Commercial Bank
"J.P. Morgan Bank International"
(Limited Liability Company)

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

31 December 2018

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Independent Auditor's Report

To the Participants and Board of Directors of Commercial Bank "J.P. Morgan Bank International" (Limited Liability Company):

Report on the audit of the financial statements

Our opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Commercial Bank "J.P. Morgan Bank International" (Limited Liability Company) (the "Bank") as at 31 December 2018, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

What we have audited

The financial statements of the Bank comprise:

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

Basis for opinion

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

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

Independence

We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements of the Auditor's Professional Ethics Code and Auditor's Independence Rules that are relevant to our audit of the financial statements in the Russian Federation. We have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

Responsibilities of management and those charged with governance for the financial statements

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

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In preparing the financial statements, management is responsible for assessing the ability of the Bank 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 Bank or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the financial reporting process of the Bank.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these 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 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 internal control of the Bank.
- 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 ability of the Bank to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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.

Report on other legal and regulatory requirements

Report on examination in accordance with Article No.42 of Federal Law of 2 December 1990 No.395-1 "On Banks and Banking Activity"

The management of the Bank is responsible for compliance of the Bank with the statutory ratios set by the Bank of Russia and for compliance of internal control and organisation of risk management systems of the Bank with the Bank of Russia's requirements for such systems.

In accordance with Article No.42 of Federal Law of 2 December 1990 No.395-1 "On Banks and Banking Activity", we have examined the following during the audit of the financial statements of the Bank for the year 2018:

- compliance of the Bank as at 1 January 2019 with the statutory ratios set by the Bank of Russia;
- compliance of internal control and organisation of risk management systems of the Bank with the requirements set by the Bank of Russia for such systems.

Our examination was limited to procedures selected based on our judgement, such as inquiries, analysis and examination of documents, comparison of requirements, procedures and methodologies adopted by the Bank with the Bank of Russia's requirements, as well as recalculation, comparison and reconciliation of figures and other information.

We have identified the following based on our examination:

1) as related to compliance of the Bank with the statutory ratios set by the Bank of Russia:

   as at 1 January 2019 the Bank's statutory ratios set by the Bank of Russia were within the limits set by the Bank of Russia.

   We draw your attention to the fact that we have not performed any procedures related to the underlying accounting data of the Bank other than the procedures we considered necessary to express our opinion on whether or not the financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2018, and its financial performance and its cash flows for the year then ended in accordance with IFRS.

2) as related to compliance of internal control and organisation of risk management systems of the Bank with the Bank of Russia's requirements for such systems:

   a) in accordance with the Bank of Russia's requirements and recommendations, as at 1 January 2019 subdivisions of the Bank for managing significant risks of the Bank were not subordinated or accountable to subdivisions assuming corresponding risks;

   b) internal documents of the Bank effective as at 1 January 2019 which set out the methodologies to identify and manage significant risks and the methodologies to carry out stress testing are duly approved by appropriate management bodies of the Bank in accordance with the Bank of Russia's requirements and recommendations;

   c) as at 1 January 2019 the Bank had in place a reporting system for significant risks and for equity (capital) of the Bank;

   d) the frequency and consistency of reports prepared by risk management subdivisions of the Bank and its internal audit function during 2018 as related to management of risks complied with internal documents of the Bank; those reports included observations made by risk management subdivisions of the Bank and its internal audit function as related to the assessment of the effectiveness of the respective procedures of the Bank as well as recommendations on their improvement;

e) as at 1 January 2019 the authority of the Board of Directors of the Bank and its executive bodies included control over compliance of the Bank with risk and equity (capital) adequacy limits set by internal documents of the Bank. To exercise control over the effectiveness of the risk management procedures applied in the Bank and their consistent application in 2018, the Board of Directors of the Bank and its executive bodies regularly discussed the reports prepared by risk management subdivisions of the Bank and its internal audit function and considered proposed measures to eliminate weaknesses.

We have performed the above procedures related to internal control and organisation of risk management systems of the Bank solely to examine compliance of internal control and risk management systems of the Bank with the Bank of Russia's requirements for such systems.

AO PricewaterhouseCoopers Audit

25 April 2019

Moscow, Russian Federation

N. V. Kosova, certified auditor (licence no. 01-000396),
AO PricewaterhouseCoopers Audit

Audited entity: Commercial Bank "J.P. Morgan Bank International" (Limited Liability Company).

State registration certificate № 2629, issued by the Central Bank of Russia on 26 October 1993.

Record made in the Unified State Register of Legal Entities on 22 November 2002 under State Registration Number 1027739606245.

10, Butyrsky Val str., Moscow 125047, Russia.

Independent auditor: AO PricewaterhouseCoopers Audit.

Registered by the Government Agency Moscow Registration Chamber on 28 February 1992 under No. 008.890.

Record made in the Unified State Register of Legal Entities on 22 August 2002 under State Registration Number 1027700148431.

Member of Self-regulated organization of auditors «Russian Union of auditors» (Association).

Principal Registration Number of the Record in the Register of Auditors and Audit Organizations – 11603050547.

In thousands of Russian Roubles	Note	31 December 2018	31 December 2017
Assets			
Cash and cash equivalents	6	30 557 656	17 682 500
Mandatory cash balances with the Central Bank of the Russian Federation		36 554	42 599
Securities at fair value through profit or loss	7	18	18
Derivative financial instruments	8	4 380 337	3 389 041
Deferred income tax asset	21	-	13 753
Premises and equipment	9	258 644	98 784
Intangible assets	10	123 349	99 868
Other financial assets	11	502 093	191 991
Other non-financial assets	12	80 212	90 441
Total assets		**35 938 863**	**21 608 995**
Liabilities			
Derivative financial instruments	8	4 522 376	3 384 217
Due to other banks	13	859 987	1 693 849
Customer accounts	14	1 179 600	1 676 474
Provision for liabilities and charges	24	-	44 490
Deferred income tax liability	21	7 399	-
Current income tax liability		76 918	91 966
Other liabilities	15	1 075 833	1 039 767
Total liabilities		**7 722 113**	**7 930 763**
Equity			
Charter capital	16	15 915 315	2 715 315
Share-based compensation reserve	17	1 949 574	1 936 826
Other reserves	16	557 604	557 604
Retained earnings		9 794 257	8 468 487
Total statutory capital		**28 216 750**	**13 678 232**
Total liabilities and equity		**35 938 863**	**21 608 995**

Approved for issue and signed on behalf of the Board of Directors on 25 April 2019.

L. Dudnick
Executive Director,
Head of the Finance Department

A. Vorontsov
Chief Accountant

In thousands of Russian Roubles	Note	2018	2017
Interest income	18	933 942	518 506
Interest expense	18	(55 795)	(181 785)
Net interest income		**878 147**	**336 721**
Gains less losses from trading securities		85 419	142 610
(Losses less gains) / gains less losses from transactions with financial derivatives		(3 932 882)	92 264
Gains less losses from trading in foreign currencies		1 590 103	988 827
Foreign exchange translation gains less losses		3 649 001	134 650
Fee and commission income	19	2 218 558	1 721 376
Fee and commission expense	19	(15 237)	(12 283)
Dividend income received		2	2
Other operating income		921	137
Administrative and other operating expenses	20	(2 746 610)	(2 469 801)
Share based payments	17	(12 748)	(43 217)
Movement in the provision on onerous lease contracts	24	16 401	44 814
Expected loss from credit related commitments		(980)	-
Profit before tax		**1 730 095**	**936 100**
Income tax expense	21	(404 325)	(229 271)
Profit for the year		**1 325 770**	**706 829**
Total comprehensive income for the year		**1 325 770**	**706 829**

In thousands of Russian Roubles	Note	Charter capital	Share-based compensation reserve	Other reserves	Retained earnings	Total
At 1 January 2017		**2 715 315**	**1 893 609**	**557 604**	**7 761 658**	**12 928 186**
Profit for the year		-	-	-	706 829	**706 829**
Total comprehensive income for 2017		**-**	**-**	**-**	**706 829**	**706 829**
Share based payments	17	-	43 217	-	-	**43 217**
Balance at 31 December 2017		**2 715 315**	**1 936 826**	**557 604**	**8 468 487**	**13 678 232**
At 1 January 2018		**2 715 315**	**1 936 826**	**557 604**	**8 468 487**	**13 678 232**
Profit for the year		-	-	-	1 325 770	**1 325 770**
Total comprehensive income for 2018		**-**	**-**	**-**	1 325 770	**1 325 770**
Share based payments	17	-	12 748	-	-	**12 748**
Increase in charter capital	16	13 200 000	-	-	-	**13 200 000**
Balance at 31 December 2018		**15 915 315**	**1 949 574**	**557 604**	**9 794 257**	**28 216 750**

In thousands of Russian Roubles	Note	2018	2017
Cash flows from operating activities			
Interest received		929 659	517 691
Interest paid		(54 017)	(179 698)
Gains less losses from trading securities		85 419	142 610
(Losses less gains) / gains less losses from transactions with financial derivatives		(3 782 616)	74 895
Gains less losses from trading in foreign currencies		1 588 756	938 432
Fees and commissions received		2 093 630	1 659 446
Fees and commissions paid		(15 237)	(12 283)
Staff costs paid		(1 966 942)	(1 926 474)
Administrative and other operating expenses paid		(601 035)	(691 858)
Income tax paid		(398 221)	(189 009)
Other operating income received		33 833	65 020
Dividend income received		2	2
Cash flows (used in)/from operating activities before changes in operating assets and liabilities		**(2 086 769)**	**398 774**
Changes in operating assets and liabilities			
Net decrease/(increase) in mandatory cash balances with the Central Bank of the Russian Federation		6 045	(10 298)
Net decrease in trading securities		-	9 765
Net (increase)/decrease in other financial and other non-financial assets		(62 239)	26 762
Net (decrease)/increase in due to other banks		(1 008 942)	634 216
Net decrease in customer accounts		(602 950)	(209 547)
Payment under onerous lease contract	24	(60 055)	(41 613)
Net increase in other liabilities		3 965	568 118
Net cash (used in)/from operating activities		**(3 810 945)**	**1 376 177**
Cash flows from investing activities			
Acquisition of premises and equipment	9	(334 804)	(4 061)
Disposal of premises and equipment	9	1 387	21 878
Acquisition of intangible assets	10	(42 701)	(21 372)
Net cash used in investing activities		**(376 118)**	**(3 555)**
Cash flows from financing activities			
Increase in charter capital	16	13 200 000	-
Net cash from financing activities		**13 200 000**	**-**
Effect of exchange rate changes on cash and cash equivalents		**3 862 219**	**172 736**
Net increase in cash and cash equivalents		**12 875 156**	**1 545 358**
Cash and cash equivalents at the beginning of the period	6	17 682 500	16 137 142
Cash and cash equivalents at the end of the period	**6**	**30 557 656**	**17 682 500**

1 Introduction

These financial statements have been prepared in accordance with International Financial Reporting Standards for the year ended 31 December 2018 for Commercial Bank "J.P. Morgan Bank International" (Limited Liability Company) (the "Bank").

Principal activity. The Bank was incorporated and is domiciled in the Russian Federation. The Bank's principal business activity is banking operations within the Russian Federation. The Bank has operated under a full banking license issued by the Central Bank of the Russian Federation ("CBRF") since 1993. The Bank previously operated as Chase Manhattan Bank International (Limited Liability Company) and in 2001 changed its name to the current one as a part of a worldwide merger of Chase, J.P. Morgan and Flemings groups. The change in the name did not result in a change in the principal business activity of the Bank.

The Bank is a Russian limited liability company and was set up in accordance with Russian legislation.

At 31 December 2018 and 31 December 2017, the Bank's participants were J.P. Morgan International Finance Limited (USA) (99.99904%) and J.P. Morgan Limited (UK) (0.00096%).

At 31 December 2018 and 31 December 2017, the ultimate controlling party of the Bank was J.P. Morgan Chase & Co (USA). The Bank is a member of J. P. Morgan Chase Group (the "Group").

Registered address and place of business. The Bank's registered address is 10 Butyrsky Val, Moscow, 125047, Russia.

Presentation currency. These financial statements are presented in thousands of Russian Roubles ("RR thousands").

Publication of financial statements. These financial statements are published by the Bank electronically on its internet website: http://www.jpmorgan.ru.

2 Operating Environment of the Bank

Russian Federation. The Russian Federation displays certain characteristics of an emerging market. Its economy is particularly sensitive to oil and gas prices. The legal, tax and regulatory frameworks continue to develop and are subject to frequent changes and varying interpretations . The Russian economy continues to be negatively impacted by ongoing political tension in the region and international sanctions against certain Russian companies and individuals. Firm oil prices, low unemployment and rising wages supported a modest growth of the economy in 2018. This operating environment has a significant impact on the Bank's operations and financial position. Management is taking necessary measures to ensure sustainability of the Bank's operations. However, the future effects of the current economic situation are difficult to predict and management's current expectations and estimates could differ from actual results.

For the purpose of measurement of expected credit losses ("ECL"), the Bank uses supportable forward-looking information, including forecasts of macroeconomic variables. As with any economic forecast, however, the projections and likelihoods of their occurrence are subject to a high degree of inherent uncertainty and therefore the actual outcomes may be significantly different from those projected. Note 22 provides more information of how the Bank incorporated forward-looking information in the ECL models.

3 Significant Accounting Policies

Basis of preparation. These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") under the historical cost convention, as modified by the initial recognition of financial instruments based on fair value, and by the revaluation of financial instruments categorised at fair value through profit or loss ("FVTPL") and at fair value through other comprehensive income ("FVOCI"). The principal accounting policies applied in the preparation of these financial statements are set out below. Apart from the accounting policy changes resulting from the adoption of IFRS 9 "Financial Instruments" effective from 1 January 2018, these policies have been consistently applied to all the periods presented, unless otherwise stated. Refer to Note 4.

3 Significant Accounting Policies (Continued)

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

Valuation techniques such as discounted cash flow models or models based on recent arm's length transactions or consideration of financial data of the investees, are used to measure fair value of certain financial instruments for which external market pricing information is not available. Fair value measurements are analysed by level in the fair value hierarchy as follows: (i) level one are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities, (ii) level two measurements are valuations techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices), and (iii) level three measurements are valuations not based on solely observable market data (that is, the measurement requires significant unobservable inputs). Transfers between levels of the fair value hierarchy are deemed to have occurred at the end of the reporting period. Refer to Note 25.

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

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

The effective interest method is a method of allocating interest income or interest expense over the relevant period, so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount.

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

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

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

3 Significant Accounting Policies (Continued)

The Bank uses a discounted cash flow valuation technique to measure the fair value of currency and interest rate swaps and foreign exchange forwards that are not traded in an active market. Differences may arise between the fair value at initial recognition, which is considered to be the transaction price, and the amount determined at initial recognition using a valuation technique with level 3 inputs. If any differences remain after calibration of model inputs, such differences are initially recognised within other assets or other liabilities and are subsequently amortised on a straight line basis over the term of the currency and interest rate swaps and foreign exchange forwards. The differences are immediately recognised in profit or loss if the valuation uses only level 1 or level 2 inputs.

Financial assets – classification and subsequent measurement – measurement categories. The Bank classifies financial assets in the following measurement categories: FVTPL, FVOCI and AC. The classification and subsequent measurement of debt financial assets depends on: (i) the Bank's business model for managing the related assets portfolio and (ii) the cash flow characteristics of the asset.

Financial assets – classification and subsequent measurement – business model. The business model reflects how the Bank manages the assets in order to generate cash flows – whether the Bank's objective is: (i) solely to collect the contractual cash flows from the assets ("hold to collect contractual cash flows",) or (ii) to collect both the contractual cash flows and the cash flows arising from the sale of assets ("hold to collect contractual cash flows and sell") or, if neither of (i) and (ii) is applicable, the financial assets are classified as part of "other" business model and measured at FVTPL.

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

Financial assets – classification and subsequent measurement – cash flow characteristics. Where the business model is to hold assets to collect contractual cash flows or to hold contractual cash flows and sell, the Bank assesses whether the cash flows represent solely payments of principal and interest ("SPPI"). Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are consistent with the SPPI feature. In making this assessment, the Bank considers whether the contractual cash flows are consistent with a basic lending arrangement, i.e. interest includes only consideration for credit risk, time value of money, other basic lending risks and profit margin.

Where the contractual terms introduce exposure to risk or volatility that is inconsistent with a basic lending arrangement, the financial asset is classified and measured at FVTPL. The SPPI assessment is performed on initial recognition of an asset and it is not subsequently reassessed.

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

Financial assets impairment – credit loss allowance for ECL. The Bank assesses, on a forward-looking basis, the ECL for debt instruments measured at AC and FVOCI and for the exposures arising from loan commitments and financial guarantee contracts. The Bank measures ECL and recognises credit loss allowance at each reporting date. The measurement of ECL reflects: (i) an unbiased and probability weighted amount that is determined by evaluating a range of possible outcomes, (ii) time value of money and (iii) all reasonable and supportable information that is available without undue cost and effort at the end of each reporting period about past events, current conditions and forecasts of future conditions.

Debt instruments measured at AC are presented in the statement of financial position net of the allowance for ECL. For loan commitments and financial guarantees, a separate provision for ECL is recognised as a liability in the statement of financial position. For debt instruments at FVOCI, changes in amortised cost, net of allowance for ECL, are recognised in profit or loss. Other changes in the carrying value are recognised in OCI as gains less losses on debt instruments at FVOCI.

3 Significant Accounting Policies (Continued)

The Bank applies a three stage model for impairment, based on changes in credit quality since initial recognition and classifies financial instruments into three stages depending on a stage. A financial instrument that is not credit-impaired on initial recognition is classified in Stage 1. Financial assets in Stage 1 have their ECL measured at an amount equal to the portion of lifetime ECL that results from default events possible within the next 12 months or until contractual maturity, if shorter ("12 Months ECL"). If the Bank identifies a significant increase in credit risk ("SICR") since initial recognition, the asset is transferred to Stage 2 and its ECL is measured based on ECL on a lifetime basis, that is, up until contractual maturity but considering expected prepayments, if any ("Lifetime ECL"). If the Bank determines that a financial asset is credit-impaired, the asset is transferred to Stage 3 and its ECL is measured as a Lifetime ECL. For financial assets that are purchased or originated credit-impaired ("POCI Assets"), the ECL is always measured as a Lifetime ECL.

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

Financial assets – write-off. Financial assets are written-off, in whole or in part, when the Bank exhausted all practical recovery efforts and has concluded that there is no reasonable expectation of recovery. The write-off represents a derecognition event. The Bank may write-off financial assets that are still subject to enforcement activity when the Bank seeks to recover amounts that are contractually due, however, there is no reasonable expectation of recovery.

Financial assets – derecognition. The Bank derecognises financial assets when (a) the assets are redeemed or the rights to cash flows from the assets otherwise expired or (b) the Bank has transferred the rights to the cash flows from the financial assets or entered into a qualifying pass-through arrangement while (i) also transferring substantially all risks and rewards of ownership of the assets or (ii) neither transferring nor retaining substantially all risks and rewards of ownership, but not retaining control. Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose restrictions on the sale.

Financial assets – modification. The Bank sometimes renegotiates or otherwise modifies contractual terms and conditions for financial assets. The Bank assesses whether the modification of contractual cash flows is substantial considering, among other, the following factors: any new contractual terms that substantially affect the risk profile of the asset (e.g. profit share or equity-based return), significant change in interest rate, change in the currency denomination, new collateral or credit enhancement that significantly affects the credit risk associated with the asset.

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

Any difference between the carrying amount of the original asset derecognised and fair value of the new substantially modified asset is recognised in profit or loss, unless the substance of the difference is attributed to a capital transaction with owners.

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

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

3 Significant Accounting Policies (Continued)

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

An exchange between the Bank and its original lenders of debt instruments with substantially different terms, as well as substantial modifications of the terms and conditions of existing financial liabilities, are accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. The terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10% different from the discounted present value of the remaining cash flows of the original financial liability. In addition, other qualitative factors, such as the currency that the instrument is denominated in, changes in the type of interest rate, new conversion features attached to the instrument and change in loan covenants are also considered. If an exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognised as part of the gain or loss on the extinguishment. If the exchange or modification is not accounted for as an extinguishment, any costs or fees incurred adjust the carrying amount of the liability and are amortised over the remaining term of the modified liability.

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

Cash and cash equivalents. Cash and cash equivalents are items which are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Cash and cash equivalents include all interbank placements with original maturities of less than three months. Funds restricted for a period of more than three months on origination are excluded from cash and cash equivalents, both in the statement of financial position and for the purposes of the statement of cash flows.

Cash and cash equivalents are carried at AC because: (i) they are held for collection of contractual cash flows and those cash flows represent SPPI, and (ii) they are not designated at FVTPL. Features mandated solely by legislation, such as the bail-in legislation in certain countries, do not have an impact on the SPPI test, unless they are included in contractual terms such that the feature would apply even if the legislation is subsequently changed.

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

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

Due from other banks. Amounts due from other banks are recorded when the Bank advances money to counterparty banks. Due from other banks are carried at AC if: (i) they are held for collection of contractual cash flows and those cash flows represent SPPI, and (ii) they are not designated at FVTPL.

Investments in equity securities. Financial assets that meet the definition of equity from the issuer's perspective, i.e. instruments that do not contain a contractual obligation to pay cash and that evidence a residual interest in the issuer's net assets, are considered as investments in equity securities by the Bank. Investments in equity securities are measured at FVTPL, except where the Bank elects at initial recognition to irrevocably designate an equity investments at FVOCI. The Bank's policy is to designate equity investments as FVOCI when those investments are held for strategic purposes other than solely to generate investment returns. When the FVOCI election is used, fair value gains and losses are recognised in OCI and are not subsequently reclassified to profit or loss, including on disposal. Impairment losses and their reversals, if any, are not measured separately from other changes in fair value. Dividends continue to be recognised in profit or loss when the Bank's right to receive payments is established except when they represent a recovery of an investment rather than a return on such investment.

Credit related commitments. The Bank enters into credit related commitments, including letters of credit and financial guarantees. Financial guarantees represent irrevocable assurances to make payments in the event that a customer cannot meet its obligations to third parties and carry the same credit risk as loans.

3 Significant Accounting Policies (Continued)

Financial guarantees and commitments to provide loans are initially recognised at their fair value, which is normally evidenced by the amount of fees received. This amount is amortised on a straight line basis over the life of the commitment, except for commitments to originate loans if it is probable that the Bank will enter into a specific lending arrangement and does not expect to sell the resulting loan shortly after origination; such loan commitment fees are deferred and included in the carrying value of the loan at initial recognition.

At the end of each reporting period, the commitments are measured at the higher of (i) the remaining unamortised balance of the amount at initial recognition and (ii) the best estimate of expenditure required to settle the commitment at the end of each reporting period.

Financial guarantees. Financial guarantees require the Group to make specified payments to reimburse the holder of the guarantee for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument. Financial guarantees are initially recognised at their fair value, which is normally evidenced by the amount of fees received. This amount is amortised on a straight line basis over the life of the guarantee. At the end of each reporting period, the guarantees are measured at the higher of (i) the amount of the loss allowance for the guaranteed exposure determined based on the expected loss model and (ii) the remaining unamortised balance of the amount at initial recognition. In addition, an ECL loss allowance is recognised for fees receivable that are recognised in the statement of financial position as an asset.

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

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

Securities lent to counterparties for a fixed fee are retained in the financial statements in their original category in the statement of financial position unless the counterparty has the right by contract or custom to sell or repledge the securities, in which case they are reclassified and presented separately. Securities borrowed for a fixed fee are not recorded in the financial statements, unless these are sold to third parties, in which case the purchase and sale are recorded in profit or loss for the year within gains less losses arising from trading securities. The obligation to return the securities is recorded at fair value in other borrowed funds.

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

Premises and equipment. Equipment includes office and computer equipment and is stated at cost, less accumulated depreciation and provision for impairment, where required.

Costs of minor repairs and maintenance are expensed when incurred. Costs of replacing major parts or components of equipment items are capitalised, and the replaced part is retired. Cost of leasehold improvements is capitalised using the same principles as for an acquired asset.

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

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

3 Significant Accounting Policies (Continued)

Depreciation. Depreciation of items of premises and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives at 20% annual rate. Depreciation of leasehold improvements is calculated over the term of the underlying lease.

Intangible assets. All of the Bank's intangible assets have definite useful life and include capitalised computer software.

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

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

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

Due to other banks. Amounts due to other banks are recorded when money or other assets are advanced to the Bank by counterparty banks. The non-derivative liability is carried at AC.

Customer accounts. Customer accounts are non-derivative liabilities to corporate customers and are carried at AC.

Share-based payments. The Bank participates in the Group's motivation program, which grants share based awards to eligible employees. The awards are issued by the ultimate parent. Since the award involves equity instruments of the parent and the rights to those instruments are granted by the parent, the Bank accounts for it as an equity-settled share-based payment. The award is measured at fair value of the equity instruments granted on the grant date, taking into consideration the estimated number of the instruments expected to vest. The resulting amount is recognised as an expense in the statement of profit or loss and other comprehensive income and a share-based payments reserve in equity, over the vesting period. Changes in the estimated number of the instruments expected to vest are reflected in the statement of profit or loss and other comprehensive income until the award vests.

Derivative financial instruments. Derivative financial instruments, including foreign exchange contracts, are carried at their fair value.

All derivative instruments are carried as assets when fair value is positive, and as liabilities when fair value is negative. Changes in the fair value of derivative instruments are included in profit or loss for the year. The Bank does not apply hedge accounting.

Charter capital. Charter capital is the maximum amount of capital within which the Bank's participants are liable to settle the Bank's liabilities to its creditors. The amount recorded in this line item represents nominal capital approved by the decision of the Bank's participants, which is registered in accordance with effective legislation.

The Bank was incorporated as a limited liability company under laws of the Russian Federation. The Bank's foundation documents do not provide for an opportunity for its sole participant to unilaterally require redemption of its share in net assets. The participant will not be able to withdraw from the Bank unilaterally.

Therefore, for the financial reporting purposes, the Bank's charter capital, other reserves and retained earnings are classified as equity components.

Income taxes. Income taxes have been provided for in the financial statements in accordance with Russian legislation enacted or substantively enacted by the end of the reporting period. The income tax charge comprises current tax and deferred tax and is recognised in the profit or loss for the year.

3 Significant Accounting Policies (Continued)

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

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

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

Trade and other payables. Trade payables are accrued when the counterparty has performed its obligations under the contract and are carried at amortised cost.

Income and expense recognition. Interest income and expense are recorded for all debt instruments on an accrual basis using the effective interest method. This method defers, as part of interest income or expense, all fees paid or received between the parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

When loans and other debt instruments become doubtful of collection, they are written down to the present value of expected cash inflows and interest income is thereafter recorded for the unwinding of the present value discount based on the asset's effective interest rate which was used to measure the impairment loss.

All other fees, commissions and other income and expense items are generally recorded on an accrual basis by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided. Loan syndication fees are recognised as income when the syndication has been completed and the Bank retains no part of the loan package for itself, or retains a part at the same effective interest rate as for the other participants.

Commissions and fees arising from negotiating, or participating in the negotiation of a transaction for a third party, such as the acquisition of loans, shares or other securities or the purchase or sale of businesses, and which are earned on execution of the underlying transaction, are recorded on its completion. Portfolio and other management advisory and service fees are recognised based on the applicable service contracts, usually on a time-proportion basis. Asset management fees relating to investment funds are recorded rateably over the period that the service is provided. The same principle is applied for wealth management, financial planning and custody services that are continually provided over an extended period of time.

Foreign currency translation. The functional currency of the Bank is the currency of the primary economic environment in which the Bank operates. The Bank's functional and presentation currency is the national currency of the Russian Federation, Russian Roubles ("RR").

Monetary assets and liabilities are translated into each entity's functional currency at the official exchange rate of the CBRF at the end of the respective reporting period. Foreign exchange gains and losses resulting from the settlement of transactions and from the translation of monetary assets and liabilities into the functional currency at year-end official exchange rates of the CBRF, are recognised in profit or loss for the year (as foreign exchange translation gains less losses).

Fiduciary assets and custody services. Assets held by the Bank in its own name, but on the account of third parties, are not reported in the statement of financial position. Fees from fiduciary activities are presented within fee and commission income.

3 Significant Accounting Policies (Continued)

Offsetting. Financial assets and liabilities are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognised amounts, and there is an intention to either settle on a net basis, or to realise the asset and settle the liability simultaneously.

Staff costs and related contributions. Wages, salaries, contributions to the Russian Federation state pension and social insurance funds, paid annual leave and sick leave, bonuses, and non-monetary benefits are accrued in the year in which the associated services are rendered by the employees of the Bank. The Bank has no legal or constructive obligation to make pension or similar benefit payments beyond the unified payments to the statutory defined contribution scheme.

Presentation of statement of financial position in order of liquidity. The Bank does not have a clearly identifiable operating cycle and therefore does not present current and non-current assets and liabilities separately in the statement of financial position. Instead, assets and liabilities are presented in order of their liquidity. Refer to Note 22 for analysis of financial instruments by expected maturity.

Amendment of the financial statements after issue. The Bank's participants and management have the power to amend the financial statements after issue.

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

Fair value of derivative financial instruments. The fair values of financial derivatives that are not quoted in active markets are determined by using valuation techniques. Where valuation techniques (for example, models) are used to determine fair values, they are validated and periodically reviewed by qualified personnel independent of the area that created them. All models are certified before they are used, and models are calibrated to ensure that outputs reflect actual data and comparative market prices. To the extent practical, models use only observable data, however areas such as credit risk (both own and counterparty), volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect the reported fair values.

Tax legislation. Russian tax, currency and customs legislation is subject to varying interpretations.

Related party transactions. In the normal course of business the Bank enters into transactions with its related parties. IFRS 9 requires initial recognition of financial instruments based on their fair values. Judgement is applied in determining if transactions are priced at market or non-market interest rates, where there is no active market for such transactions. The basis for judgement is pricing for similar types of transactions with unrelated parties and effective interest rate analysis. Terms and conditions of related party balances are disclosed in Note 27.

4 Adoption of New or Revised Standards and Interpretations

Certain new standards, interpretations and amendments have been issued that are mandatory for the Bank since 1 January 2018.

IFRS 9 "Financial Instruments". The Bank applies IFRS 9 starting from the reporting periods beginning on or after 1 January 2018. Adoption of the new standard resulted in changes of the Bank's approach to recognition, classification and measurement of financial assets and liabilities, as well as to impairment of financial assets.

Classification and measurement of financial assets and liabilities

Under IFRS 9, new "Business Model" and "Cash Flow Characteristic" tests are introduced which classify financial assets to one of the following three measurement categories: amortised cost ("AC"), fair value through other comprehensive income ("FVOCI") or fair value through profit or loss ("FVTPL").

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

Encompassing the guidance provided by IFRS 9 on classification and measurement, the Bank has reviewed and classified its financial assets:

- assets held within a business model with the intention to hold and collect contractual cash flow or sell the asset. These assets are classified as follows:
    1. financial assets at AC;
    2. financial assets at FVOCI;
- assets which are not categorised as held with the intentions highlighted above. Such assets are classified as assets at FVTPL.

IFRS 9 retains most of the existing requirements for financial liabilities. Under the current requirements of IAS 39, the gains and losses attributable to changes in the Bank's own credit risk ("DVA") for financial liabilities designated at FVTPL are recognised in profit or loss. However, upon implementation of IFRS 9, this DVA component will be recognised in other comprehensive income.

Impairment of financial assets

IFRS 9 impairment requirements apply to financial assets that are measured at amortised cost or FVOCI, and specified off-balance sheet lending-related commitments such as loan commitments and financial guarantee contracts.

The determination of impairment losses and allowance has changed from an incurred credit loss model under IAS 39 to an ECL model under IFRS 9. In an ECL model, provisions for credit losses are recorded upon initial recognition of the financial asset based on expectations of potential credit losses at that time. The credit loss allowance includes ECLs for financial instruments that may default in the next 12-month period for financial instruments that have not observed a significant increase in credit risk since initial recognition ("stage 1") or over a lifetime period for financial instruments that have observed a significant increase in credit risk since initial recognition ("stage 2"). The allowance also adopts lifetime ECLs for financial instruments where there is objective evidence of credit-impairment at the reporting date ("stage 3").

The key input components for the quantification of expected loss through the ECL model includes the probability of default ("PD"), loss given default ("LGD") and exposure at default ("EAD").

Impact of adoption of the new standard on the financial statements

The Bank has not restated its prior periods.

The table below reconciles the carrying amounts of financial instruments, from their previous measurement in accordance with IAS 39 into their measurement upon transition to IFRS 9 on 1 January 2018.

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

In thousands of Russian roubles	Financial instruments category: IAS 39	Financial instruments category: IFRS 9	Carrying value under IAS 39 (balance at 31 December 2017)	Impact of the new standard – Remeasurement: Credit losses	Impact of the new standard – Remeasurement: Other	Impact of the new standard – New classification: Mandatory	Impact of the new standard – New classification: Voluntary	Carrying value under IFRS 9 (balance at 1 January 2018)
Cash and cash equivalents	L&R	AC	**17 682 500**	-	-	17 682 500	-	**17 682 500**
Mandatory cash balances with the Central Bank of the Russian Federation	L&R	AC	**42 599**	-	-	42 599	-	**42 599**
Investment securities available for sale	AFS	FVTPL	**18**	-	-	18	-	**18**
Derivative financial instruments	Held for trading	FVTPL	**3 389 041**	-	-	3 389 041	-	**3 389 041**
Other financial assets	L&R	AC	**191 991**	-	-	191 991	-	**191 991**
Total financial assets			**21 306 149**	-	-	**21 306 149**	-	**21 306 149**
Provision for credit related commitments	AC	AC	**-**	1 449	-	-	-	**1 449**
Total financial liabilities			**-**	**1 449**	**-**	**-**	**-**	**1 449**
Total change in measurement			-	1 449	-	-	-	1 449
Effect of deferred tax			-	(230)	-	-	-	(230)
Effect of IFRS 9 adoption on the Bank's equity				**1 219**	**-**	**-**	**-**	**1 219**

At 31 December 2017, all of the Bank's financial liabilities except for derivatives were carried at amortised cost. Derivatives were recognised at fair value through profit or loss in accordance with IAS 39. Starting from 1 January 2018, all of the Bank's financial liabilities except for derivatives were also carried at amortised cost. Derivatives are designated as measured at fair value through profit or loss. There were no changes in measurement of financial liabilities due to adoption of the new standard.

Provision for impairment of financial assets

At 31 December 2017, the Bank did not set up any provisions for impairment of financial assets, as according to requirements of IAS 39 the Bank only had high quality financial assets. With transition to IFRS 9, the Bank determines the amount of its impairment provision based on the expected credit losses (ECL) model. In an ECL model, provisions for credit losses are recorded upon initial recognition of the financial asset based on expectations of potential credit losses at that time. Under this model, the Bank recognises an impairment provision for certain off-balance sheet loan commitments such as financial guarantee contracts. This provision is recognised within other liabilities.

Amendments to IFRS 9 – "Prepayment Features with Negative Compensation" (issued on 12 October 2017 and effective at the latest for annual periods beginning on or after 1 January 2018). The amendments were early adopted by the Bank with the date of initial application of 1 January 2018.The amendments enable measurement at amortised cost of certain loans and debt securities that can be prepaid at an amount below amortised cost, for example at fair value or at an amount that includes a reasonable compensation payable to the borrower equal to present value of an effect of increase in market interest rate over the remaining life of the instrument.

In addition, the text added to the standard's basis for conclusion reconfirms existing guidance in IFRS 9 that modifications or exchanges of certain financial liabilities measured at amortised cost that do not result in the derecognition will result in an gain or loss in profit or loss. The Bank is therefore not be able to revise effective interest rate for the remaining life of the loan in order to avoid an impact on profit or loss upon a loan modification. The impact of this clarification on carrying value of the Bank's financial liabilities carried at amortised cost was not material at 1 January 2018.

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

Amendments to IFRS 15 "Revenue from Contracts with Customers" (issued on 28 May 2014 and effective for the periods beginning on or after 1 January 2018) and Amendments to IFRS 15 "Revenue from Contracts with Customers" (issued on 12 April 2016 and effective for annual periods beginning on or after 1 January 2018). The Bank has adopted IFRS 15 "Revenue from Contracts with Customers" with the date of initial application of 1 January 2018. The new standard was applied using the modified retrospective method, with the cumulative effect recognised in retained earnings on 1 January 2018. The standard introduced the core principle that revenue must be recognised when the goods or services are transferred to the customer, at the transaction price. Any bundled goods or services that are distinct must be separately recognised, and any discounts or rebates on the contract price must generally be allocated to the separate elements. When the consideration varies for any reason, minimum amounts must be recognised if they are not at significant risk of reversal. Costs incurred to secure contracts with customers have to be capitalised and amortised over the period when the benefits of the contract are consumed. The standard did not have a material impact on the Bank.

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

- Amendments to IFRS 2 "Share-based Payment" (issued on 20 June 2016 and effective for annual periods beginning on or after 1 January 2018).
- Amendments to IFRS 4 – "Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts" (issued on 12 September 2016 and effective, depending on the approach, for annual periods beginning on or after 1 January 2018 for entities that choose to apply temporary exemption option, or when the entity first applies IFRS 9 for entities that choose to apply the overlay approach).
- Annual Improvements to IFRSs 2014-2016 cycle – Amendments to IFRS 1 an IAS 28 (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018).
- IFRIC 22 "Foreign Currency Transactions and Advance Consideration" (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018).
- Amendments to IAS 40 "Investment Property" (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018).

5 New Accounting Pronouncements

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

Sale or Contribution of Assets between an Investor and its Associate or Joint Venture – Amendments to IFRS 10 and IAS 28 (issued on 11 September 2014 and effective for annual periods beginning on or after a date to be determined by the IASB). These amendments address an inconsistency between the requirements in IFRS 10 and those in IAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognised when a transaction involves a business. A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if these assets are held by a subsidiary. The Bank's management does not expect a material impact of the amendments on its financial statements.

IFRS 16 "Leases" (issued in January 2016 and effective for annual periods beginning on or after 1 January 2019). The new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. All leases result in the lessee obtaining the right to use an asset at the start of the lease and, if lease payments are made over time, also obtaining financing. Accordingly, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. Lessees will be required to recognise: (a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and (b) depreciation of lease assets separately from interest on lease liabilities in the statement of profit or loss and other comprehensive income. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

5 New Accounting Pronouncements (Continued)

The Bank made a decision to apply this standard using the modified retrospective method, without restatement of comparatives, starting from the date of mandatory application, 1 January 2019. Real estate right-of-use assets are measured upon transition as if the Bank had always applied the new rules. All other right-of-use assets are measured in the amount of a lease liability at the standard application date (adjusted for all advances or accrued expenses).

At 31 December 2018, the Bank's liabilities on non-cancellable leases were RR 311 955 thousand.

A reconciliation of the operating lease commitments disclosed in Note 24 to this liability is as follows:

In thousands of Russian Roubles	**1 January 2019**
Total future minimum lease payments for non-cancellable operating leases (Note 24)	307 923
- Future lease payments that are due in periods subject to lease extension options that are reasonably certain to be exercised	-
- Future variable lease payments that are based on an index or a rate	-
- Effect of discounting to present value	(47 612)
Total lease liabilities	**260 311**

IFRS 17 "Insurance Contracts" (issued on 18 May 2017 and effective for annual periods beginning on or after 1 January 2021). IFRS 17 replaces IFRS 4, which has given companies dispensation to carry on accounting for insurance contracts using existing practices. As a consequence, it was difficult for investors to compare and contrast the financial performance of otherwise similar insurance companies. IFRS 17 is a single principle-based standard to account for all types of insurance contracts, including reinsurance contracts that an insurer holds. The standard requires recognition and measurement of groups of insurance contracts at: (i) a risk-adjusted present value of the future cash flows (the fulfilment cash flows) that incorporates all of the available information about the fulfilment cash flows in a way that is consistent with observable market information; plus (if this value is a liability) or minus (if this value is an asset) (ii) an amount representing the unearned profit in the group of contracts (the contractual service margin). Insurers will be recognising the profit from a group of insurance contracts over the period they provide insurance coverage, and as they are released from risk. If a group of contracts is or becomes loss-making, an entity recognises the loss immediately. The Bank's management does not expect a material impact of the standard on its financial statements.

IFRIC 23 "Uncertainty over Income Tax Treatments" (issued on 7 June 2017 and effective for annual periods beginning on or after 1 January 2019). IAS 12 specifies how to account for current and deferred tax, but not how to reflect the effects of uncertainty. The interpretation clarifies application of IAS 12 requirements on accounting for and measurement of uncertainties in income taxes. An entity should determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments based on which approach better predicts the resolution of the uncertainty. An entity should assume that a taxation authority will examine amounts it has a right to examine and have full knowledge of all related information when making those examinations. If an entity concludes it is not probable that the taxation authority will accept an uncertain tax treatment, the effect of uncertainty will be reflected in determining the related taxable profit or loss, tax bases, unused tax losses, unused tax credits or tax rates, by using either the most likely amount or the expected value, depending on which method the entity expects to better predict the resolution of the uncertainty. An entity will reflect the effect of a change in facts and circumstances or of new information that affects the judgements or estimates required by the interpretation as a change in accounting estimate. Examples of changes in facts and circumstances or new information that can result in the reassessment of a judgment or estimate include, but are not limited to, examinations or actions by a taxation authority, changes in rules established by a taxation authority or the expiry of a taxation authority's right to examine or re-examine a tax treatment. The absence of agreement or disagreement by a taxation authority with a tax treatment, in isolation, is unlikely to constitute a change in facts and circumstances or new information that affects the judgements and estimates required by the Interpretation. The Bank's management is currently assessing the impact of the interpretation on its financial statements.

5 New Accounting Pronouncements (Continued)

Amendments to IFRS 9 – "Prepayment Features with Negative Compensation" (issued on 12 October 2017 and effective at the latest for annual periods beginning on or after 1 January 2019). The amendments enable measurement at amortised cost of certain loans and debt securities that can be prepaid at an amount below amortised cost, for example at fair value or at an amount that includes a reasonable compensation payable to the borrower equal to present value of an effect of increase in market interest rate over the remaining life of the instrument.

In addition, the text added to the standard's basis for conclusion reconfirms existing guidance in IFRS 9 that modifications or exchanges of certain financial liabilities measured at amortised cost that do not result in the derecognition will result in an gain or loss in profit or loss and other comprehensive income. In most cases, reporting entities will therefore not be able to revise effective interest rate for the remaining life of the loan in order to avoid an impact on profit or loss upon a loan modification. The Bank is currently assessing the impact of the amendments on its financial statements.

Long-term Interests in Associates and Joint Ventures – Amendments to IAS 28 (issued on 12 October 2017 and effective for annual periods beginning on or after 1 January 2019). The amendments clarify that reporting entities should apply IFRS 9 to long-term loans, preference shares and similar instruments that form part of a net investment in an equity method investee before they can reduce such carrying value by a share of loss of the investee that exceeds the amount of investor's interest in ordinary shares. The Bank's management does not expect a material impact of the amendments on its financial statements.

Annual Improvements to IFRSs 2015-2017 cycle – Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23 (issued on 12 December 2017 and effective for annual periods beginning on or after 1 January 2019). The limited scope amendments affect four standards. The amended IFRS 3 explains that the acquirer should remeasure the interest that it previously had in a joint transaction if the acquirer obtains control over the business. Conversely, IFRS 11 now explicitly explains that the investor should not remeasure its previously held interest when it obtains joint control of a joint operation, similarly to the existing accounting requirements when an associate becomes a joint venture and vice versa. The amended IAS 12 explains that an entity should recognise all income tax consequences of dividends where it has recognised the transactions or events that generated the related distributable profits, e.g. in profit or loss or in other comprehensive income. It is now clear that this requirement applies in all circumstances as long as payments on financial instruments classified as equity instruments are distributions of profits, and not only in cases when the tax consequences are a result of different tax rates for distributed and undistributed profits. The revised IAS 23 now provides clear guidance on the following: borrowings obtained for financing a specific (qualifying) asset are excluded from the pool of general borrowing costs that can be capitalised only until the asset is practically completed. The Bank's management does not expect a material impact of the amendments on its financial statements.

Amendments to IAS 19 "Plan Amendment, Curtailment or Settlement" (issued on 7 February 2018 and effective for annual periods beginning on or after 1 January 2019). The amendments specify how to determine pension expenses when changes to a defined benefit pension plan occur. When a change to a plan – an amendment, curtailment or settlement – takes place, IAS 19 requires to remeasure net defined benefit liability or asset. The amendments require to use the updated assumptions from this remeasurement to determine current service cost and net interest for the remainder of the reporting period after the change to the plan. Before the amendments, IAS 19 did not specify how to determine these expenses for the period after the change to the plan. By requiring the use of updated assumptions, the amendments are expected to provide useful information to users of financial statements. The Bank's management does not expect a material impact of the amendments on its financial statements.

Amendments to the Conceptual Framework for Financial Reporting (issued on 29 March 2018 and effective for annual periods beginning on or after 1 January 2020). The revised Conceptual Framework includes a new chapter on measurement; guidance on reporting financial performance; improved definitions and guidance - in particular the definition of a liability; and clarifications in important areas, such as the roles of stewardship, prudence and measurement uncertainty in financial reporting. The Bank's management does not expect a material impact of the amendments on its financial statements.

5 New Accounting Pronouncements (Continued)

Amendments to IFRS 3 "Definition of a Business" (issued on 22 October 2018 and effective for annual periods beginning on or after 1 January 2020). The amendments revise definition of a business. A business must have inputs and a substantive process that together significantly contribute to the ability to create outputs. The new guidance provides a framework to evaluate when an input and a substantive process are present, including for early stage companies that have not generated outputs. An organised workforce should be present as a condition for classification as a business if are no outputs. The definition of the term "outputs" is narrowed to focus on goods and services provided to customers, generating investment income and other income, and it excludes returns in the form of lower costs and other economic benefits. It is also no longer necessary to assess whether market participants are capable of replacing missing elements or integrating the acquired activities and assets. An entity can apply a "concentration test". The assets acquired would not represent a business if substantially all of the fair value of gross assets acquired is concentrated in a single asset (or a group of similar assets). The Bank's management does not expect a material impact of the amendments on its financial statements.

Definition of materiality – Amendments to IAS 1 and IAS 8 (issued on 31 October 2018 and effective for annual periods beginning on or after 1 January 2020). The amendments clarify the definition of materiality and how it should be applied by including in the definition guidance that until now has featured elsewhere in IFRS. In addition, the explanations accompanying the definition have been improved. Finally, the amendments ensure that the definition of materiality is consistent across all IFRSs. Information is material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity. The Bank's management does not expect a material impact of the amendments on its financial statements.

Unless otherwise described above, the new standards and interpretations are not expected to affect significantly the Bank's financial statements.

6 Cash and Cash Equivalents

In thousands of Russian Roubles	**31 December 2018**	**31 December 2017**
Correspondent accounts and overnight placements with other banks	29 061 626	16 097 667
Cash balances with the CBRF (other than mandatory reserve deposits)	1 125 450	39 721
Cash balances with stock exchange	347 353	299 521
Balances on settlement accounts with trading system	23 227	1 245 591
Total cash and cash equivalents	**30 557 656**	**17 682 500**

Corresponding accounts and overnight deposits with other banks comprise:

In thousands of Russian Roubles	**31 December 2018**	**31 December 2017**
Large international banks	29 060 320	16 093 561
Russian banks	995	3 704
Russian subsidiaries of large international banks	311	402
Total correspondent accounts and overnight placements with other banks	**29 061 626**	**16 097 667**

Large international banks in the table above are multinational or OECD-based banks with investment grade ratings at 31 December 2018 and 31 December 2017. An investment grade rating is a long-term international rating of A or above by Standard & Poor's, A or above by Fitch and A1 or above by Moody's.

For the purpose of ECL measurement cash and cash equivalents balances are included in Stage 1. The amount of expected credit losses in this category of financial assets is immaterial, therefore the Bank has not set up any credit loss allowance of cash and cash equivalents.

6 Cash and Cash Equivalents (Continued)

At 31 December 2018, the Bank had one counterparty (2017: one counterparty) with balances above RR 13 000 000 thousand. The aggregate balance of this counterparty was RR 24 967 861 thousand (2017: RR 15 928 194 thousand) or 81,7% (2017: 90,1%) of total cash and cash equivalents.

At 31 December 2018 and 2017, the fair value of each class of financial assets included in cash and cash equivalents approximated their carrying value. Refer to Note 25.

Geographical, currency and interest rate analyses of cash and cash equivalents are disclosed in Note 22.

Information on related party balances is disclosed in Note 27.

7 Investment Securities at Fair Value

The movements in investment securities were as follows:

In thousands of Russian Roubles	**31 December 2018**	**31 December 2017**
Carrying amount at the beginning of the period	18	18
Fair value gains less losses	-	-
Carrying amount at the end of the period	**18**	**18**

At 31 December 2018, the principal equity investment securities were:

Name	**Nature of business**	**Percentage Percentage of ownership at 31 December 2018**	**Percentage Percentage of ownership at 31 December 2017**	**Country of registration**	**Fair values 31 December 2018**	**Fair values 31 December 2017**
Non-banking credit institution AO "National Settlement Depository" (NKO AO NSD)	Cash settlements for stock exchange participants	0,00008%	0,00008%	Russian Federation	18	18
Total					**18**	**18**

With adoption of IFRS 9 these investment securities were reclassified from financial assets available for sale into assets at fair value through profit or loss. The carrying amount of these assets approximates their fair value.

8 Derivative Financial Instruments

The fair values of derivative instruments held are set out in the following table:

	31 December 2018			31 December 2017		
	Contract/ notional	Fair values		Contract/ notional	Fair values	
In thousands of Russian Roubles	amount	Assets	Liabilities	amount	Assets	Liabilities
Foreign exchange derivative contracts						
- currency spot contracts	1 045 469	753	(1 728)	17 160 814	115	(388)
- currency forward contracts	15 506 886	322 544	(319 486)	6 162 576	66 303	(61 206)
- cross currency swaps	33 066 146	4 470	(148 592)	-	-	-
- knock-in knock-out currency forwards	-	-	-	7 845 781	672 154	(672 154)
- currency options	-	-	-	2 304 008	3 843	(3 843)
Interest rate derivative contracts						
- cross-currency interest rate swaps	45 178 906	3 743 858	(3 743 858)	31 797 469	2 457 430	(2 457 430)
- single-currency interest rate swaps	28 851 547	308 712	(308 712)	23 040 080	189 196	(189 196)
Total derivative assets/(liabilities)	**-**	**4 380 337**	**(4 522 376)**	**-**	**3 389 041**	**(3 384 217)**

Currency spot transactions are regular way foreign exchange contracts, which are settled within two working days after the trade date.

Currency forwards are over-the-counter contracts, which establish terms and conditions of a deal, which is settled at a future date.

Cross currency swaps are over-the-counter contracts whereby one party swaps a set of payments in one currency for a set of payments in a different currency.

Interest rate swaps are over-the-counter contracts whereby one party swaps interest payments determined using a fixed rate for interest payments determined using a floating interest rate.

Knock-in knock-out currency forward ("KIKO") contracts are over-the-counter contracts whereby one party obtains a right to exercise the foreign exchange transaction if the underlying exchange rate hits one of the two barriers, called knock-in and knock-out respectively.

Currency options are over-the-counter contracts whereby one party obtains the right to buy and the other the obligation to sell an agreed amount of currency at some future date at a predetermined rate.

The following table provides information on the credit quality of the Bank's derivative instruments at 31 December 2018 and 31 December 2017:

8 Derivative Financial Instruments (Continued)

	31 December 2018		31 December 2017	
	Fair values		Fair values	
In thousands of Russian Roubles	Assets	Liabilities	Assets	Liabilities
Currency spot contracts				
Credit rating above BBB-	17	(1 728)	28	(388)
Credit rating between BB+ and below	-	-	87	-
Not rated	736	-	-	-
Currency forward contracts				
Credit rating above BBB-	267 498	(54 753)	15 454	(45 711)
Not rated	55 045	(264 733)	50 849	(15 495)
Cross currency swaps			-	-
Credit rating above BBB-	4 233	(147 686)	-	-
Not rated	238	(906)	-	-
KIKO contracts				
Credit rating between BBB- and AA+	-	-	672 154	(672 154)
Currency options				
Credit rating between BBB- and AA+	-	-	-	(3 843)
Not rated	-	-	3 843	-
Interest rate contracts				
Credit rating between BBB- and AA+	4 052 570	(4 052 570)	2 646 626	(2 646 626)
Total derivative contracts	**4 380 337**	**(4 522 376)**	**3 389 041**	**(3 384 217)**

Geographical, currency analyses and maturity structure of derivative financial instruments are disclosed in Note 22.

The information on related party balances is disclosed in Note 27.

9 Premises and Equipment

The reconciliation of the carrying amount of premises and equipment at 31 December 2018 and 2017 is presented below:

In thousands of Russian Roubles	**Leasehold improvements**	**Office, computer and other equipment**	**Total premises and equipment**
Net book amount at 1 January 2017	**34 278**	**101 950**	**136 228**
Cost			
Opening balance	**80 521**	**314 683**	**395 204**
Additions	-	4 061	**4 061**
Disposals	-	(21 878)	**(21 878)**
Closing balance	**80 521**	**296 866**	**377 387**
Accumulated depreciation			
Opening balance	46 243	212 733	**258 976**
Depreciation charges (Note 20)	9 141	32 297	**41 438**
Disposals	-	(21 811)	**(21 811)**
Closing balance	**55 384**	**223 219**	**278 603**
Net book amount at 31 December 2017	**25 137**	**73 647**	**98 784**
Cost			
Opening balance	80 521	296 866	**377 387**
Additions	-	334 804	**334 804**
Disposals	-	(150 322)	**(150 322)**
Closing balance	**80 521**	**481 348**	**561 869**
Accumulated depreciation			
Opening balance	55 384	223 219	**278 603**
Depreciation charges (Note 20)	8 563	30 896	**39 459**
Disposals	-	(14 837)	**(14 837)**
Closing balance	**63 947**	**239 278**	**303 225**
Net book amount at 31 December 2018	**16 574**	**242 070**	**258 644**

At 31 December 2018, the gross book value of fully depreciated equipment that was in use amounted to RR 135 391 thousand (31 December 2017: RR 140 154 thousand).

Leasehold improvements represent capitalised cost of refurbishment of the Bank's premises leased under operating lease.

10 Intangible Assets

The reconciliation of the carrying amount of intangible assets as at 31 December 2018 and 2017 is presented below:

In thousands of Russian Roubles	**Computer software**	**Total**
Net book amount at 1 January 2017	**95 787**	**95 787**
Cost		
Opening balance	175 277	**175 277**
Additions	21 372	**21 372**
Closing balance	**196 649**	**196 649**
Accumulated amortisation		
Opening balance	79 490	**79 490**
Amortisation charges (Note 20)	17 291	**17 291**
Closing balance	**96 781**	**96 781**
Net book amount at 31 December 2017	**99 868**	**99 868**
Cost		
Opening balance	196 649	**196 649**
Additions	42 701	**42 701**
Closing balance	**239 350**	**239 350**
Accumulated amortisation		
Opening balance	96 781	**96 781**
Amortisation charges (Note 20)	19 220	**19 220**
Closing balance	**116 001**	**116 001**
Net book amount at 31 December 2018	**123 349**	**123 349**

11 Other Financial Assets

In thousands of Russian Roubles	**Note**	**31 December 2018**	**31 December 2017**
Receivables	27	494 050	181 456
Other		8 043	10 535
Total financial assets		**502 093**	**191 991**

11 Other Financial Assets (Continued)

Accrued income represents accrued custody, equities, treasury services, equity and debt capital market consultancy and mergers and acquisitions advisory fees.

None of the assets classified under other financial assets are past due and are expected to be recovered within twelve months from the reporting date.

None of the other financial assets are used as collateral or restricted in any manner for use by the Bank.

The amount of expected credit losses in this category of financial assets is immaterial, therefore the Bank has not set up any credit loss allowance of other financial assets.

Geographical, currency, maturity and interest rate analyses of other financial assets are disclosed in Note 22.

The information on related party balances is disclosed in Note 27.

12 Other Non-Financial Assets

In thousands of Russian Roubles	31 December 2018	31 December 2017
Prepaid services	78 734	89 651
Prepaid taxes other than on income payable	1 478	790
Total non-financial assets	**80 212**	**90 441**

The information on related party balances is disclosed in Note 27.

13 Due to Other Banks

In thousands of Russian Roubles	Note	31 December 2018	31 December 2017
Correspondent accounts and overnight placements of other banks	27	487 889	1 405 848
Stock exchange placements of other banks	27	372 098	288 001
Total due to other banks	**27**	**859 987**	**1 693 849**

At 31 December 2018 and 2017, the fair value of each class of financial liabilities included in due to other banks approximated their carrying value. Refer to Note 25.

Geographical, currency, maturity and interest rate analyses of due to other banks are disclosed in Note 22.

The information on related party balances is disclosed in Note 27.

14 Customer Accounts

Customer accounts include current accounts and term deposits as follows:

	31 December 2018		31 December 2017	
In thousands of Russian Roubles	**Amount**	**%**	**Amount**	**%**
Current accounts	1 179 600	100	1 676 474	100
Total customer accounts	**1 179 600**	**100**	**1 676 474**	**100**

Economic sector concentrations within customer accounts and term deposits are as follows:

	31 December 2018		31 December 2017	
In thousands of Russian Roubles)	**Amount**	**%**	**Amount**	**%**
Market Research	245 351	20,8	411 054	24,5
Consulting on business issues, management of enterprises and organizations, as well as project management	176 139	14,9	292 100	17,4
Other ratailing	142 828	12,1	206 324	12,3
Research and development in the field of natural and technical sciences	119 675	10,1	-	-
Wholesale clothing and footwear	104 378	8,8	149 578	8,9
Extraction of crude oil and oil (assosiated) gas	82 155	7,0	76 606	4,6
Other industry	74 243	6,3	63 531	3,8
Distributive trades	63 050	5,3	3 114	0,2
Transportation	41 707	3,5	-	-
Constraction	34 194	2,9	25 330	1,5
Polygraphy	31 309	2,7	33 955	2,0
Activities of travel agencies	19 889	1,7	7 584	0,5
Advice on business and management	19 596	1,7	15 434	0,9
PR	15 384	1,3	13 229	0,8
Services for the installation, repair and dismantling of derricks and interrelated with the extraction of oil and combustible natural gas	5 238	0,4	36 789	2,2
Activities to provide telephone services	2 360	0,2	1 020	0,06
Oil and gas production and processing	1 814	0,2	1 308	0,08
Market research and public opinion polling	147	0,01	-	-
Services related to research and experimental development in the field of natural and technical sciences	79	0,007	339 485	20,2
Management activities of financial and industrial groups	33	0,003	31	0,002
Wholesale trade of perfumes and cosmetics	23	0,002	-	0
Manufacture of other non-ferrous metals	8	0,001	2	0,0001
Total customer accounts	**1 179 600**	**100**	**1 676 474**	**100**

At 31 December 2018, the Bank had one customer with balances above RR 200 000 thousand (2017: two customers with balances above RR 300 000 thousand). The aggregate balance of this customer was RR 244 311 thousand (2017: RR 748 452 thousand), or 21% (2017: 45%) of total customer accounts.

At 31 December 2018 and 2017, the fair value of each class of financial liabilities included in customer accounts approximated their carrying value. Refer to Note 25.

Geographical, currency, interest rate and maturity analyses of customer accounts are disclosed in Note 22.

The information on related party balances is disclosed in Note 27.

15 Other Liabilities

In thousands of Russian Roubles	31 December 2018	31 December 2017
Accrued employee benefit costs	870 387	727 803
Taxes other than on income payable	192 155	292 869
Other accrued expenses	12 311	19 095
ECL allowance	980	-
Total other liabilities	**1 075 833**	**1 039 767**

At 31 December 2018 and 2017, other liabilities represent non-financial liabilities.

The information on related party balances is disclosed in Note 27.

At 31 December 2018, other liabilities include ECL allowance of RR 980 thousand calculated in accordance with the requirements of IFRS 9 "*Financial instruments*". This provision is related to the Bank's possible losses caused by deterioration of credit quality of trade finance instruments, such as guarantees and letters of credit.

16 Charter Capital

The Bank is a limited liability company. In accordance with effective Russian legislation, voting rights of participants of the organisations that are established in the form of a limited liability company correspond to their share of nominal value of the charter capital.

At 31 December 2018, the nominal value of authorised, issued and fully paid charter capital of the Bank was RR 15 915 315 thousand (31 December 2017: RR 2 715 315 thousand). In March 2018, the majority participant of the Bank – J.P.Morgan International Finance Limited (USA) – increased its investments in the Bank's capital by RR 13 200 000 thousand.

The historic charter capital was adjusted for inflation in accordance with IAS 29 for RR 557 604 thousand recognised in other reserves.

17 Employee Share Plan

The ultimate parent of the Bank, JPMorgan Chase & Co. (the "Firm") has granted restricted stock units ("RSUs") to certain employees. The details of share based compensation in 2018 and 2017 are provided in the table below:

	2018		2017	
In thousands of Russian Roubles	RSUs	Weighted average grant price	RSUs	Weighted average grant price
Outstanding as at 1 January	**29 813**	**3,23**	**88 814**	**3,44**
Granted	-	-	91	4,85
Exercised	(28 373)	7,77	(59 092)	5,02
Cancelled	-	-	-	-
Transferred	(72)	4,1	-	-
Outstanding at 31 December	**1 368**	**4,1**	**29 813**	**3,23**

RSUs were granted at no cost to the recipient. These awards are subject to forfeiture until certain restrictions have lapsed, including continued employment for a specified period. The recipient of RSU is entitled to voting rights and dividends on the common stock. The fair value of RSUs is measured on the basis of an observable market price of the underlying stock. The expense for RSUs is measured based upon the number of shares granted multiplied by the stock price at the grant date, and is recognised over the required service period.

17 Employee Share Plan (Continued)

Under long-term incentive compensation plans the Firm used to provide to its employees stock options with an exercise price equal to the fair value of the Firm's common stock on the grant date. No new stock options were granted in 2018 or 2017.

18 Interest Income and Expense

In thousands of Russian Roubles	Note	2018	2017
Interest income			
Cash and cash equivalents	6	929 220	504 732
Trading securities		4 722	13 774
Total interest income		**933 942**	**518 506**
Interest expense			
Term placements of other banks	13	26 704	159 887
Customer accounts	14	28 477	18 063
Onerous lease contract	24	614	3 835
Total interest expense		**55 795**	**181 785**
Net interest income		**878 147**	**336 721**

The information on income and expense items with related parties is disclosed in Note 27.

19 Fee and Commission Income and Expense

In thousands of Russian Roubles	2018	2017
Fee and commission income		
Commission on investment banking	1 076 848	797 492
Commission on custodian services	465 014	291 103
Commission on treasury services	310 500	180 533
Commission on arranging derivative financial instruments for clients	123 768	178 848
Commission on equity services	178 168	160 777
Other	64 260	112 623
Total fee and commission income	**2 218 558**	**1 721 376**
Fee and commission expense		
Commission on transactions with securities	3 391	8 670
Commission on settlement transactions	2 697	1 618
Commission on guarantees received	-	877
Commission on transactions with foreign currency	9 149	851
Other	-	267
Total fee and commission expense	**15 237**	**12 283**
Net fee and commission income	**2 203 321**	**1 709 093**

The information on income and expense items with related parties is disclosed in Note 27.

20 Administrative and Other Operating Expenses

In thousands of Russian Roubles	Note	2018	2017
Staff costs		2 075 501	1 814 176
Occupancy costs		228 693	221 180
Professional services		147 635	102 544
Business trip and entertaining costs		77 491	91 054
Taxes other than on income		87 892	87 973
Communication and IT expenses		62 121	71 630
Depreciation of premises and equipment and amortisation of intangible assets	9, 10	58 679	58 729
Other		8 598	22 515
Total administrative and other operating expenses		**2 746 610**	**2 469 801**

Included in staff costs are statutory social security and pension contributions of RR 295 055 thousand (2017: RR 277 905 thousand).

21 Income Taxes

Income tax expense comprises the following:

In thousands of Russian Roubles	2018	2017
Current tax	383 173	199 998
Deferred tax	21 152	29 273
Income tax expense for the year	**404 325**	**229 271**

At 31 December 2018, the income tax rate applicable to the majority of the Bank's income was 20% (2017: 20%). Reconciliation between the expected and the actual taxation charge is provided below.

In thousands of Russian Roubles	2018	2017
IFRS profit before tax	**1 730 095**	**936 100**
Theoretical tax charge at statutory rate (2018: 20%; 2017: 20%)	346 019	187 220
Tax effect of items which are not deductible or assessable for taxation purposes:		
Non-deductible expenses:		
- Administrative expenses	47 525	27 760
- Expenses capitalised within the cost of intangible assets	8 460	6 309
- Share based payments	2 550	8 643
- Impact of income on state securities taxed at different rates (15%)	(229)	(661)
Income tax expense for the year	**404 325**	**229 271**

Differences between IFRS and Russian statutory taxation regulations give rise to temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and their tax bases. The tax effect of the movements in these temporary differences is detailed below, and is recorded at the rate of 20% (2017: 20%).

21 Income Taxes (Continued)

In thousands of Russian Roubles	Note	1 January 2018	Movement	31 December 2018
Tax effect of deductible temporary differences				
Provision for commitments	16, 24	8 898	(8 898)	-
Accrued expenses		4 636	(504)	4 132
Premises and equipment		1 183	(1 183)	-
Derivative financial instruments		-	28 408	28 408
Gross deferred tax asset		**14 717**	**17 823**	**32 540**
Tax effect of taxable temporary differences				
Derivative financial instruments		(964)	964	-
Premises and equipment		-	(16 605)	(16 605)
Receivables		-	(23 334)	(23 334)
Gross deferred tax liability		**(964)**	**(38 975)**	**(39 939)**
Total net deferred tax asset/(liability)		**13 753**	**(21 152)**	**(7 399)**

Deferred income tax expense recorded in profit or loss:

In thousands of Russian Roubles	2018	2017
Deferred income tax expense recorded in profit or loss	(21 152)	29 273
Movement in deferred income tax for the year	**(21 152)**	**29 273**

The Bank expects credit of all deferred taxes after 12 months after the reporting period

In thousands of Russian Roubles	Note	1 January 2017	Movement	31 December 2017
Tax effect of deductible temporary differences				
Provision for commitments	16, 24	21 665	(12 767)	8 898
Accrued expenses		7 737	(3 101)	4 636
Premises and equipment		1 096	87	1 183
Derivative financial instruments		12 588	(12 588)	-
Gross deferred tax asset		**43 086**	**(28 369)**	**14 717**
Tax effect of taxable temporary differences				
Fair value of trading securities		(61)	61	-
Derivative financial instruments	8	-	(965)	(964)
Gross deferred tax liability		**(61)**	**(904)**	**(964)**
Total net deferred tax asset		**43 025**	**(29 273)**	**13 753**

22 Financial Risk Management

Information about risks assumed by the credit institution and the methods of risk identification, measurement, monitoring and control. The risk management system of the Bank is an integral part of the risk management system of JPMorgan Chase & Co.

Risks are inherent to JPMorgan Chase & Co. The main aim of JPMorgan Chase & Co. is to manage the company's business and related risks while maintaining the optimal balance between client and investor interests and its sustainable operation.

The necessary conditions for an effective risk management system of JPMorgan Chase & Co. are the following:

- responsibility of each employee for risk identification and escalation of information about existing and potential risks;
- responsibility of each unit and line of business for identification, assessment and collection of information, and management of risks of a corresponding unit and line of business;
- global structure of JPMorgan Chase & Co. risk management.

The Bank's risk management system is independent of business units accepting risks.

The Bank's risk management system involves ongoing consistent identification, measurement, assessment, stress testing and monitoring of risks based on the risk reporting system, as well as identification and application of risk mitigation methods.

The Bank's Board of Directors has an overall responsibility for managing the Bank's operation, including the following risk management areas:

- approve internal procedures for assessing the Bank's capital adequacy, ensure sufficient sources of capital and sufficient liquidity to mitigate both general risks of the Bank and any risks inherent to any of its activities;
- approve procedures for significant risk management and control their implementation;
- approve the methodology of quantitative risk assessment, including the assessment (fair value measurement) of assets and liabilities, and off-balance liabilities stress testing scenarios and their results;
- approve risk appetite.

The Board of Directors annually approves the internal capital adequacy assessment process (ICAAO), which is integral to the management decision process in relation to risk appetite identification; risk and capital management strategies of the Bank and stress testing. The Bank uses ICAAO to measure capital required to cover identified risks in the current situation and in future, in particular in unfavourable economic environment.

Control over the Bank's risks is performed by various bodies, departments and authorised officers in accordance with the Bank's internal policies and regulations, and its employee job descriptions. The Bank's risk officer is responsible for coordinating and controlling the operation of all units involved in managing the Bank's risks.

Credit risk. Credit risk is the risk of losses as a result of default or change in the financial position of a borrower, customer or counterparty.

Credit risk is inherent to all lines of business of the Bank, including the following:

- transactions in the interbank lending market;
- foreign currency transactions and transactions with financial instruments;
- trade finance;
- cash management (treasury) and overdrafts.

22 Financial Risk Management (Continued)

The credit risk management system of the Bank is based on the credit risk management system of JPMorgan Chase & Co.

The Bank's Board of Directors has an overall responsibility for managing risks and the Bank's strategy, in particular: approves the Bank's business strategy on an annual basis specifying business priorities and products; approves the lending policy specifying products subject to credit risk, which the Bank offers to customers; approves procedures for managing significant risks and monitors their implementation, in particular in relation to credit risk.

The Credit and Balance Sheet Committee is responsible for approval or disapproval of all transactions of any unit of the Bank covered by the Bank's lending policy. The overall management of the committee is carried out by its chairman who is a representative of the Credit Department.

The credit risk management is exercised through the system of credit limits: limits by counterparty (maximum risk per borrower or a group of borrowers) and aggregated limits by transaction type (maximum risk per transaction type).

Credit risk monitoring and compliance with respective established limits are performed on a daily basis. The Bank generates internal management reporting on credit risk and communicates it to employees in charge of credit risk control and management on a daily, monthly and quarterly basis.

Concentration of credit risk per borrower is regulated through daily monitoring of compliance with N6 ratio and internal thresholds established by the Bank.

Credit risk mitigation is achieved by raising collateral both in the monetary and non-monetary form, and by diversifying transactions by terms of repayment.

At both reporting dates the Bank received a collateral in the form of bank guarantees provided by banks included in the group of JPMorgan Chase & Co and also in the form of guarantees from the Bank clients' parent companies.

Expected credit loss ("ECL") measurement

ECL measurement approach

The Bank measures credit impairment through forming an ECL allowance. Expected credit losses for financial assets are measured at amortised cost ("AC"), at fair value through other comprehensive income ("FVTOCI") or at fair value through profit or loss ("FVTPL") and for contingent credit related commitments ("CCRC") such as credit lines and financial guarantees. ECL measurement should take into account the following:

- a loss amount calculated based on various probability-weighted scenarios;
- the time value of money;
- reasonable supporting information about prior events, the existing and future economic situation.

ECL measurement should also reflect how the Bank manages financial instruments in terms of credit risk, for example division into the Traditional Credit Product ("TCP") and Non-Traditional Credit Product ("NTCP"). The Bank recognises cash, deposits, banking guarantees and letters of credit as TCP and other assets at amortised cost, in particular receivables on commissions and prepayments, are recognised as NTCP.

The table below presents other financial assets at amortised cost with a break down into TCP and NTCP.

22 Financial Risk Management (Continued)

	31 December 2018	
Category *In thousands of Russian Roubles*	**TCP**	**NTCP**
Assets		
Cash and cash equivalents	30 557 656	-
Mandatory cash balances with the Central Bank of the Russian Federation	36 554	-
Receivables	-	494 050

For contingent credit related commitments recognised as TCP the Bank formed a provision of RR 980 thousand, which is recorded within other liabilities.

The Bank uses statistical models to measure ECL on TCP measured at a collective basis, however ECL on credit-impaired instruments is measured on an individual basis. To allocate assets into groups, the Bank considers various factors, such as the internal credit rating of the borrower, the term pattern of the instrument, geographic specifics of the borrower's region and industry. The internal credit rating generally corresponds to the rating of Standard & Poor's ("S&P") and Moody's Investors Service. For the purpose of ECL on NTCP the Bank applies both the generally accepted migration matrix and other quantitative and qualitative factors.

Provisioning stages upon ECL measurement

The Bank measures ECL based on three provisioning stages across which instruments are allocated depending on their credit quality since initial recognition:

- Stage 1 includes financial instruments with no significant increase in credit risk identified since initial recognition;
- Stage 2 includes financial instruments with a significant increase in credit risk identified;
- Stage 3 includes financial instruments recognised to be credit impaired. At 31 December 2018, the Bank had no financial instruments within this provisioning stage.

Significant increase in credit risk (stage 2)

Financial instruments with a significant increase in credit risk since initial recognition but with no indication of impairment are included in provisioning stage 2. For instruments included in stage 2 the Bank measures the financial instrument lifetime ECL.

The Bank measures a significant increase in credit risk depending on changes in the counterparty default risk starting from initial recognition of the financial instrument.

For TCP the Bank identifies availability of a significant increase in credit risk based on quantitative and qualitative criteria:

Quantitative criteria

The Bank monitors any changes in PD on the financial instrument that occurred during the period from initial recognition to the reporting date. If the change in PD exceeds established limits, the Bank recognises a significant increase in credit risk for the instrument. PD measurement involves all supporting information, in particular information about past events, current and future economic conditions.

Qualitative criteria

The Bank monitors counterparties that may become impaired through their inclusion in a certain list. It is assumed that the counterparties that are included in this list have experienced a significant increase in credit risk. The Bank also monitors changes in internal credit ratings of counterparties against initial recognition and other information that may prove a significant increase in credit risk.

22 Financial Risk Management (Continued)

The Bank’s TCPs primarily represent transactions with major international counterparties. For such transactions no individual qualitative criterion in isolation from other criteria may prove a significant increase in credit risk. Therefore, the Bank measures a significant increase in credit risk based on aggregate quantitative and qualitative factors.

Financial instruments may be reclassified from provisioning stage 2 to stage 1. In such a case these instruments do not have either quantitative or qualitative criteria of a significant increase in credit risk.

An approach to identification of a significant credit risk on NTCP depends on a specific instrument type. In relation to NTCP the Bank believes that instruments with the delay up to 30 days should be included in provisioning stage 2, except for certain commission fees, which relate to stage 2 if the corresponding delay is less than 90 days. In relation to intercompany transactions with significant companies of the Group, performed upon decision of the Bank’s management, there is no significant increase in credit risk due to capitalisation of such companies and available access to liquidity. The rest of the Bank’s NTCPs are mainly represented by short-term transactions, and therefore they do not have a significant increase in credit risk.

No significant increase in credit risk (SICR) (Stage 1)

Financial instruments with no SICR are classified into Stage 1 unless they are considered purchased or originated credit impaired (POCI) financial instruments at initial recognition. For Stage 1 instruments, ECLs are calculated for 12 months following the reporting date.

ECL estimation for TCPs

Inputs

ECL for TCPs is estimated based on the following inputs:

- Probability of default (PD): probability of default during next 12 months (Stage 1) or lifetime (Stage 2) of the instrument is assessed quarterly based on the PD model. Variables in the form of macroeconomic, industry and borrower-specific indicators are used to assess the probability of default.
- The amount of exposure at default (EAD): a share of a borrower’s liabilities exposed to probability of default under certain macroeconomic conditions is calculated using EAD model at the reporting date. The model considers potential revision of the borrower’s debt repayment pattern as well as the trend and substance of such change. The calculation includes variables that characterise the pattern of use and purpose of the loan at the reporting date; industry and macroeconomic indicators.
- Loss given default (LGD): the LGD model estimates ECL in the current economic environment in terms of the amount of exposure at default in case of default. The estimation considers a mitigating effect of collateral and time value of money.

ECLs for Stage 1 exposures are calculated as a product of 12-month PD, EAD and LGD. ECLs for Stage 2 exposures are determined using probability of default over the whole lifetime of the instrument.

Forward-looking information

Expected credit losses are determined using the Bank's historical data and future economic environment projections. To include forward-looking information in ECL calculation, the Bank develops three economic scenarios: base, optimistic and pessimistic. Each of the scenarios contains macroeconomic indicators which reflect projected economic and financial conditions. A list of these indicators includes, without limitation, foreign exchange rates, inflation rates and GDP. Macroeconomic indicators for each scenario are forecasted for the appropriate and reasonable period of two years. After the forecast period, losses are calculated based on historical average annual data.

The three economic scenarios are updated and probability-weighted on a quarterly basis. The Bank uses their professional judgement in developing such scenarios and determining probability of their realisation. The management believes that the most likely economic scenario is the base option which is generally expected to have a greater weight than the other two scenarios.

22 Financial Risk Management (Continued)

PD, LGD and EAD models are designed for forecasting credit quality of the TCP portfolio based on the industry characteristics, geography, rating and size of borrowers and other portfolio attributes. PD, LGD and EAD models are calibrated based on the historical and projected values of macroeconomic indicators to calculate PD, LGD and EAD.

ECL calculation

The Bank uses PD, LGD and EAD to develop each scenario of credit loss (SQL). ECLs are calculated based on three probability-weighted SQLs discounted using the effective interest rate or its approximation.

In a number of cases, the modelled ECLs are additionally reviewed by the Bank's management and adjusted to ensure the highest accuracy of the Bank's risk assessment. It is required only where there is a risk not yet considered in the base ratings, LGD and scenarios used and which is expected to have a high probability of realisation.

The final ECL measurement requires that management use their professional judgement. The Bank performs a thorough check of judgements and ECL measurement techniques as part of its credit risk management effort.

Additional management judgements were not used in calculation of the entity's ECLs. There were no significant changes in measurement techniques or assumptions in the reporting period.

ECLs for NTCP portfolio

The Bank's approach to ECL estimation for NTCP exposures depends on the type of instrument.

Fees and commissions payable

For commissions arising on contracts with customers, the Bank uses a migration matrix as a practical means for ECL calculation. The matrix provides that, for financial sector entities, the exposure is Stage 2 if it is 90 days past due and Stage 3 if it is 180 days past due (in that case ECLs are measured at 100% of the exposure). For the rest of customers, the exposure is classified into Stage 2 if it is 30 days past due and into Stage 3 if the exposure is 90 days past due (in that case ECLs are measured at 100% of the exposure).

The Bank did not incur significant losses on its portfolios of receivables in the reporting period.

Other non-traditional credit products

The Bank determined that ECLs for all NTCP portfolios are immaterial due to credit risk mitigation factors such as collateral, borrower's credit quality and/or short-term nature of an instrument. Similarly, the Bank determined that these NTCP portfolios relate to Stage 1 due to credit quality of borrowers and/or short-term nature of an instrument.

For intercompany loans and receivable, the Bank assesses a counterparty on the basis of the repayment plan, maturity of the loan/receivable balance or any collateral obtained. The Bank did not incur any loss on intercompany loans and receivables.

The Bank continues to monitor its NTCP portfolios to ensure that the structure described above is appropriate and its exposure to credit risk and ECLs for these portfolios are properly considered.

Quantitative and qualitative information on changes in ECLs and effects of changes in gross carrying value on ECLs (IFRS 7, par 35I, par 35H, 6, B8D, B8E).

ECLs and gross carrying value

For the purposes of ECL measurement, cash and cash equivalent balances (TCP) and receivables at amortised cost (NTCP) are classified into Stage 1 in accordance with the above criteria. ECLs for these instruments represent an insignificant amount, therefore the Bank does not recognise any credit loss allowance for them.

22 Financial Risk Management (Continued)

Movements in ECL allowance and gross carrying value of credit related contingencies for the year ended 31 December 2018 analysed by cause of such movements are presented below:

Credit related contingencies and guarantee commitments

	Expected credit losses				Gross carrying value			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
In thousands of Russian Roubles	12-month ECL	Lifetime ECL	Lifetime ECL					
At 1 January 2018	1 449	-	-	1 449	2 895 881	-	-	2 895 881
New credit related contingencies/financial guarantees	647	-	-	647	1 240 734	-	-	1 240 734
Movements in current guarantees	(1 006)	-	-	(1 006)	(1 913 066)	-	-	(1 913 066)
Changes in macroeconomic forecast	(110)	-	-	(110)	-	-	-	-
Transfers between Stages, including	-	-	-	-	-	-	-	-
From Stage 1 to Stage 2	(306)	306	-	-	(628 439)	628 439	-	-
From Stage 2 to Stage 3	-	-	-	-	-	-	-	-
Other			-		-	-	-	-
Total movements	(775)	306	-	469	(1 300 771)	628 439		(672 332)
At 31 December 2018	674	306	-	980	1 596 559	628 439	-	2 224 998

Movements in ECL allowance during the reporting year were caused by changes in carrying value of contingent liabilities and changes in ECL level for individual counterparties of the Bank.

Credit risk

Analysis of financial instruments' credit risk exposure regardless whether ECL allowance is provided for them or not is presented below. Gross balance of financial assets presented below also reflects the Bank's maximum exposure to credit risk on these assets.

In thousands of Russian Roubles	Gross carrying value	Market risk exposure	Risk mitigation		Value exposed to credit risk	Value exposed to credit risk	
Under IFRS 9			Offsetting arrangements and other	Collateral		JPMorgan Chase	External counterparties
At 31 December 2018							
Financial assets:							
Cash and cash equivalents	30 557 656	-	-	-	30 557 656	29 060 147	1 497 409
Mandatory cash balances with the Central Bank of the Russian Federation	36 554	-	-	-	36 554	-	36 554
Securities available for sale	18	(18)	-	-	-	-	-
Foreign exchange derivative contracts	327 767	(327 767)	-	-	-	-	-
Interest rate derivative contracts	4 052 570	-	(4 052 570)	-	-	-	-
Accrued income	494 050	-	-	-	494 050	494 050	-
Total	35 468 615	(327 785)	(4 052 570)	-	31 088 260	29 554 197	1 533 963

22 Financial Risk Management (Continued)

In thousands of Russian Roubles	Gross carrying value	Market risk exposure	Risk mitigation		Value exposed to credit risk	Value exposed to credit risk	
Under IAS 39:			Offsetting arrangements and other	Collateral		JPMorgan Chase	External counterparties
At 31 December 2017							
Financial assets:							
Cash and cash equivalents	17 682 500	-	-	-	17 682 500	16 093 438	1 589 062
Mandatory cash balances with the Central Bank of the Russian Federation	42 599	-	-	-	42 599	-	42 599
Securities available for sale	18	(18)	-	-	-	-	-
Foreign exchange derivative contracts	742 415	(742 415)	-	-	-	-	-
Interest rate derivative contracts	2 646 626	-	(2 646 626)	-	-	-	-
Accrued income	181 456	-	-	-	181 456	181 456	-
Total	21 295 614	(742 433)	(2 646 626)	-	17 906 555	16 274 894	1 631 661

Below is information on credit quality of credit related contingencies and derivative financial instruments by accounting model at 31 December 2018 based on IFRS 9 classification and at 31 December 2017 according to IAS 39.

Credit related contingencies and financial guarantees

	Stages			IFRS 9	IAS 39
In thousands of Russian Roubles	**Stage 1**	**Stage 2**	**Stage 3**	**2018**	**2017**
AC	12-month ECL	Lifetime ECL	Lifetime ECL	Total	Total
Rating					
BB+ and below	1 596 559	-	-	1 596 559	1 444 255
Unrated	-	628 439	-	628 439	1 453 075
Gross value	1 596 559	628 439	-	2 224 998	2 897 330
Loss allowance	(674)	(306)	-	(980)	(1 449)
Net value	1 595 885	628 133	-	2 224 018	2 895 881

22 Financial Risk Management (Continued)

Derivative Financial Instruments

In thousands of Russian Roubles	Stage 1	Stages Stage 2	Stage 3	IFRS 9 2018	IAS 39 2017
FVTPL	12-month ECL	Lifetime ECL	Lifetime ECL	Total	Total
Currency spot contracts					
Credit rating above BBB-	17	-	-	17	28
Credit rating BB+ and below	-	-	-	-	87
Unrated	736	-	-	736	-
Currency forward contracts					
Credit rating above BBB-	267 498	-	-	267 498	15 454
Unrated	55 045	-	-	55 045	50 849
Currency swaps					
Credit rating above BBB-	4 233	-	-	4 233	-
Unrated	238	-	-	238	-
KIKO contracts					
Credit rating between BBB- and AA+	-	-	-	-	672 154
Interest rate contracts					
Credit rating between BBB- and AA+	4 052 570	-	-	4 052 570	2 646 626
Total derivative contracts	**4 380 337**	-	-	**4 380 337**	**3 389 041**

Market risk. Market risk is a risk of unfavourable changes in market value of financial instruments as a result of market parameters fluctuation. The key market parameters include:

- Interest rates – interest rate risk is primarily caused by a change in the yield curve and volatility in interest rates and mortgage loan rates;
- Foreign exchange rates – currency risk is caused by changes and volatility in foreign exchange rates;
- Share prices – equity risk arises from changes and volatility in prices for individual shares, baskets and share indices;
- Credit spreads – a difference between the yield on corporate borrowings exposed to default risk and government bonds;
- Commodity prices – a risk of changes in commodity prices arises from changes and volatility in prices for such commodities as natural gas, crude oil, oil products, precious and non-precious metals and electric power.

The following activities of the Bank are exposed to market risk:

- fixed income transactions;
- currency and other financial derivatives.

Risk of exchange rate fluctuations can also be realised from open currency positions denominated in foreign currencies arising from all the Bank's activities and transactions.

The Bank manages its market risk based on the market risk management principles adopted at the Group level.

22 Financial Risk Management (Continued)

An employee responsible for the Bank's risk management assesses significance of the risk, provides recommendations to the Board of Directors on establishing limits and internal thresholds and monitors them.

To manage its currency risk, the Bank establishes internal limits on open currency position by currency at the end of each day and controls compliance with them on a daily basis.

On a daily basis, the Bank prepares a report on its open currency positions, which is then communicated to the heads of its business units in charge of trading transactions associated with market risk. A consolidated report on the Bank's risks and capital, including sensitivity analysis results for currency and interest rate risks, are submitted to the Bank's Management Board and Board of Directors on a monthly and quarterly basis, respectively.

The table below summarises the Bank's exposure to foreign exchange risk at 31 December 2018. The derivative financial instruments in assets and liabilities represent cash flows on currency spot transactions and forward contracts, knock-in knock-out (KIKO) currency forwards and cross-currency interest swaps split by currency. Foreign exchange derivative assets and liabilities include gross cash flows by currency.

In thousands of Russian Roubles	RR	USD	EUR	Other	Total
Assets					
Cash and cash equivalents	1 149 971	25 315 214	4 011 943	80 528	**30 557 656**
Mandatory cash balances with the Central Bank of Russian Federation	36 554	-	-	-	**36 554**
Investment securities	18	-	-	-	**18**
Derivative financial instruments	5 558	(18 763 618)	104 659	23 033 738	**4 380 337**
Other financial assets	2 354	496 659	3 080	-	**502 093**
Total financial assets	**1 194 455**	**7 048 255**	**4 119 682**	**23 114 266**	**35 476 658**
Liabilities					
Derivative financial instruments	(6 408)	18 621 604	(103 834)	(23 033 738)	**(4 522 376)**
Due to other banks.	(488 889)	(371 098)	-	-	**(859 987)**
Customer accounts	(904 335)	(230 996)	(43 414)	(855)	**(1 179 600)**
Total financial liabilities	**(1 399 632)**	**18 019 510**	**(147 248)**	**(23 034 593)**	**(6 561 963)**
Fair value of foreign exchange derivative assets	5 558	217 548	104 659	-	**327 765**
Fair value of foreign exchange derivative liabilities	(6 408)	(359 565)	(103 834)	-	**(469 807)**
Less total fair value of foreign exchange derivatives	(850)	(142 017)	825	-	**(142 042)**
Net balance sheet position less fair value of foreign exchange derivatives at 31 December 2018	**(206 027)**	**24 925 748**	**3 973 259**	**79 673**	**28 772 653**
Currency Derivatives Assets	**36 890 846**	**9 673 921**	**2 783 338**	**-**	**49 348 105**
Currency Derivatives Liabilities	**(8 248 642)**	**(34 381 777)**	**(6 756 363)**	**-**	**(49 386 782)**
Total currency derivatives	**28 642 204**	**(24 707 856)**	**(3 973 025)**	**-**	**(38 677)**
Net balance sheet position less fair value of foreign exchange derivatives at 31 December 2018	**28 436 177**	**217 892**	**234**	**79 673**	**28 733 976**

22 Financial Risk Management (Continued)

At 31 December 2017, the Bank had the following position in currencies:

In thousands of Russian Roubles	RR	USD	EUR	Other	Total
Assets					
Cash and cash equivalents	707 643	16 809 477	118 854	46 526	**17 682 500**
Mandatory cash balances with the Central Bank of Russian Federation	42 599	-	-	-	**42 599**
Investment securities available for sale	18	-	-	-	**18**
Derivative financial instruments	66 170	(15 759 936)	-	19 082 807	**3 389 041**
Other financial assets	1 325	188 511	2 155	-	**191 991**
Total financial assets	**817 755**	**1 238 052**	**121 009**	**19 129 333**	**21 306 149**
Liabilities					
Derivative financial instruments	(61 206)	15 759 796	-	(19 082 807)	**(3 384 217)**
Due to other banks	(685 043)	(1 008 806)	-	-	**(1 693 849)**
Customer accounts	(1 200 346)	(399 812)	(74 449)	(1 867)	**(1 676 474)**
Provision for commitments	-	31 364	(75 854)	-	**(44 490)**
Total financial liabilities	**(1 946 595)**	**14 382 542**	**(150 303)**	**(19 084 674)**	**(6 799 030)**
Fair value of foreign exchange derivative assets	66 170	247	-	-	**66 417**
Fair value of foreign exchange derivative liabilities	(61 206)	(387)	-	-	**(61 593)**
Less total fair value of foreign exchange derivatives	4 964	(140)	-	-	**4 824**
Net balance sheet position less fair value of foreign exchange derivatives at 31 December 2017	**(1 123 876)**	**15 620 454**	**(29 294)**	**44 659**	**14 511 943**
Currency Derivatives Assets	19 319 938	3 057 228	959 605	-	23 336 771
Currency Derivatives Liabilities	**(4 077 792)**	**(18 250 733)**	**(1 003 422)**	**-**	**(23 331 947)**
Total currency derivatives	**15 242 146**	**(15 193 505)**	**(43 817)**	**-**	**4 824**
Net balance sheet position less fair value of foreign exchange derivatives at 31 December 2018	**14 118 270**	**426 949**	**(73 111)**	**44 659**	**14 516 767**

The Bank's foreign exchange derivatives position in each column represents the fair value, at the reporting date, of the respective currency that the Bank agreed to buy (positive amount) or sell (negative amount). The amounts by currency are presented gross. The net total represents fair value of the derivatives.

The following table shows the effect of a reasonably possible change in exchange rates on the result of the Bank's activity:

In thousands of Russian Roubles	**2018**	**2017**
40% increase in USD/RR exchange rate	**87 156**	**170 779**
40% decrease in USD/RR exchange rate	**(87 156)**	**(170 779)**
40% increase in EUR/RR exchange rate	**94**	**29 244**
40% decrease in EUR/RR exchange rate	**(94)**	**(29 244)**

Operational risk. Operational risk is a risk of losses resulting from a failure of processes or systems due to a human error or an impact of external events not related to market or credit risks on a credit institution's operations.

22 Financial Risk Management (Continued)

In the course of its operations, the Bank is exposed to operational risk, which can take various forms, including fraud, disruptions in the entity’s operations, inappropriate employee conduct, failure to comply with legal acts and regulations, and suppliers’ failure to comply with contractual terms and conditions. Such events can entail financial loss, court proceedings and fines imposed by the regulator, as well as any other loss for the Bank. The operational risk management objective implies maintaining its levels at an appropriate level in line with the Bank’s financial position, specifics of its business, the market, on which the Bank operates, the level of competitiveness and legal framework.

To monitor and manage its operational risk, JPMorgan Chase & Co. has developed an operational risk management system that ensures reliable controls and management of the entity’s operations. The operational risk management system comprises four key components: a decision-making procedure and oversight, operational risk identification, qualitative and quantitative operational risk assessment and monitoring based on the reporting system.

The Bank manages its operational risk as part of the operational risk management system adopted at the level of JPMorgan Chase & Co.

The Bank's Board of Directors has general responsibility for managing the risk, developing strategy and establishing risk appetite. The key body of the credit institution in charge of operational risk management is the Operating Committee, which operates within the Bank’s internal control system. Decisions taken by the Operating Committee are mandatory for implementation across all liens of the Bank’s business. The Operating Committee’s functions are defined in the Regulation on the Operating Committee of CB J.P. Morgan Bank International (LLC).

Below are measures taken by the Bank to mitigate its operational risk subject to the Bank’s Operating Committee’s approval: automation, segregation of transaction processing duties, a list of control procedures, reconciliation of data, limitation on power concentration, access control, data and system integrity, business continuity plan, internal procedures, employee training, compliance with business conduct and corporate ethics code, remuneration plan based on risk-taking principles.

Reports on operational risk management contain information on quantitative and qualitative parameters and are submitted to the Operating Committee on a monthly basis.

Operational risk management reports present information on actual and potential losses, the status of risk mitigation work or decision of the Bank’s top management to assume the risk. The reports contain information on monitoring key indicators against the target and threshold values.

To determine the amount of operational risk, the Bank relies on the methodology which is compliant with the basic indicator approach provided by Basel III (within Component 1). Operational risk is calculated using the established formula as an indicator equal to 15% of average gross income for three years preceding the date of the indicator’s calculation. If income was negative in any of the years, its value is not included in the operational risk calculation. Concurrently, the number of years is decreased by the number of years for which negative income was reported.

Interest rate risk of the banking portfolio. Interest rate risk of the banking portfolio is defined as interest rate risk arising on traditional types of banking activities (recorded using the balance sheet and off-balance sheet position method), including provision of loans and credit facilities, attraction of deposits and issuance of debt securities (together “non-trading transactions”).

The key sources of interest rate risk of the banking portfolio include the following:

- a mismatch between interest rate repricing dates and asset, liability and off-balance sheet instrument maturity dates;
- a mismatch between the amounts of assets, liabilities and off-balance sheet instruments with the same dates of interest rate repricing;
- a mismatch between the levels of changes in short-term and long-term market interest rates;
- changes in contractual maturities of different assets, liabilities and off-balance sheet instruments due to changes in market interest rates.

22 Financial Risk Management (Continued)

The Bank analyses effects of changes in interest rate risk on the Bank's financial performance and capital using economic value sensitivity. The economic value sensitivity measures changes in present value of expected future cash flows on the Bank's balance sheet caused by changes in interest rates by 400 basis points.

The table below presents the overall interest rate risk analysis (banking and trading portfolios) of the Bank at 31 December 2018. The table presents the Bank's assets and liabilities at carrying amounts, categorised by the earlier of contractual interest repricing or maturity dates.

In thousands of Russian Roubles	**Demand and less than 1 month**	**From 1 to 12 months**	**Over 12 months**	**Non-interest bearing**	**Total**
Assets					
Cash and cash equivalents	30 557 656	-	-	-	**30 557 656**
Mandatory cash balances with the Central Bank of Russian Federation	36 554	-	-	-	**36 554**
Investment securities	-	-	-	18	**18**
Derivative financial instruments	203 342	154 257	4 022 738	-	**4 380 337**
Other financial assets		-	-	502 093	**502 093**
Total financial assets	**30 797 552**	**154 257**	**4 022 738**	**502 111**	**35 476 658**
Liabilities					
Derivative financial instruments	(347 905)	(152 316)	(4 022 155)	-	**(4 522 376)**
Due to other banks	(859 987)	-	-	-	**(859 987)**
Customer accounts	(1 179 600)	-	-	-	**(1 179 600)**
Total financial liabilities	**(2 387 491)**	**(152 316)**	**(4 022 155)**	**-**	**(6 561 962)**
Interest rate derivative assets	-	38 733	4 013 837	-	**4 052 570**
Interest rate derivative liabilities	-	(38 733)	(4 013 837)	-	**(4 052 570)**
Fair value of interest rate derivatives	**-**	**-**	**-**	**-**	**-**
Net gap less fair value of interest rate derivatives	**28 410 061**	**1 941**	**583**	**502 111**	**28 914 696**
Interest rate derivatives inflows	335 788	44 098 756	85 884 722	-	**130 319 266**
Interest rate derivatives outflows	(335 788)	(44 098 756)	(85 884 722)	-	**(130 319 266)**
Effect of interest rate derivatives	**-**	**-**	**-**	**-**	**-**
Net gap at 31 December 2018	**28 410 061**	**1 941**	**583**	**502 111**	**28 914 696**
Cumulative gap at 31 December 2018	**28 410 061**	**28 412 002**	**28 412 585**	**28 914 696**	**-**

22 Financial Risk Management (Continued)

The table below presents the interest rate risk analysis (banking and trading portfolios) of the Bank at 31 December 2017. The table presents the Bank's assets and liabilities categorised by the earlier of contractual interest repricing or maturity dates.

In thousands of Russian Roubles	Demand and less than 1 month	From 1 to 12 months	Over 12 months	Non-interest bearing	Total
Assets					
Cash and cash equivalents	17 682 500	-	-	-	**17 682 500**
Mandatory cash balances with the Central Bank of Russian Federation	42 599	-	-	-	**42 599**
Investment securities available for sale	-	-	-	18	**18**
Derivative financial instruments	53 260	537 340	2 798 441	-	**3 389 041**
Other financial assets	191 991	-	-	-	**191 991**
Total financial assets	**17 970 350**	**537 340**	**2 798 441**	**18**	**21 306 149**
Liabilities					
Derivative financial instruments	(49 704)	(536 072)	(2 798 441)	-	**(3 384 217)**
Due to other banks	(1 693 849)	-	-	-	**(1 693 849)**
Customer accounts	(1 676 474)	-	-	-	**(1 676 474)**
Provision for commitments	-	(44 490)	-	-	**(44 490)**
Total financial liabilities	**(3 420 027)**	**(580 562)**	**(2 798 441)**	**-**	**(6 799 030)**
Interest rate derivative assets	-	(151 815)	2 798 441	-	**2 646 626**
Interest rate derivative liabilities	-	151 815	(2 798 441)	-	**(2 646 626)**
Fair value of interest rate derivatives	**-**	**-**	**-**	**-**	**-**
Net gap less fair value of interest rate derivatives	**14 550 323**	**(43 222)**	**-**	**18**	**14 507 119**
Interest rate derivatives inflows	-	4 855 956	74 565 085	-	**79 421 041**
Interest rate derivatives outflows	-	(4 855 956)	(74 565 085)	-	**(79 421 041)**
Effect of interest rate derivatives	**-**	**-**	**-**	**-**	**-**
Net gap at 31 December 2017	**14 550 323**	**(43 222)**	**-**	**18**	**14 507 119**
Cumulative gap at 31 December 2017	**14 550 323**	**14 507 101**	**14 507 101**	**14 507 119**	**-**

The table below summarises the effective interest rates by major currencies for major debt instruments. The analysis has been prepared based on year-end effective rates used for amortisation of the respective assets/liabilities.

	2018			2017		
In % p.a.	**RR**	**USD**	**EUR**	**RR**	**USD**	**EUR**
Assets						
Cash and cash equivalents	-	2,44	-	-	0,8	(0,4)
Other assets	-	2,4	-	-	1,33	-
Liabilities						
Customer accounts	2,46	-	-	3,5	-	-

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

22 Financial Risk Management (Continued)

The following table shows the effect of a reasonably possible change in interest rates on the financial profit of the Bank:

In thousands of Russian Roubles	2018	2017
400 basis points increase in local interest rates	1 156 543	556 828
400 basis points decrease in local interest rates	(1 156 543)	(556 828)

Liquidity risk. Liquidity risk is the risk that the Bank will not be able to meet its contractual and contingent obligations through normal cycles as well as during stress events. Liquidity risk is inherent to all lines of business of the Bank.

The Bank manages its liquidity risk as part of the liquidity risk management system at the level of JPMorgan Chase & Co.

The Bank has developed a liquidity risk management system designed to assess, approve and monitor the implementation of liquidity risk management policy and strategy of financing and capital management.

The liquidity risk management system in particular includes:

- setting and monitoring internal limits, indicators and thresholds;
- identifying, monitoring and reporting liquidity risk indicators that reflect measures taken for liquidity risk management purposes;
- monitoring and submitting reported data on liquidity positions, deviation of balance sheet indicators and financing activities;
- performing special analysis to identify possible risk areas.

The Bank has the Asset and Liability Committee in place within its liquidity management system.

The Bank has also developed the Liquidity Management Policy and the Action Plan to Restore Liquidity subject to annual revision and approval by the Bank's Board of Directors. The Action Plan to Restore Liquidity involves a set of measures aimed at managing liquidity in unfavourable market situations.

The Bank submits a report on compliance with internal limits, indicators and regulatory liquidity ratios for consideration by the Bank officers in charge of decisions on liquidity risk management on a daily basis. Reports with information about the Bank's liquidity status are submitted for consideration by the Management Board on a monthly basis and quarterly for consideration by the Board of Directors.

The table below shows distribution of undiscounted cash flows between the Bank's liabilities based on the earliest of the maturity dates stipulated in the underlying contracts at 31 December 2018. The total nominal cash (inflow)/outflow presented in the table below represents contractual undiscounted cash flows arising from financial or other liabilities.

In thousands of Russian Roubles	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	Over 12 months	Total nominal (inflow)/outflow	Carrying value
Non-derivative financial liabilities						
Due to other banks	859 987	-	-	-	859 987	859 987
Customer accounts	1 179 600	-	-	-	1 179 600	1 179 600
Derivative financial instruments						
- Inflow	(336 541)	(41 263 348)	(2 989 517)	(85 893 623)	(130 483 029)	(4 380 337)
- Outflow	337 516	41 261 412	2 989 512	85 893 041	130 481 481	4 522 376
Letters of credit and guarantees issued	2 224 998	-	-	-	2 224 998	2 224 998
Total undiscounted cash flows on financial and other liabilities	**4 265 559**	**(1 936)**	**(5)**	**(582)**	**4 263 036**	**4 406 627**

22 Financial Risk Management (Continued)

The table below shows the Bank's position at 31 December 2017:

In thousands of Russian Roubles	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	Over 12 months	Total nominal (inflow)/outflow	Carrying value
Non-derivative financial liabilities						
Due to other banks	1 693 849	-	-	-	1 693 849	1 693 849
Customer accounts	1 676 474	-	-	-	1 676 474	1 676 474
Provision for commitments	-	44 490	-	-	44 490	44 490
Derivative financial instruments						
- Inflow	(49 416)	(3 086 546)	(2 462 409)	(74 565 085)	(80 163 456)	(3 389 041)
- Outflow	45 860	3 085 278	2 462 409	74 565 085	80 158 632	3 384 217
Letters of credit and guarantees	2 897 330	-	-	-	2 897 330	2 897 330
Total undiscounted cash flows on financial and other liabilities	**6 264 097**	**43 222**	**-**	**-**	**6 307 319**	**6 307 319**

The Bank does not use the above maturity analysis based on undiscounted contractual maturities to manage liquidity.

The Bank monitors expected maturities, which may be summarised as follows at 31 December 2018:

In thousands of Russian Roubles	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	Over 12 months	Not stated maturity	Total
Assets						
Cash and cash equivalents	30 557 656	-	-	-	-	**30 557 656**
Mandatory cash balances with the Central Bank of the Russian Federation	36 554	-	-	-	-	**36 554**
Investment securities	-	-	-	-	18	**18**
Derivative financial instruments	203 342	165 461	(11 204)	4 022 738	-	**4 380 337**
Other financial assets	502 093	-	-	-	-	**502 093**
Total financial assets	**31 299 645**	**165 461**	**(11 204)**	**4 022 738**	**18**	**35 476 658**
Liabilities						
Derivative financial instruments	(347 905)	(163 525)	11 209	(4 022 155)	-	**(4 522 376)**
Due to other banks	(859 987)	-	-	-	-	**(859 987)**
Customer accounts	(1 179 600)	-	-	-	-	**(1 179 600)**
Total financial liabilities	**(2 387 491)**	**(163 525)**	**11 209**	**(4 022 155)**	**-**	**(6 561 963)**
Net liquidity gap	**28 912 154**	**1 936**	**5**	**583**	**18**	**28 914 696**
Cumulative liquidity gap at 31 December 2018	**28 912 154**	**28 914 090**	**28 914 095**	**28 914 678**	**28 914 696**	**-**

22 Financial Risk Management (Continued)

The table below shows the Bank's liquidity position at 31 December 2017:

In thousands of Russian Roubles	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	Over 12 months	Not stated maturity	Total
Assets						
Cash and cash equivalents	17 682 500	-	-	-	-	**17 682 500**
Mandatory cash balances with the Central Bank of the Russian Federation	42 599	-	-	-	-	**42 599**
Investment securities available for sale	-	-	-	-	18	**18**
Derivative financial instruments	53 259	583 825	(46 484)	2 798 441	-	**3 389 041**
Other financial assets	191 991	-	-	-	-	**191 991**
Total financial assets	**17 970 349**	**583 825**	**(46 484)**	**2 798 441**	**18**	**21 306 149**
Liabilities						
Derivative financial instruments	(49 704)	(582 556)	46 484	(2 798 441)	-	**(3 384 217)**
Due to other banks	(1 693 849)	-	-	-	-	**(1 693 849)**
Customer accounts	(1 676 474)	-	-	-	-	**(1 676 474)**
Provision for commitments	-	(44 490)	-	-	-	**(44 490)**
Total financial liabilities	**(3 420 027)**	**(627 046)**	**46 484**	**(2 798 441)**	**-**	**(6 799 030)**
Net liquidity gap	**14 550 322**	**(43 221)**	**-**	**-**	**18**	**14 507 119**
Cumulative liquidity gap at 31 December 2017	**14 550 322**	**14 507 101**	**14 507 101**	**14 507 101**	**14 507 119**	**-**

The table above shows assets and liabilities by their remaining contractual maturity at 31 December 2018 and 31 December 2017, unless there is evidence that any of these assets are impaired and will be settled after their contractual maturity dates, in which case the expected date of settlement is used. However, certain assets and liabilities may have a longer-term nature, in particular due to frequent loan extensions short-term loans may have longer maturity.

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

In thousands of Russian Roubles	Russia	OECD	Total
Assets			
Cash and cash equivalents	1 497 336	29 060 320	**30 557 656**
Mandatory cash balances with the Central Bank of the Russian Federation	36 554	-	**36 554**
Investment securities	18	-	**18**
Derivative financial instruments	3 799 880	580 457	**4 380 337**
Other financial assets	7 720	494 373	**502 093**
Total financial assets	**5 341 508**	**30 135 150**	**35 476 658**
Liabilities			
Derivative financial instruments	(575 625)	(3 946 751)	**(4 522 376)**
Due to other banks	-	(859 987)	**(859 987)**
Customer accounts	(720 199)	(459 401)	**(1 179 600)**
Total financial liabilities	**(1 295 824)**	**(5 266 138)**	**(6 561 962)**
Net balance sheet position at 31 December 2018	**4 045 684**	**24 869 012**	**28 914 696**

22 Financial Risk Management (Continued)

Assets and liabilities have been based on the country in which the counterparty is located. Balances with Russian counterparties actually outstanding to/from offshore companies of these Russian counterparties, are allocated to the caption "Russia".

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

In thousands of Russian Roubles	Russia	OECD	Total
Assets			
Cash and cash equivalents	1 597 939	16 084 561	**17 682 500**
Mandatory cash balances with the Central Bank of the Russian Federation	42 599	-	**42 599**
Investment securities available for sale	18	-	**18**
Derivative financial instruments	3 183 842	205 199	**3 389 041**
Other financial assets	10 533	181 458	**191 991**
Total financial assets	**4 834 931**	**16 471 218**	**21 306 149**
Liabilities			
Derivative financial instruments	205 211	3 179 006	**3 384 217**
Due to other banks	-	1 693 849	**1 693 849**
Customer accounts	1 431 430	245 044	**1 676 474**
Provision for commitments	44 490	-	**44 490**
Total financial liabilities	**1 681 131**	**5 117 899**	**6 799 030**
Net balance sheet position at 31 December 2017	**3 153 800**	**11 353 319**	**14 507 119**

23 Management of Capital

The CBRF sets and monitors capital requirements for the Bank.

Under the current capital requirements set by the CBRF, banks have to maintain a ratio of regulatory capital to risk weighted assets ("statutory capital adequacy ratio") above the prescribed minimum level. At 31 December 2018, this minimum level was 8% (2017: 8%). The Bank was in compliance with the statutory capital ratio during the years ended 31 December 2018 and 2017.

The Bank's objectives when managing capital are (i) to comply with the capital requirements set by the CBRF and (ii) to safeguard the Bank's ability to continue as a going concern. The amount of statutory capital that the Bank managed as at 31 December 2018 was RR 28 114 514 thousand (2017: RR 13 701 110 thousand). Compliance with capital adequacy ratios set by the CBRF is preparing and analysing on adaily basis. Reports which contains relevant calculations are preparing and analysing on a daily basis. As a result of 2018 internal capital adequacy assessment the Bank was judged to be sufficiently capitalized with total Pillar 1 Capital ratio at 58% (2017: 31%).

The following table shows the composition of the Bank's capital position calculated in accordance with the requirements of the CBRF at 31 December 2018 and 2017:

In thousands of Russian Roubles	31 December 2018	31 December 2017
Capital		
Charter capital	15 915 315	2 715 315
Retained earnings	12 199 217	10 985 816
Equity investments	(18)	(21)
Total statutory capital	**28 114 514**	**13 701 110**

24 Contingencies and Commitments

Tax contingencies. Russian tax legislation which was enacted or substantively enacted at the end of the reporting period, is subject to varying interpretations when being applied to the transactions and activities of the Bank. Consequently, tax positions taken by management and the formal documentation supporting the tax positions may be challenged by the Russian tax authorities. Russian tax administration may exercise higher scrutiny, including the fact that there is a higher risk of review of transactions without a clear business purpose or with tax incompliant counterparties. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year when decision about review was made. Under certain circumstances reviews may cover longer periods.

The Russian transfer pricing legislation is generally aligned with the international transfer pricing principles developed by the Organisation for Economic Cooperation and Development (OECD), although it has specific features. This legislation provides for the possibility for tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect of controlled transactions (transactions with related parties and some types of transactions with unrelated parties) where it is determined that prices in these transactions were not arm's length.

Management has implemented internal controls to be in compliance with this transfer pricing legislation. As Russian tax legislation does not provide definitive guidance in many areas, the Bank may adopt, from time to time, interpretations of such uncertain areas that may or may not reduce the overall tax burden of the Bank. While management currently estimates that the tax positions and interpretations that it has taken can probably be sustained, there is a risk that outflow of resources will be required should such tax positions and interpretations be successfully challenged by the Russian tax authorities. The impact of any such potential challenge cannot be reliably estimated; however, it may be significant to the financial position and/or the overall operations of the Bank.

Capital expenditure commitments. At 31 December 2018 and 2017, the Bank had no capital expenditure commitments.

Provision on onerous lease contract. At 31 December 2018, the Bank had no provision on onerous lease contract. At 31 December 2017, the Bank did not use the part of its office space held under a non-cancellable operating lease. The space was subleased until the end of the original lease term to a third party at a rate lower than the rates in the original lease agreement. The contract was considered to be an onerous one and a provision was recognised. The provision included all lease expenses net of any sublease income over the lease term discounted at applicable rates.

The lease term under the onerous contract expired at 30 June 2018, therefore the Bank does not expect any further cash flows after the reporting date.

At 31 December 2017, the expected cash flows relating to the provision were as follows:

In thousands of Russian Roubles	**Cash inflows**	**Cash outflows**	**Net cash outflows**
Not later than 1 year	36 879	(81 369)	(44 490)
Later than 1 year and not later than 5 years	-	-	-
Total undiscounted cash flows	**36 879**	**(81 369)**	**(44 490)**
Total discounted cash flows	**36 879**	**(81 369)**	**(44 490)**

24 Contingencies and Commitments (Continued)

The movements in the carrying amount of the provision are as follows:

In thousands of Russian Roubles	Note	2018	2017
Carrying amount at 1 January		**44 490**	**108 323**
Interest expense	18	(614)	3 835
Used during the year		(60 055)	(41 613)
Foreign currency revaluation		(222)	18 759
Effect of changes in model		16 401	(44 814)
Carrying amount at 31 December		**-**	**44 490**

Effect of changes in model is related to revision of the original discounted cash flows to incorporate up-to-date inflation rates applicable to annual lease payment determination.

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

In thousands of Russian Roubles	2018	2017
Not later than 1 year	216 720	246 383
Later than 1 year and not later than 5 years	91 203	381 183
Total operating lease commitments	**307 923**	**627 566**

Credit related commitments. The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit, which represent irrevocable assurances that the Bank will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. Documentary and commercial letters of credit, which are written undertakings by the Bank on behalf of a customer authorising a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions, are collateralised by the underlying shipments of goods to which they relate or cash deposits and, therefore, carry less risk than a direct borrowing.

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to loss in an amount equal to the total unused commitments, if the unused amounts were to be drawn down. However, the likely amount of loss is less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Bank monitors the term to maturity of credit related commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments. Outstanding credit related commitments are as follows:

At 31 December 2018, the total outstanding contractual amount of issued guarantees and letters of credit was RR 2 224 998 thousand (2017: RR 2 897 330 thousand) and corresponding provision for losses is RR 980 thousand (2017: nil). The currencies of guarantees were as follows: Russian Roubles (RR 628 439 thousand) and US Dollars (RR 1 596 559 thousand) at 31 December 2018 and Russian Roubles (RR 1 453 075 thousand) and US Dollars (RR 1 444 255 thousand) at 31 December 2017.

Assets under custody. The Bank provides custody services to its customers, who are mostly non-related to the Bank, whereby it holds securities on behalf of customers and receives fee income for providing these services. These securities are not assets of the Bank and are not recognised in the statement of financial position. Nominal values disclosed below are normally different from the fair values of respective securities. The assets under custody fall into the following categories:

24 Contingencies and Commitments (Continued)

In thousands of Russian Roubles	31 December 2018 Nominal value	31 December 2017 Nominal value
Ordinary shares	42 864 992	29 958 678
State bonds	50 000	1 188 185
Privileged shares	1 236 000	734 442

Assets pledged and restricted. At 31 December 2018, mandatory cash balances with the CBRF in the amount of RR 36 554 thousand (2017: RR 42 599 thousand) represent mandatory reserve deposits which are not available to finance the Bank’s day-to-day operations.

25 Fair Value of Financial Instruments

Fair value measurements are analysed by level in the fair value hierarchy as follows: (i) level one are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities, (ii) level two measurements are valuation techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices), and (iii) level three measurements are valuations not based on observable market data (that is, unobservable inputs). Management applies judgement in categorising financial instruments using the fair value hierarchy. If a fair value measurement uses observable inputs that require significant adjustment, that measurement is a Level 3 measurement. The significance of a valuation input is assessed against the fair value measurement in its entirety.

For financial instruments carried at fair value, the levels in the fair value hierarchy into which the fair values are categorised are as follows:

	31 December 2018				31 December 2017			
In thousands of Russian Roubles	Quoted price in an active market (Level 1)	Valuation technique with inputs observable in markets (Level 2)	Valuation technique with signifi-cant non-observa-ble inputs (Level 3)	Total	Quoted price in an active market (Level 1)	Valuation technique with inputs observable in markets (Level 2)	Valuation technique not based on unobserva ble market inputs (Level 3)	Total
Assets at fair value								
Financial assets								
Investment securities								
- Corporate shares	-	18	-	**18**	18	-	-	**18**
Derivative financial instruments								
- Currency spot contracts	753	-	-	**753**	115	-	-	**115**
- Currency forward contracts	-	322 544	-	**322 544**	-	66 303	-	**66 303**
- Cross currency swaps	-	4 470	-	**4 470**	-	-	-	**-**
- KIKO forwards	-	-	-	**-**	-	672 154	-	**672 154**
- Currency options	-	-	-	**-**	-	3 843	-	**3 843**
- Cross-currency interest rate swaps	-	3 743 858	-	**3 743 858**	-	2 457 430	-	**2 457 430**
- Single-currency interest rate swaps	-	308 712	-	**308 712**	-	189 196	-	**189 196**
Total	**753**	**4 379 602**	**-**	**4 380 355**	**133**	**3 388 926**	**-**	**3 389 059**
Financial liabilities								
Derivative financial instruments								
- Currency spot contracts	1 728	-	-	1 728	388	-	-	**388**
- Currency forward contracts	-	319 486	-	319 486	-	61 206	-	**61 206**
- Cross currency swaps	-	148 592	-	148 592	-	-	-	**-**
- KIKO forwards	-	-	-	-	-	672 154	-	**672 154**
- Currency options	-	-	-	-	-	3 843	-	**3 843**
- Cross-currency interest rate swaps	-	3 743 858	-	3 743 858	-	2 457 430	-	**2 457 430**
- Cross currency swaps	-	308 712	-	308 712	-	189 196	-	**189 196**
Total	**1 728**	**4 520 648**	**-**	**4 522 376**	**388**	**3 383 829**	**-**	**3 384 217**

25 Fair Value of Financial Instruments (Continued)

Management applies judgement in categorising financial instruments using the fair value hierarchy. If a fair value measurement uses observable inputs that require significant adjustment, that measurement is a Level 3 measurement. The significance of a valuation input is assessed against the fair value measurement in its entirety.

There are no differences between the fair values shown in the table above and the carrying amount of the items in the statement of financial position.

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

In thousands of Russian Roubles	Fair values	Valuation technique	Inputs used
Financial assets			
- Corporate shares	18	Net asset value	Company's capitalisation, number of outstanding shares
- Currency forward contracts	322 544	Forward pricing	Quoted prices, FX rate and interest rate curves
- Cross currency swaps	4 470	Discounted cash flow	FX rate and interest rate curves
- Cross-currency interest rate swaps	3 743 859	Discounted cash flow	FX rate and interest rate curves
- Single-currency interest rate swaps	308 712	Discounted cash flow	FX rate and interest rate curves
Total financial assets	**4 379 603**		
Financial liabilities			
Derivative financial instruments			
- Currency forward contracts	319 486	Forward pricing	Quoted prices, FX rate and interest rate curves
- Cross currency swaps	148 592	Discounted cash flow	FX rate and interest rate curves
- Cross-currency interest rate swaps	3 743 858	Discounted cash flow	FX rate and interest rate curves
- Single-currency interest rate swaps	308 712	Discounted cash flow	FX rate and interest rate curves
Total financial liabilities	**4 520 648**		

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

In thousands of Russian Roubles	Fair values	Valuation technique	Inputs used
Financial assets			
- Currency forward contracts	66 303	Forward pricing	Quoted prices, FX rate and interest rate curves
- KIKO forwards	672 154	Stochastic PDE Tree	Quoted prices, volatility
- Currency options	3 843	Stochastic PDE Tree	Quoted prices, volatility
- Cross-currency interest rate swaps	2 457 430	Discounted cash flow	FX rate and interest rate curves
- Single-currency interest rate swaps	189 196	Discounted cash flow	FX rate and interest rate curves
Total financial assets	3 388 926		

In thousands of Russian Roubles	Fair values	Valuation technique	Inputs used
Financial liabilities			
Derivative financial instruments			
- Currency forward contracts	61 206	Forward pricing	Quoted prices, FX rate and interest rate curves
- KIKO forwards	672 154	Stochastic PDE Tree	Quoted prices, volatility
- Currency options	3 843	Stochastic PDE Tree	Quoted prices, volatility
- Cross currency swaps	2 457 430	Discounted cash flow	FX rate and interest rate curves
- Single-currency interest rate swaps	189 196	Discounted cash flow	FX rate and interest rate curves
Total financial liabilities	3 383 829		

25 Fair Value of Financial Instruments (Continued)

Assets and liabilities not measured at fair value but for which fair value is disclosed. Fair values analysed by level in the fair value hierarchy and carrying value of assets not measured at fair value are as follows:

	31 December 2018				31 December 2017			
In thousands of Russian Roubles	Level 1	Level 2	Level 3	Carrying value	Level 1	Level 2	Level 3	Carrying value
Assets								
Mandatory cash balances with the Central Bank of the Russian Federation	-	36 554	-	36 554	-	42 599	-	42 599
Other financial assets	-	-	502 093	502 093	-	-	191 991	191 991
Liabilities								
Due to other banks	-	859 987	-	859 987	-	1 693 849	-	1 693 849
Customer accounts	-	1 179 600	-	1 179 600	-	1 676 474	-	1 676 474
Provision for commitments	-	-	-	-	-	-	44 490	44 490

26 Presentation of Financial Instruments by Measurement Category

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

For the purposes of measurement at 31 December 2017, IAS 39 "Financial Instruments: Recognition and Measurement", classified financial assets into the following categories: (a) L&R; (b) AFS financial assets; (c) financial assets HTM and (d) financial assets at FVTPL. Financial assets at FVTPL had two sub-categories: (i) assets designated as such upon initial recognition, and (ii) those classified as held for trading. In addition, finance lease receivables formed a separate category.

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

In thousands of Russian Roubles	FVTPL	AC	Total
Assets			
Cash and cash equivalents	-	30 557 656	**30 557 656**
Mandatory cash balances with the Central Bank of the Russian Federation	-	36 554	**36 554**
Investment securities at fair value	18	-	**18**
Derivative financial instruments	4 380 337	-	**4 380 337**
Other financial assets	-	502 093	**502 093**
Total financial assets	**4 380 355**	**31 096 303**	**35 476 658**

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

26 Presentation of Financial Instruments by Measurement Category (Continued)

In thousands of Russian Roubles	AFS	L&R	Held for trading	Total
Assets				
Cash and cash equivalents	-	17 682 500	-	**17 682 500**
Mandatory cash balances with the Central Bank of the Russian Federation	-	42 599	-	**42 599**
Investment securities AFS	18	-	-	**18**
Derivative financial instruments	-	-	3 389 041	**3 389 041**
Other financial assets	-	191 991	-	**191 991**
Total financial assets	**18**	**17 917 090**	**3 389 041**	**21 306 149**

At 31 December 2018 and 2017, all of the Bank's financial liabilities except for derivatives were carried at amortised cost.

27 Related Party Transactions

For the purposes of these financial statements, parties are considered to be related if one party has the ability to control the other party, is under common control, or can exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

Key management personnel includes the Bank's Board of Directors lead by the Chairman and members of the Bank's Management Board lead by the Bank's President.

The Bank is a member of the JPMorgan Chase Group and during 2018 and 2017 performed a number of transactions with entities under common control.

At 31 December 2018 and 2017, the outstanding balances with related parties were as follows:

In thousands of Russian Roubles	31 December 2018	31 December 2017
Cash and cash equivalents (contractual interest rate: 2.44%; 2017: 1.48%)	29 060 147	16 093 438
Derivative financial instruments assets (currency spot and forward contracts)	271 748	15 482
Derivative financial instruments assets (single currency interest rate swaps)	308 711	189 196
Derivative financial instruments assets (currency options)	-	520
Other non-financial assets	-	1 601
Accrued income	494 050	181 456
Due to other banks (contractual interest rate: 0 – 2.4%; 2017: -%)	(859 987)	(1 693 849)
Derivative financial instruments liabilities (cross currency interest rate swaps)	(3 743 859)	(2 457 430)
Derivative financial instruments liabilities (currency spot and forward contracts)	(202 892)	(46 098)
Derivative financial instruments liabilities (currency options)	-	(3 323)
Derivative financial instruments liabilities (knock-out currency options)	-	(672 154)
Accrued benefit costs for top management	(155 744)	(159 849)
Other liabilities	(1 297)	(1 066)
Guarantees received	37 253	49 687
Irrevocable receivables	144 014 289	97 745 794
Irrevocable commitments	(143 317 208)	(98 048 816)

The income and expense items with related parties for 2018 and 2017 were as follows:

27 Related Party Transactions (Continued)

In thousands of Russian Roubles	2018	2017
Interest income	343 266	137 749
Interest expense	(19 118)	(7 794)
Net (losses)/gains from financial derivatives	(2 171 936)	218 694
Gains less losses/losses less gains from trading in foreign currencies	790 932	(258 290)
Foreign exchange translation gains less losses	3 344 535	259 228
Fee and commission income	2 154 399	1 656 156
Fee and commission expense	(2 118)	(9 879)

In 2018, the remuneration of members of the top management comprised salaries, discretionary bonuses and other short-term benefits totalling RR 486 420 thousand (2017: RR 417 290 thousand), this includes the amount of accrued incentive compensation costs of the top management totalling RR 234 286 thousand (2017: RR 238 868 thousand). In 2018, share based payments to members of the top management were RR 8 149 thousand (2017: RR 26 008 thousand). Refer to Note 17.

28 Events after the End of the Reporting Period

There were no significant events after the reporting date.

29 Accounting Policies Applicable before 1 January 2018

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

Financial instruments – key measurement terms. Depending on their classification, financial instruments are carried at fair value or amortised cost. Note 3 describes definitions of fair value and amortised cost and their measurement terms.

Trading securities. Trading securities are financial assets, which are either acquired for generating a profit from short-term fluctuations in price or trader's margin, or are securities included in a portfolio in which a pattern of short-term trading exists. The Bank classifies securities into trading securities if it has an intention to sell them within a short period after purchase, i.e. within 12 months. Trading securities are not reclassified out of this category even when the Bank's intentions subsequently change.

Financial assets that would meet the definition of loans and receivables may be reclassified if the Bank has the intention and ability to hold these financial assets for the foreseeable future, or until maturity.

Trading securities are carried at fair value. Interest earned on trading securities calculated using the effective interest method is presented in the statement of profit or loss and other comprehensive income as interest income. All other elements of the changes in the fair value and gains or losses on derecognition are recorded in profit or loss for the year as gains less losses from trading securities in the period in which they arise.

Investment securities AFS. This classification included investment securities which the Bank intended to hold for an indefinite period of time and which might be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

Investment securities AFS were carried at fair value. Interest income on AFS debt securities was calculated using the effective interest method, and recognised in profit or loss for the year. Dividends on AFS equity instruments were recognised in profit or loss for the year when the Bank's right to receive payment was established and it was probable that the dividends would be collected. All other elements of changes in the fair value were recognised in other comprehensive income until the investment was derecognised or impaired, at which time the cumulative gain or loss was reclassified from other comprehensive income to profit or loss for the year.

29 Accounting Policies Applicable before 1 January 2018 (Continued)

Impairment losses were recognised in profit or loss for the year when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of investment securities AFS. A significant or prolonged decline in the fair value of an equity security below its cost was an indicator that it was impaired. The cumulative impairment loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that asset previously recognised in profit or loss – was reclassified from other comprehensive income to profit or loss for the year. Impairment losses on equity instruments were not reversed and any subsequent gains were recognised in other comprehensive income. If, in a subsequent period, the fair value of a debt instrument classified as AFS increases and the increase could be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss was reversed through profit or loss for the year.

Due from other banks. Amounts due from other banks are recorded when the Bank advances money to counterparty banks with no intention of trading the resulting unquoted non-derivative receivable due on fixed or determinable dates. Amounts due from other banks are carried at AC.

Impairment of financial assets at AC. Impairment losses are recognised in profit or loss for the year when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of the financial asset and which have an impact on the amount or timing of the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. If the Bank determines that no objective evidence exists that impairment was incurred for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics, and collectively assesses them for impairment. The primary factors that the Bank considered in determining whether a financial asset was impaired were its overdue status and realisability of related collateral, if any. The following principal criteria are also used to determine whether there is objective evidence that an impairment loss has occurred:

- any instalment was overdue and the late payment cannot be attributed to a delay caused by the settlement systems;
- the borrower experiences a significant financial difficulty as evidenced by borrower's financial information that the Bank obtains;
- the borrower considers bankruptcy or a financial reorganisation;
- there is an adverse change in the payment status of the borrower as a result of changes in the national or local economic conditions that impact the borrower;
- the value of collateral significantly decreases as a result of deteriorating market conditions.

If the terms of an impaired financial asset held at AC are renegotiated or otherwise modified because of financial difficulties of the borrower or issuer, impairment is measured using the original effective interest rate before the modification of terms.

Impairment losses are always recognised through an allowance account to write down the asset's carrying amount to the present value of expected cash flows (which exclude future credit losses that have not been incurred) discounted at the original effective interest rate of the asset. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account through profit or loss for the year.

Uncollectible assets are written off against the related provision for impairment after all the necessary procedures to recover the asset were completed and the amount of the loss was determined. Subsequent recoveries of amounts previously written off are credited to impairment loss account in profit or loss for the year.

Credit related commitments. The Bank enters into credit related commitments, including letters of credit and financial guarantees. Financial guarantees represent irrevocable assurances to make payments in the event that a customer cannot meet its obligations to third parties and carry the same credit risk as loans.

29 Accounting Policies Applicable before 1 January 2018 (Continued)

Financial guarantees and commitments to provide loans are initially recognised at their fair value, which is normally evidenced by the amount of fees received. This amount is amortised on a straight line basis over the life of the commitment, except for commitments to originate loans if it is probable that the Bank will enter into a specific lending arrangement and does not expect to sell the resulting loan shortly after origination; such loan commitment fees are deferred and included in the carrying value of the loan at initial recognition. At the end of each reporting period, the commitments are measured at the higher of (i) the remaining unamortised balance of the amount at initial recognition and (ii) the best estimate of expenditure required to settle the commitment at the end of each reporting period.

Due to other banks. Amounts due to other banks are recorded when money or other assets are advanced to the Bank by counterparty banks. The non-derivative liability is carried at AC.

Income and expense recognition. Interest income and expense are recorded for all debt instruments on an accrual basis using the effective interest method. This method defers, as part of interest income or expense, all fees paid or received between the parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Fees integral to the effective interest rate include origination fees received or paid by the entity relating to the creation or acquisition of a financial asset or issuance of a financial liability, for example fees for evaluating creditworthiness, evaluating and recording guarantees or collateral, negotiating the terms of the instrument and for processing transaction documents. Commitment fees received by the Bank to originate loans at market interest rates are integral to the effective interest rate if it is probable that the Bank will enter into a specific lending arrangement and does not expect to sell the resulting loan shortly after origination. The Bank does not designate loan commitments as financial liabilities at FVTPL.

When loans and other debt instruments become doubtful of collection, they are written down to the present value of expected cash inflows and interest income is thereafter recorded for the unwinding of the present value discount based on the asset's effective interest rate which was used to measure the impairment loss.

All other fees, commissions and other income and expense items are generally recorded on an accrual basis by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided. Loan syndication fees are recognised as income when the syndication has been completed and the Bank retains no part of the loan package for itself, or retains a part at the same effective interest rate as for the other participants.

Commissions and fees arising from negotiating, or participating in the negotiation of a transaction for a third party, such as the acquisition of loans, shares or other securities or the purchase or sale of businesses, and which are earned on execution of the underlying transaction, are recorded on its completion. Portfolio and other management advisory and service fees are recognised based on the applicable service contracts, usually on a time-proportion basis. Asset management fees relating to investment funds are recorded rateably over the period that the service is provided. The same principle is applied for wealth management, financial planning and custody services that are continually provided over an extended period of time.