banks and other financial institutions	0.0%	447	-	-	-	-	447	-	-	-	-	-	-	-

24. Risk management, corporate governance and internal control (continued)

Effective interest rates and repricing analysis

	2018							2017						
MRUB	**Effective interest rate**	**Less than 3 months**	**3 to 12 months**	**1 to 2 years**	**2 to 5 years**	**More than 5 years**	**Total**	**Effective interest rate**	**Less than 3 months**	**3 to 12 months**	**1 to 2 years**	**2 to 5 years**	**More than 5 years**	**Total**
Interest-bearing financial liabilities														
RUB interest-bearing financial liabilities														
Due to banks and other financial institutions	6.9%	1,904	1,381	-	-	-	3,285	7.9%	6,494	3,031	-	-	-	9,525
Current accounts and deposits from customers	7.1%	58,003	76,566	24,175	11,352	9,082	179,178	6.7%	33,999	73,080	48,302	344	5,266	160,991
USD interest-bearing financial liabilities														
Subordinated debt	10.9%	-	11,150	-	-	-	11,150	10.3%	-	13,340	9,507	-	-	22,847
Due to banks and other financial institutions	7.3%	703	4,926	-	-	-	5,629	3.5%	1,043	522	-	-	-	1,565
Current accounts and deposits from customers	1.8%	799	5,384	372	320	256	7,131	1.4%	465	2,934	567	-	248	4,214
EUR interest-bearing financial liabilities														
Due to banks and other financial institutions	3.8%	835	1,591	-	-	-	2,426	4.0%	692	1,037	-	-	-	1,729
Current accounts and deposits from customers	0.4%	204	1,185	103	147	118	1,757	0.4%	158	945	219	-	112	1,434
KZT interest-bearing financial liabilities														
Debt securities issued	12.8%	1,266	1,488	-	6,373	-	9,127	12.7%	43	48	-	3,747	-	3,838
Due to banks and other financial institutions	12.9%	-	3,311	-	-	-	3,311	13.4%	376	3,874	-	-	-	4,250
Current accounts and deposits from customers	10.7%	4,771	12,301	2,930	-	-	20,002	13.5%	3,352	7,659	2,959	-	-	13,970
Net position as at 31 December														
in RUB		20,080	(980)	17,882	17,225	(7,490)	46,717		33,379	(4,830)	(10,150)	23,559	(3,204)	38,754
in USD		782	(19,630)	2,572	39	(141)	(16,378)		17,220	(14,110)	(9,946)	2,537	(109)	(4,408)
in EUR		(592)	(2,776)	(103)	(147)	(118)	(3,736)		(850)	(1,982)	(219)	-	(112)	(3,163)
in KZT		11,602	4,850	9,294	(329)	-	25,417		4,629	3,077	3,950	(720)	-	10,936

24. Risk management, corporate governance and internal control (continued)

Effective interest rates sensitivity analysis

An analysis of sensitivity of net profit and equity to changes in market interest rates based on a simplified scenario of a 1% symmetrical fall or rise in all yield curves and positions of interest bearing assets and liabilities existing as at 31 December 2018 and 31 December 2017 are presented as follows:

	2018 Total effect on net profit/ equity MRUB	2017 Total effect on net profit/ equity MRUB
RUB		
+ 1% rate increase	(286)	(177)
- 1% rate decrease	286	177
USD		
+ 1% rate increase	(18)	105
- 1% rate decrease	18	(105)
KZT		
+ 1% rate increase	108	47
- 1% rate decrease	(108)	(47)

An analysis of sensitivity of equity as a result of changes in the fair value of investment securities due to changes in the interest rates based on positions existing as at 31 December 2018 and 31 December 2017 and a simplified scenario of a 1% symmetrical fall or rise in all yield curves is as follows:

	2018 Total effect on equity MRUB	2017 Total effect on equity MRUB
+ 1% rate increase	(116)	(618)
- 1% rate decrease	116	618

24. Risk management, corporate governance and internal control (continued)

(iii) Foreign currency risk

The Group has assets and liabilities denominated in several foreign currencies. Foreign currency risk arises when the actual or forecast assets in a foreign currency are either greater or less than the liabilities in that currency.

Foreign exchange rate risk mainly arises due to the funding of the Group operations with liabilities denominated in foreign currencies. Derivative financial instruments are used by the Group to hedge the mismatches in the foreign currency structure of assets and liabilities. Assets and liabilities by currency as at 31 December are as follows:

	2018					2017				
MRUB	**USD**	**EUR**	**RUB**	**Other currencies**	**Total**	**USD**	**EUR**	**RUB**	**Other currencies**	**Total**
Assets										
Cash and cash equivalents	4,123	1,243	14,591	9,008	28,965	8,102	253	13,018	1,667	23,040
Placements with banks and other financial institutions	2,833	475	1,517	368	5,193	1,789	34	1,329	312	3,464
Loans to customers	3,376	-	193,603	48,375	245,354	3,002	-	172,669	32,578	208,249
Positive fair value of derivative instruments	60	-	-	84	144	-	-	-	-	-
Investment securities	2,031	-	32,529	1,350	35,910	13,975	-	34,835	-	48,810
Property, equipment and intangible assets	-	-	5,897	1,562	7,459	-	-	5,887	1,273	7,160
Assets classified as held for sale	-	-	212	-	212	-	-	217	-	217
Investment in associate	-	-	228	-	228	-	-	108	-	108
Current income tax receivable	-	-	-	5	5	-	-	516	-	516
Deferred tax asset	-	-	2,677	73	2,750	-	-	3,054	92	3,146
Other assets	15	6	850	699	1,570	14	37	923	526	1,500
Total assets	**12,438**	**1,724**	**252,104**	**61,524**	**327,790**	**26,882**	**324**	**232,556**	**36,448**	**296,210**
Liabilities										
Debt securities issued	-	-	-	9,127	9,127	-	-	-	3,838	3,838
Subordinated debt	11,150	-	-	-	11,150	22,847	-	-	-	22,847
Due to banks and other financial institutions	5,629	2,451	3,451	4,030	15,561	1,565	1,755	9,578	4,250	17,148
Current accounts and deposits from customers	7,227	1,801	190,300	22,762	222,090	4,268	1,462	171,488	15,725	192,943
Negative fair value of derivative instruments	8	-	-	46	54	-	-	-	16	16
Current income tax liability	-	-	238	-	238	-	-	-	106	106
Other liabilities	46	324	4,212	1,902	6,484	105	75	4,794	1,465	6,439
Total liabilities	**24,060**	**4,576**	**198,201**	**37,867**	**264,704**	**28,785**	**3,292**	**185,860**	**25,400**	**243,337**
Effect of foreign currency derivatives	11,605	1,980	(1,786)	(14,151)	(2,352)	1,797	2,423	(1,506)	(3,491)	(777)
Net position as at 31 December	**(17)**	**(872)**	**52,117**	**9,506**	**60,734**	**(106)**	**(545)**	**45,190**	**7,557**	**52,096**

24. Risk management, corporate governance and internal control (continued)

Foreign currency risk sensitivity analysis

An analysis of sensitivity of net profit and equity to change in the currency exchange rates based on positions existing as at 31 December 2018 and 31 December 2017 and a simplified scenario of a 10% change in USD, EUR and KZT to Russian Rouble exchange rates is as follows:

	2018 Total effect on net profit/ equity MRUB	2017 Total effect on net profit/ equity MRUB
Effect of 10% RUB depreciation against USD	(1)	(9)
Effect of 10% RUB appreciation against USD	1	9
Effect of 10% RUB depreciation against EUR	(70)	(44)
Effect of 10% RUB appreciation against EUR	70	44
Effect of 10% RUB depreciation against KZT	679	605
Effect of 10% RUB appreciation against KZT	(679)	(605)

(f) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting obligations from its financial liabilities. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group’s reputation.

The Financial Markets department collects information from other departments regarding the liquidity profile of their financial assets and liabilities and details of other projected cash flows arising from projected future business. A portfolio of short-term liquid assets is maintained to ensure sufficient liquidity. The daily liquidity position is monitored and regular liquidity stress testing is conducted under a variety of scenarios covering different market conditions. Liquidity position projections are subject to regular review and approval by ALCO.

The following table shows assets and liabilities as at 31 December 2018 and 31 December 2017 by remaining contractual undiscounted cash flows. Such undiscounted cash flows differ from the amount included in the condensed consolidated statement of financial position because the statement of financial position amount is based on discounted cash flows. Investments securities that qualify as collateral for borrowing from the Central Bank of the Russian Federation are shown in the category “Less than 1 month” as management believes they are liquid assets which can be sold quickly or pledged into a repo transaction in response to liquidity needs, if necessary. In accordance with Russian legislation, individuals can withdraw their term deposits at any time, losing in most of the cases the accrued interest. Based on the past experience management believes term deposits and current accounts from individuals to be a stable source of funding, thus classifying them in accordance with contractual maturities and expected prolongations for term deposits or expected demand for current accounts.

24. Risk management, corporate governance and internal control (continued)

	2018							2017						
MRUB	**Less than 1 month**	**1 to 3 months**	**3 months to 1 year**	**1 to 5 years**	**More than 5 years**	**No maturity**	**Total**	**Less than 1 month**	**1 to 3 months**	**3 months to 1 year**	**1 to 5 years**	**More than 5 years**	**No maturity**	**Total**
Assets														
Cash and cash equivalents	28,977	-	-	-	-	-	28,977	23,050	-	-	-	-	-	23,050
Placements with banks and other financial institutions	-	-	516	-	-	4,677	5,193	-	-	-	-	-	3,464	3,464
Loans to customers	24,913	42,501	123,241	112,610	2,194	-	305,459	20,871	36,428	106,279	92,435	2,680	-	258,693
Positive fair value of derivative instruments	21	-	123	-	-	-	144	-	-	-	-	-	-	-
Investment securities	31,932	20	2,079	2,640	-	-	36,671	44,731	408	3,024	460	205	-	48,828
Property, equipment and intangible assets	-	-	-	-	-	7,459	7,459	-	-	-	-	-	7,160	7,160
Assets classified as held for sale	-	-	212	-	-	-	212	-	-	217	-	-	-	217
Investment in associate	-	-	-	-	-	228	228	-	-	-	-	-	108	108
Current income tax receivable	5	-	-	-	-	-	5	-	-	-	516	-	-	516
Deferred tax asset	-	-	-	-	-	2,750	2,750	-	-	-	-	-	3,146	3,146
Other assets	1,101	190	139	140	-	-	1,570	840	351	164	121	24	-	1,500
Total assets	**86,949**	**42,711**	**126,310**	**115,390**	**2,194**	**15,114**	**388,668**	**89,492**	**37,187**	**109,684**	**93,532**	**2,909**	**13,878**	**346,682**
Liabilities														
Debt securities issued	-	1,279	2,454	7,936	-	-	11,669	-	56	426	4,305	-	-	4,787
Subordinated debt	-	-	11,492	-	-	-	11,492	-	-	14,527	10,006	-	-	24,533
Due to banks and other financial institutions	3,530	980	11,648	-	-	-	16,158	7,076	1,637	8,984	-	-	-	17,697
Current accounts and deposits from customers	45,419	32,997	99,455	40,588	9,473	-	227,932	28,516	22,149	89,118	55,978	5,635	-	201,396
- Current accounts and deposits from individuals	43,743	31,758	90,692	40,229	9,473	-	*215,895*	*27,432*	*20,655*	*85,741*	*55,232*	*5,635*	-	*194,695*
- Current accounts and deposits from corporations	1,676	1,239	8,763	359	-	-	*12,037*	*1,084*	*1,494*	*3,377*	*746*	-	-	*6,701*
Negative fair value of derivative instruments	20	-	34	-	-	-	54	-	-	16	-	-	-	16
Current income tax liability	238	-	-	-	-	-	238	106	-	-	-	-	-	106
Other liabilities	3,317	1,282	1,654	231	-	-	6,484	3,141	2,226	778	294	-	-	6,439
Total liabilities	**52,524**	**36,538**	**126,737**	**48,755**	**9,473**	**-**	**274,027**	**38,839**	**26,068**	**113,849**	**70,583**	**5,635**	**-**	**254,974**
Net balance position	**34,425**	**6,173**	**(427)**	**66,635**	**(7,279)**	**15,114**	**114,641**	**50,653**	**11,119**	**(4,165)**	**22,949**	**(2,726)**	**13,878**	**91,708**
Irrevocable credit related commitments *	6,199	-	-	-	-	-	6,199	6,096	-	-	-	-	-	6,096
Undrawn credit lines	-	210	-	-	-	-	210	-	-	-	-	-	-	-
Net off-balance position	**6,199**	**210**	**-**	**-**	**-**	**-**	**6,409**	**6,096**	**-**	**-**	**-**	**-**	**-**	**6,096**
Cumulative net position	**28,226**	**34,189**	**33,762**	**100,397**	**93,118**	**108,232**		**44,557**	**55,676**	**51,511**	**74,460**	**71,734**	**85,612**	

** Other credit related commitments are disclosed in Note 26*

24. Risk management, corporate governance and internal control (continued)

Undiscounted cash flow from term deposits and current accounts from individuals based on contractual maturities was as follows:

	2018 MRUB	2017 MRUB
Less than 1 month	87,891	55,972
From 1 to 3 months	31,539	20,637
From 3 to 12 months	84,225	81,501
From 1 to 5 years	12,240	36,585
	215,895	**194,695**

(g) Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Group's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behavior. Operational risks arise from all of the Group's operations and are faced by all business entities.

The objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Group's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management. This responsibility is supported by the development of standards for the management of operational risk in the following areas:

- requirements for appropriate segregation of duties, including the independent authorization of transactions;
- requirements for the reconciliation and monitoring of transactions;
- compliance with regulatory and other legal requirements;
- documentation of controls and procedures;
- requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified;
- requirements for the reporting of operational losses and proposed remedial action;
- development of contingency plans;
- training and professional development;
- ethical and business standards;
- risk mitigation, including insurance where this is effective.

(h) Fair value of financial instruments

The estimates of fair value are intended to approximate 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. However given the uncertainties and the use of subjective judgment, the fair value should not be interpreted as being realisable in an immediate sale of the assets or transfer of liabilities.

Fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments the Group determines fair values using other valuation techniques.

24. Risk management, corporate governance and internal control (continued)

The following assumptions are used by management to estimate the fair values of financial instruments that are traded in active markets:

- The estimation of the fair value of debt securities issued was made by using market quotes in the range of 100.0 - 103.2% from notional amount for debt securities issued in KZT;
- The estimation of the fair value of subordinated debt was made by using market quotes in the range of 100.1% from notional amount for subordinated debt issued in USD.

The following assumptions are used by management to estimate the fair values of other financial instruments:

- The estimation of the fair value of POS, cash and credit card loans was made by using discounting future cash flows at discount rates of 16.5-18.0% in RUB and 21%-29% in KZT. The estimation of the fair value of mortgage loans was made by using discounting future cash flows at discount rates of 10.0-10.5%;
- The estimation of the fair value of due to banks and other financial institutions was made by using discounting future cash flows at discount rates of 0.4% in EUR, 2.3% in USD, 6.4-8.4% in RUB and 8.3% in KZT;
- The estimation of the fair value of current accounts and deposits from customers was made by using discounting future cash flows at discount rates of 7.5% in RUB, 0.1-2.0% in USD, 0.7%-1.6% in EUR and 4.3-10.8% in KZT;
- The Group uses valuation models for determining the fair value of financial instruments at fair value through profit or loss based on FX spot rates as set by the CBR, benchmark interest rates and other inputs.

The Group measures fair values for financial instruments recorded in the consolidated statement of financial position using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

· Level 1: Quoted market price (unadjusted) in an active market for an identical instrument;
· Level 2: Valuation techniques based on observable inputs, either directly (i.e., as prices) or indirectly (i.e., derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data;
· Level 3: Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

The Group has a control framework with respect to the measurement of fair values. This framework includes the Risk Department, which is independent of front office management and reports to the Chief Risk Officer, and which has overall responsibility for the independent verification of the results of trading and investment operations and all significant fair value measurements.

Specific controls include:

- verification of observable pricing;
- re-performance of model valuations;
- a review and approval process for new models and changes to models involving both quarterly calibration and the back testing of models against observed market transactions;
- analysis and investigation of significant daily valuation movements;
- review of significant unobservable inputs, valuation adjustments and significant changes to the fair value measurement of Level 3 instruments compared to previous month.

24. Risk management, corporate governance and internal control (continued)

Where third-party information, such as broker quotes or pricing services, are used to measure fair value, the Risk Department assesses and documents the evidence obtained from the third parties to support the conclusion that such valuations meet IFRS requirements. This includes:

- verifying that the broker or pricing service is approved by the Group for use in pricing the relevant type of financial instrument;
- understanding how the fair value has been arrived at the extent to which it represents actual market transactions;
- when prices for similar instruments are used to measure fair value, how these prices have been adjusted to reflect the characteristics of the instrument subject to measurement;
- where a number of quotes for the same financial instrument have been obtained, how fair value has been determined using those quotes.

Significant valuation issues are reported to the Board of Management.

The following table analyses the fair values of financial instruments not measured at fair value, by the level in the fair value hierarchy into which each fair value measurement was categorised as at 31 December 2018:

		Fair value			
MRUB	**Carrying amount**	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets					
Loans to customers	245,354	-	-	256,298	256,298
Liabilities					
Debt securities issued	9,127	-	9,161	-	9,161
Subordinated debt	11,150	11,257	-	-	11,257
Due to banks and other financial institutions	15,561	-	16,065	-	16,065
Current accounts and deposits from customers	222,090	-	222,742	-	222,742

The following table analyses the fair values of financial instruments not measured at fair value, by the level in the fair value hierarchy into which each fair value measurement was categorised as at 31 December 2017:

		Fair value			
MRUB	**Carrying amount**	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets					
Loans to customers	208,249	-	-	212,186	212,186
Liabilities					
Debt securities issued	3,838	-	3,877	-	3,877
Subordinated debt	22,847	23,355	-	-	23,355
Due to banks and other financial institutions	17,148	-	17,416	-	17,416
Current accounts and deposits from customers	192,943	-	193,711	-	193,711

The estimates of fair values of financial assets other than loans to customers and financial liabilities other than debt securities issued, subordinated debt and current accounts and deposits from customers as at 31 December 2018 and 31 December 2017 are not materially different from their carrying values.

24. Risk management, corporate governance and internal control (continued)

The table below analyses financial instruments measured at fair value as at 31 December 2018, by the level in the fair value hierarchy into which the fair value measurement was categorised:

MRUB	Level 1	Level 2	Total
Assets			
Positive fair value of derivative instruments	-	144	144
Investment securities	33,604	2,306	35,910
Liabilities			
Negative fair value of derivative instruments	-	54	54

The table below analyses financial instruments measured at fair value as at 31 December 2017, by the level in the fair value hierarchy into which the fair value measurement was categorised:

MRUB	Level 1	Level 2	Total
Assets			
Investment securities	48,640	170	48,810
Liabilities			
Negative fair value of derivative instruments	-	16	16

25. Derivative financial instruments

As at 31 December 2018 the following derivative contracts were outstanding:

Contract type	Maturity	Sell/Buy	Notional amount (in RUB equivalent) MRUB	Fair value MRUB
Trading derivative instruments				
Foreign currency swap contracts	less than 1 month	EUR/RUB	5	-
	less than 1 month	KZT/USD	14	20
	less than 1 month	RUB/EUR	1,480	-
	less than 1 month	RUB/USD	320	-
	less than 1 month	USD/KZT	7	(21)
	less than 1 month	USD/RUB	9	-
	1 to 3 months	GBP/USD	1,336	10
	1 to 3 months	KZT/GBP	1,324	8
	3 to 6 months	KZT/EUR	1,192	23
	6 to 12 months	EUR/USD	2,463	17
	6 to 12 months	EUR/USD	814	(1)
	6 to 12 months	GBP/USD	1,811	19
	6 to 12 months	KZT/EUR	3,178	(17)
	6 to 12 months	KZT/GBP	1,766	(7)
	6 to 12 months	KZT/USD	3,474	47
	6 to 12 months	KZT/USD	1,389	(8)
				90
Total derivative instruments				**90**

25. Derivative financial instruments (continued)

As at 31 December 2017 the following derivative contracts were outstanding:

Contract type	Maturity	Sell/Buy	Notional amount (in RUB equivalent) MRUB	Fair value MRUB
Trading derivative instruments				
Foreign currency swap contracts	less than 1 month	USD/KZT	1,293	-
	less than 1 month	RUB/EUR	1,185	-
	less than 1 month	RUB/USD	323	-
	1 to 3 months	KZT/EUR	689	(1)
	3 to 6 months	GBP/EUR	1,023	16
	3 to 6 months	KZT/GBP	1,010	(10)
	6 to 12 months	KZT/USD	1,728	(27)
	6 to 12 months	EUR/USD	1,043	(3)
	6 to 12 months	KZT/EUR	1,033	9
				(16)
Total derivative instruments				**(16)**

26. Commitments

Credit related commitments

The Group has outstanding commitments to extend credit. These commitments take the form of approved credit limits related to customers' credit card accounts, approved overdraft facilities, guarantees and approved consumer loans.

	2018 MRUB	2017 MRUB
Credit card commitments	32,937	17,054
POS and cash loan commitments	6,199	6,096
Undrawn credit lines	210	-
	39,346	**23,150**

The total outstanding contractual commitments to extend credit indicated above represent future cash requirements. Credit related commitments to individual clients are mainly classified into category “less than one month” in terms of maturity, however some of these commitments may expire or terminate without being funded.

27. Operating leases

The Group leases a number of premises and equipment under operating leases. Lease payments are usually increased annually to reflect market rentals. None of the leases includes contingent rentals.

Non-cancellable operating lease rentals are payable as follows:

	2018 MRUB	**2017 MRUB**
Less than one year	789	648
Between one and five	1,734	1,589
More than five years	921	214
	3,444	**2,451**

During the year ended 31 December 2018 MRUB 1,097 (2017: MRUB 1,047) was recognised as an expense in the consolidated statement of profit or loss in respect of operating leases (Note 9).

28. Contingencies

Taxation contingencies

The taxation systems in the Russian Federation and the Republic of Kazakhstan are relatively new and are characterised by frequent changes in legislation, official pronouncements and court decisions, which are often unclear, contradictory and subject to varying interpretation by different tax authorities. Taxes are subject to review and investigation by a number of authorities, which have the authority to impose severe fines, penalties and interest charges. A tax year remains open for review by the tax authorities during the three and five subsequent calendar years accordingly; however, under certain circumstances a tax year may remain open longer. Recent events suggest that the tax authorities are taking a more assertive position in their interpretation and enforcement of tax legislation.

Starting from 1 January 2012 new transfer pricing rules came into force in Russia. These provide the possibility for tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect of controllable transactions if their prices deviate from the market range or profitability range. According to the provisions of transfer pricing rules, the taxpayer should sequentially apply five market price determination methods prescribed by the Tax Code.

Tax liabilities arising from transactions between companies are determined using actual transaction prices. It is possible, with the evolution of the interpretation of transfer pricing rules in the Russian Federation and changes in the approach of the Russian tax authorities, that such transfer prices could be challenged. Since the current Russian transfer pricing rules became effective relatively recently, the impact of any such challenge cannot be reliably estimated; however, it may be significant to the financial position and/or the overall operations of the Group.

These circumstances may create tax risks in the Russian Federation and the Republic of Kazakhstan that are more significant than in other countries. Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable Russian and Kazakhstan tax legislation, official pronouncements and court decisions. However, the interpretations of the relevant authorities could differ and the effect on these consolidated financial statements, if the authorities were successful in enforcing their interpretations, could be significant.

29. Related party transactions

(a) Transactions with the parent

Amounts included in the consolidated statement of profit or loss in relation to transactions with the parent are as follows:

	2018 MRUB	2017 MRUB
Interest income	-	264
Interest expense	(2)	(2)
Loss from foreign exchange revaluation of financial assets and liabilities	-	(167)
General administrative expenses	(96)	-
	(98)	**95**

Amounts included in the consolidated statement of financial position in relation to transactions with the parent are as follows:

	2018 MRUB	2017 MRUB
Due to banks and other financial institutions	-	(692)
Other liabilities	(96)	-
	(96)	**(692)**

As at 31 December 2017 due to banks and other financial institutions shown above included term deposits in the amount of MRUB 692 at an effective interest rate 15.24% with a maturity from one to three months. As at 31 December 2018: none.

(b) Transactions with entities controlled by the ultimate controlling entity

Amounts included in the consolidated statement of profit or loss in relation to transactions with entities controlled by the ultimate controlling entity are as follows:

	2018 MRUB	2017 MRUB
Interest expense	(994)	(1,290)
Fee and commission income	1,488	1,247
Net gain on spot transactions and currency derivatives	-	561
Other operating income, net	56	164
General administrative expenses	(1,776)	(1,499)
	(1,226)	**(817)**

29. Related party transactions (continued)

Amounts included in the consolidated statement of financial position in relation to transactions with entities controlled by the ultimate controlling entity are as follows:

	2018 MRUB	2017 MRUB
Cash and cash equivalents	60	61
-In EUR	*60*	*61*
Placements with banks and other financial institutions	447	-
-In EUR	*447*	-
Positive fair value of derivative instruments	123	-
-In EUR	*123*	-
Property, equipment and intangible assets	942	906
-In RUB	*379*	*346*
-In KZT	*563*	*560*
Other assets	9	48
-In RUB	*9*	*24*
-In EUR	-	*24*
Subordinated debt	(4,027)	(10,318)
-In USD	*(4,027)*	*(10,318)*
Due to banks and other financial institutions	(7,467)	(4,072)
-In RUB	*(1,947)*	*(4,035)*
-In USD	*(4,330)*	-
-In EUR	*(1,190)*	*(26)*
-In KZT	-	*(11)*
Current accounts and deposits from customers	(7)	(13)
-In RUB	*(7)*	*(13)*
Negative fair value of derivative instruments	(34)	(16)
-In USD/GBP/EUR	*(34)*	*(16)*
Other liabilities	(757)	(180)
-In RUB	*(470)*	*(62)*
-In EUR	*(287)*	*(118)*
	(10,711)	**(13,584)**

As at 31 December 2018 due to banks and other financial institutions amounted to MRUB 7,467 at an effective interest rate of 6.79% with the maturity less than one month and from one month to one years (31 December 2017: MRUB 4,072 at an effective interest rate of 7.56% with the maturity less than one month and from one month to one years).

As at 31 December 2018 current accounts and deposits from customers included other balances of MRUB 7 with the maturity less than one month (31 December 2017: other balances of MRUB 13 with the maturity less than one month).

As at 31 December 2018 subordinated debt amounted to MRUB 4,027 at an effective interest rate of 10.2% with the maturity from three months to one year (31 December 2017: MRUB 10,318 at an effective interest rate of 10.2% with the maturity from three months to five years).

(c) Transactions with members of key management

Amounts included in the consolidated statement of profit or loss in relation to transactions with members of key management (members of the Council and the Board of Management) of MRUB 784 (2017: MRUB 641) represent compensation for the year and severance pay.

30. Capital management

The Group's lead regulator, the CBR, sets and monitors capital requirements for both the Bank and the Group as a whole. Bank Home Credit (SB JSC) is regulated and monitored in Kazakhstan by the NBRK.

The Group defines as capital those items defined by statutory regulation as capital for credit institutions. The Group calculates the amount of capital and capital adequacy ratios for prudential purposes in accordance with the Provision of the CBR dated 28 December 2012 No 395–P *On methodology of calculation of own funds (capital) of the credit organisations (Basel III)*. As at 31 December 2018, this minimum levels of core capital, primary capital and total capital to risk weighted assets were 4.5%, 6.0% and 8.0% respectively (31 December 2017: 4.5%, 6.0% and 8.0% respectively).

Since 1 January 2016 the Group should comply with capital buffers: capital conservation buffer and countercycle buffer.

The Group maintains capital adequacy at the level appropriate to the nature and volume of its operations.

The Group provides the territorial CBR that supervise the Bank with information on mandatory ratios in accordance with set form. The Accounting department controls on a daily basis compliance with capital adequacy ratios.

The calculation of capital adequacy of the Group based on requirements set by the CBR as at 31 December 2018 and 31 December 2017 was as follows:

	2018 MRUB	**2017 MRUB**
Risk-weighted assets (N20.0)	**436,409**	**427,584**
Risk-weighted assets (N20.1, N20.2)	**437,975**	**429,179**
Core capital	44,841	38,902
Primary capital	44,841	38,902
Additional capital	11,971	15,674
Total capital	**56,812**	**54,576**
Core capital adequacy ratio N20.1	**10.2%**	**9.1%**
Primary capital adequacy ratio N20.2	**10.2%**	**9.1%**
Total capital adequacy ratio N20.0	**13.0%**	**12.8%**

The Group also calculates its capital adequacy in compliance with the Basel Accord issued in 1988 and amended in 1998 ("Accord") set out by the Bank of International Settlements ("BIS"). Tier I capital is represented by equity. Tier II capital is represented by subordinated debt up to 50% of tier I. In accordance with the Accord the minimum levels of Tier I capital and total capital to risk weighted assets are 4.0% and 8.0% respectively.

30. Capital management (continued)

The calculation of capital adequacy based on requirements set by BIS as at 31 December 2018 and 31 December 2017 was as follows:

	2018 MRUB	2017 MRUB
Risk weighted assets	**288,117**	**273,581**
Tier I capital	63,086	52,873
Tier II capital	5,024	12,253
Total capital	**68,110**	**65,126**
Tier I ratio	21.9%	19.3%
Capital Adequacy Ratio	23.6%	23.8%

As at 31 December 2018 and 31 December 2017 the Group was fully in compliance with the capital regulations described above.

31. Segment analysis

The Board of Management is the chief operating decision maker. The Board of Management reviews internal reporting on a regular basis to assess the performance of individual segments and to allocate resources accordingly.

The Board of Management monitors performance mainly from a product perspective and geographical perspective.

Operational information is represented by major reportable segments being POS loans, cash loans and credit card loans. Other segments comprising mortgage loans, car loans, loans to corporations and treasury operations are less significant and thus are not reported separately by the Group.

The Group operates in the Russian Federation and the Republic of Kazakhstan. In presenting geographical information the allocation of revenue is based on the geographical location of customers and assets.

Revenues of reportable segments consist of interest and fee income including inter-segment revenues resulting from allocation of financing raised by the treasury function to major segments. Performance of individual segments is assessed by the Board of Management based on segment profit or loss.

Total segment assets mainly consist of the loan portfolio and interest earning financial assets accumulated as a result of treasury operations. A presentation of segment revenues, segment profit and assets is provided below.

31. Segment analysis (continued)

(a) Operational segments

MRUB	POS loans	Credit card loans	Cash loans	Other segment	Unallo-cated	Total
Year ended 31 December 2018						
Interest income calculated using EIR	12,542	4,149	33,574	3,551	-	**53,816**
Interest expense	(2,926)	(1,309)	(11,860)	(1,741)	-	**(17,836)**
Net interest income	**9,616**	**2,840**	**21,714**	**1,810**	**-**	**35,980**
Fee and commission income	2,595	2,248	5,880	1,687	317	**12,727**
Fee and commission expense	(457)	(1,163)	(1,134)	(852)	(729)	**(4,335)**
Net fee and commission	**2,138**	**1,085**	**4,746**	**835**	**(412)**	**8,392**
Other operating (loss)/ income, net	(118)	(18)	(441)	(841)	191	**(1,227)**
Operating income	**11,636**	**3,907**	**26,019**	**1,804**	**(221)**	**43,145**
Impairment losses	(2,024)	(29)	(1,555)	(582)	(32)	**(4,222)**
General administrative expenses	-	-	-	-	(21,629)	**(21,629)**
Operating expenses	**(2,024)**	**(29)**	**(1,555)**	**(582)**	**(21,661)**	**(25,851)**
Profit before tax	**9,612**	**3,878**	**24,464**	**1,222**	**(21,882)**	**17,294**
Income tax expense	-	-	-	-	(3,485)	**(3,485)**
Profit for the year	**9,612**	**3,878**	**24,464**	**1,222**	**(25,367)**	**13,809**

Segment assets

MRUB	POS loans	Credit card loans	Cash loans	Other segments	Total
Carrying amount at 31 December 2018	71,620	18,953	150,235	48,525	**289,333**

31. Segment analysis (continued)

MRUB	POS loans	Credit card loans	Cash loans	Other segment	Unallo-cated	Total
Year ended 31 December 2017						
Interest income calculated using effective interest rate	11,388	5,182	27,267	3,996	-	**47,833**
Interest expense	(2,692)	(2,138)	(9,901)	(2,363)	-	**(17,094)**
Net interest income	**8,696**	**3,044**	**17,366**	**1,633**	**-**	**30,739**
Fee and commission income	3,341	1,807	4,999	1,757	296	**12,200**
Fee and commission expense	(114)	(770)	(231)	(459)	(1,348)	**(2,922)**
Net fee and commission income	**3,227**	**1,037**	**4,768**	**1,298**	**(1,052)**	**9,278**
Other operating (loss)/ income, net	(6)	(7)	(47)	76	146	**162**
Operating income	**11,917**	**4,074**	**22,087**	**3,007**	**(906)**	**40,179**
Impairment losses	(1,851)	(491)	267	(209)	(230)	**(2,514)**
General administrative expenses	-	-	-	-	(19,824)	**(19,824)**
Operating expenses	**(1,851)**	**(491)**	**267**	**(209)**	**(20,054)**	**(22,338)**
Profit before tax	**10,066**	**3,583**	**22,354**	**2,798**	**(20,960)**	**17,841**
Income tax expense	-	-	-	-	(3,596)	**(3,596)**
Profit for the year	**10,066**	**3,583**	**22,354**	**2,798**	**(24,556)**	**14,245**

Segment assets	POS loans	Credit card	Cash loans	Other	Total
Carrying amount at 31 December 2017	71,725	15,635	115,809	64,876	**268,045**

Reportable segments' assets are reconciled to total assets as follows:

MRUB	2018	2017
Total segment assets	**289,333**	**268,045**
Cash and cash equivalents (excluded from other segments)	23,760	13,878
Placements with banks and other financial institutions	2,473	1,640
Assets classified as held for sale	212	217
Property, equipment and intangible assets	7,459	7,160
Investment in associate	228	108
Current income tax receivable	5	516
Deferred tax asset	2,750	3,146
Other assets	1,570	1,500
Total assets	**327,790**	**296,210**

31. Segment analysis (continued)

(b) Geographical segments

MRUB **Year end 31 December 2018**	Russian Federation	Kazakhstan	Eliminations	Total
Interest income calculated using effective	40,414	13,508	(106)	**53,816**
Interest expense	(13,930)	(4,012)	106	**(17,836)**
Net interest income	**26,484**	**9,496**	**-**	**35,980**
Fee and commission income	9,516	3,211	-	**12,727**
Fee and commission expense	(3,940)	(395)	-	**(4,335)**
Net fee and commission income	**5,576**	**2,816**	**-**	**8,392**
Other operating income/(loss), net	330	(636)	(921)	**(1,227)**
Operating income	**32,390**	**11,676**	**(921)**	**43,145**
Impairment losses	(3,481)	(741)	**-**	**(4,222)**
General administrative expenses	(16,141)	(5,488)	-	**(21,629)**
Operating expenses	**(19,622)**	**(6,229)**	-	**(25,851)**
Profit before tax	**12,768**	**5,447**	**(921)**	**17,294**
Income tax expense	(2,349)	(1,136)	**-**	**(3,485)**
Profit for the year	**10,419**	**4,311**	**(921)**	**13,809**

MRUB **Year end 31 December 2017**	Russian Federation	Kazakhstan	Eliminations	Total
Interest income calculated using effective interest rate	38,165	9,681	(13)	**47,833**
Interest expense	(14,405)	(2,702)	13	**(17,094)**
Net interest income	**23,760**	**6,979**	**-**	**30,739**
Fee and commission income	9,593	2,607	-	**12,200**
Fee and commission expense	(2,624)	(298)	-	**(2,922)**
Net fee and commission income	**6,969**	**2,309**	-	**9,278**
Other operating income/(loss), net	2,559	(58)	(2,339)	**162**
Operating income	**33,288**	**9,230**	**(2,339)**	**40,179**
Impairment losses	(2,634)	120	**-**	**(2,514)**
General administrative expenses	(15,435)	(4,389)	-	**(19,824)**
Operating expenses	**(18,069)**	**(4,269)**	**-**	**(22,338)**
Profit before tax	**15,219**	**4,961**	**(2,339)**	**17,841**
Income tax expense	(2,569)	(1,027)	**-**	**(3,596)**
Profit for the year	**12,650**	**3,934**	**(2,339)**	**14,245**

31. Segment analysis (continued)

Segment assets

MRUB	**Russian Federation**	**Kazakhstan**	**Eliminations**	**Total**
Carrying amount at 31 December 2018	268,166	67,063	(7,439)	**327,790**
Carrying amount at 31 December 2017	260,204	38,946	(2,940)	**296,210**

MRUB	**Russian Federation**	**Kazakhstan**	**Eliminations**	**Total**
31 December 2018				
Cash and cash equivalents	17,388	11,577	-	**28,965**
Placements with banks and other financial institutions	9,299	1,557	(5,663)	**5,193**
Loans to customers	196,979	48,375	-	**245,354**
Positive fair value of derivative instruments	-	144	-	**144**
Investment securities	32,852	3,058	-	**35,910**
Assets classified as held for sale	212	-	-	**212**
Property, equipment and intangible assets	5,897	1,562	-	**7,459**
Investment in associate	2,004	-	(1,776)	**228**
Current income tax receivable	-	5	-	**5**
Deferred tax asset	2,677	73	-	**2,750**
Other assets	858	712	-	**1,570**
Total assets	**268,166**	**67,063**	**(7,439)**	**327,790**
Debt securities issued	-	9,127	-	**9,127**
Subordinated debt	11,150	-	-	**11,150**
Due to banks and other financial institutions	3,476	17,748	(5,663)	**15,561**
Current accounts and deposits from customers	195,125	26,965	-	**222,090**
Negative fair value of derivative instruments	-	54	-	**54**
Current income tax liability	238	-	-	**238**
Other liabilities	4,678	1,806	-	**6,484**
Total liabilities	**214,667**	**55,700**	**(5,663)**	**264,704**

31. Segment analysis (continued)

MRUB	Russian Federation	Kazakhstan	Eliminations	Total
31 December 2017				
Cash and cash equivalents	20,891	2,149	-	**23,040**
Placements with banks and other financial institutions	4,316	312	(1,164)	**3,464**
Loans to customers	175,671	32,578	-	**208,249**
Investment securities	46,820	1,990	-	**48,810**
Assets classified as held for sale	217	-	-	**217**
Property, equipment and intangible assets	5,887	1,273	-	**7,160**
Investment in associate	1,884	-	(1,776)	**108**
Current income tax receivable	516	-	-	**516**
Deferred tax asset	3,054	92	-	**3,146**
Other assets	948	552	-	**1,500**
Total assets	**260,204**	**38,946**	**(2,940)**	**296,210**
Debt securities issued	-	3,838	-	**3,838**
Subordinated debt	22,847	-	-	**22,847**
Due to banks and other financial institutions	9,605	8,707	(1,164)	**17,148**
Current accounts and deposits from customers	176,010	16,933	-	**192,943**
Negative fair value of derivative instruments	-	16	-	**16**
Current income tax liabilitiy	-	106	-	**106**
Other liabilities	4,908	1,531	-	**6,439**
Total liabilities	**213,370**	**31,131**	**(1,164)**	**243,337**

Chairman of the Board of Management

Y. Andresov

ООО "ХКФ Банк" HCF Bank

Chief Financial Officer

I. Kolikova