One Bank, One UniCredit.

2018

Annual Report

30 years of success

Banking that matters. UniCredit Bank

Banking that matters. | UniCredit Bank

One Bank, One UniCredit.

Our strategy is clear and long-term. We are transforming the Group to build the bank of tomorrow for our extensive client franchise. Everything we do is designed to make UniCredit a true pan-European winner.

Financial Highlights

	2018	2017	change 2018-2017
ASSETS AT THE END OF THE YEAR, RUB million			
Total assets, including	**1 362 616**	**1 186 142**	**14.9%**
Loans to customers	863 151	668 523	29.1%
Securities	52 506	128 273	-59.1%
LIABILITIES AT THE END OF THE YEAR, RUB million			
Total liabilities, including	**1 166 853**	**985 908**	**18.4%**
Amounts due to customers	1 015 641	827 103	22.8%
Amounts due to credit institutions	87 970	85 427	3.0%
Total Equity	**195 762**	**200 233**	**-2.2%**
CAPITAL (CB RF) AT THE END OF THE YEAR, RUB million			
Total capital	**216 682**	**201 393**	**7.6%**
CAPITAL (BASEL II AND BASEL III) AT THE END OF THE YEAR, RUB million			
Total capital	**208 829**	**205 334**	**1.7%**
PROFIT FOR THE YEAR, RUB million			
Net interest income	41 048	41 260	-0.5%
Non-interest income	8 189	10 407	-21.3%
Operating income	**49 237**	**51 667**	**-4.7%**
Impairement	-10 312	-11 164	-7.6%
Net income from financial activities	**38 926**	**40 503**	**-3.9%**
Operating costs	-19 023	-17 788	6.9%
Share of gains of associate	955	0	100%
Gains/(losses) on disposal of fixed assets	4	-1	-666.0%
Profit before income tax expense	**20 861**	**22 714**	**-8.2%**
Income tax expense	-4 157	-4 657	-10.7%
Total profit for the year	**16 704**	**18 057**	**-7.5%**
KEY PERFORMANCE INDICATORS			
Return on average equity (ROE)	8.4%	9.5%	
Return on average assets (ROA)	1.3%	1.5%	
Total capital ratio (Basel II and Basel III)	18.9%	20.0%	
Central Bank of Russia N1 capital adequacy ratio	16.1%	18.2%	
Cost/income ratio	38.6%	34.4%	
STAFF			
Number	4 066	4 044	1%
GEOGRAPHY			
Branches in Moscow	38	38	0%
Regional branches	52	53	-2%
RepOffices	10	11	-9%
Offices in CIS	1	1	0%
Total Number of Offices	**101**	**103**	**-2%**

Banking that matters.

We are dedicated to creating tangible value for all our clients, employees and stakeholders by providing real solutions to real needs. Everything we do is grounded on ethics and respect.

Contents

Chief Executive Officer's message

> "We are focused on sustainable business growth, based on ethics and respect, to ensure UniCredit remains a pan-European winner."

Jean Pierre Mustier
Chief Executive Officer

Dear Shareholders,

Thank you for your valuable, ongoing support. We have closed a second, successful year of our Transform 2019 strategic plan. UniCredit is a solid bank with strong capital ratios and an unstinting focus on value creation for all of its stakeholders through innovative commercial actions, digital transformation, enhanced risk management, transparent corporate governance and key social impact banking initiatives – based on ethics and respect. For us this means doing the right thing.

As the banking industry continues to evolve, UniCredit will stay focused on “what matters” – the changing needs of our customers – to protect the value of our business and ensure sustainability.

Our strategy is One Bank, One UniCredit: we are and will remain a simple, successful, pan European commercial bank, with a fully plugged in CIB, delivering a unique Western, Central and Eastern European network to our extensive and growing client franchise.

The combined energy, commitment and hard work of all UniCredit team members is what allows us to deliver tangible results. We confirm our Transform 2019 targets: net profit target of 4.7 billion Euro and a RoTE of above 9 per cent, with our Group Core RoTE above 10 per cent.

We will maintain a **strong capital position** by generating solid profits and ensure we have a comfortable MDA buffer. Our CET1 capital ratio is fully loaded and compliant with all regulatory requirements. The UniCredit Group fared well in the EBA stress test results, with one of the highest CET1 ratios compared to Eurozone peers.

In terms of **asset quality,** we have decisively continued to de-risk our balance sheet, completing the final phase of Project FINO. Our disciplined risk management strategy is ensuring improved asset quality as well as high quality origination across the Group. We are fully on track for the accelerated rundown of our Non Core portfolio, brought forward by four years to 2021.

We are leveraging on digitalisation to **transform our operating model,** with an improved cost reduction. We will continue to enhance the customer experience through simpler processes, ensuring greater efficiency and effectiveness.

We continue to **maximise commercial bank value** thanks to a renewed and dynamic focus on our clients, pursuing a multichannel strategy with best-in-class products and services. Our CIB is fully plugged into the Group’s strong commercial banking and focused on supporting the real economy.

Finally, I extend a warm welcome to Fabrizio Saccomanni, our new Chairman. Fabrizio’s significant experience in international monetary and financial cooperation, particularly in terms of supervisory and regulatory knowhow, brings great value to our Group.

Together we have started to actively prepare for the next strategic cycle. We will focus on the development of our business activities and the continued optimisation of our processes, while providing all colleagues with a best in class work environment and experience, to continue to attract the right people. This begins with an even more energised leadership team, and a changed leadership structure, that will bring this new strategy to fruition.

We will keep working hard to ensure that UniCredit remains a true pan-European winner.

Sincerely,

Jean Pierre Mustier
Chief Executive Officer
UniCredit S.p.A.

Ethics and respect: Do the right thing!

UniCredit's Board and Senior Management consider that the way in which results are achieved is as important as the actual results. Therefore, the following Group Values and guiding principle should guide all employees' decisions and behaviors irrespective of seniority, responsibility and geographical area: **"Ethics and respect: Do the right thing!"**

Group Values are designed to help all UniCredit employees, to guide their decision-making and their behaviours towards all stakeholders in their day to day activities.

In particular, such Values require:
- compliance with the highest ethics standards – beyond banking regulation and beyond the law – in relationships with clients, colleagues, environment, shareholders and any other *stakeholders*;
- fostering a respectful, harmonious and productive workplace;

to best protect the Bank, its reputation and to be an employer and a counterparty of choice.

Group Values underpin a set of core guidelines that further clarify expectations about the way to work as **One Team, One UniCredit** and support employees in the fulfillment of UniCredit *Five Fundamentals*. The spirit of each of these values is extremely important and it will be the subject of more detailed policies that will be developed or updated in the coming months.

Group values in day to day activities

- **"Ethics and respect" mean fairness towards all stakeholders in order to achieve sustainable results.**
  UniCredit colleagues, irrespective of seniority, responsibility and geographical area, are expected to do the right thing in their daily activities and to be fair towards all stakeholders to gain and retain their trust.

- **"Ethics and respect" apply to all Group policies.**
  "Ethics and respect" values are based on a long term view of the Group business activities and relationships with stakeholders as well as a comprehensive view of the internal and external working environment. Business policies require care to ensure that responsible sales approach work in harmony with balanced, fair and respectful customer interactions, enabling the achievement of sustainable business success and long-term targets. Targets and other business results are not considered achieved if they are not met in compliance with the Group Values, related policies and the requirements that flow from them.

- **"Ethics and respect" guide interactions amongst all Group employees.**
  UniCredit colleagues are expected to contribute in their daily activities toward creating and maintaining a work environment that is as respectful and harmonious as possible, eliminating intimidating, hostile, degrading, humiliating or offensive behaviors and words. UniCredit must contribute to assuring the respect for the rights, value and dignity of people and the environment. All forms of harassment, bullying and sexual misconduct are unacceptable.

- **“Ethics and respect” enshrine the promotion of diversity and work life balance which are considered valuable assets.**
  UniCredit colleagues are expected to assure a workplace where all kinds of diversity (e.g. age, race, nationality, political opinions, religion, gender, sexual orientation) are not only respected, but also proactively promoted as well as to contribute to an environment in which respect for, and attention to, colleagues’ needs, health, work-life balance and well being are deemed essential to achieving sustainable results.

- **“Ethics and respect” underpin the reinforcement of a “Speak-up culture” and anti-retaliation protection.**
  UniCredit is firmly committed to promoting an environment in which colleagues and third parties feel comfortable engaging in open and honest communication. UniCredit encourages colleagues and third parties to speak up and raise promptly good-faith concerns without fear of retaliation relating to any situation that may involve unethical or illegal conduct or inappropriate interactions with others.

The Values and guiding principle will be consistently enforced at all levels throughout the Group, starting with a proper and focused communication to all employees. Management sets the *“Tone from the Top”*, is held to account and holds others to account for working in alignment with the Values, for their own behavior or for any decision to be taken. Management will accordingly reward outstanding behaviors and enforce the Values in cases of failure to respect them and related policies as well as requirements that flow from them.

More detailed policies related to these Values will be developed and/or updated in the coming months.

1. Which substitute the former group values.

Highlights

UniCredit is a simple successful pan-European Commercial Bank, with a fully plugged in CIB, delivering a unique Western, Central and Eastern European network to our extensive client franchise: 26 million clients.

UniCredit offers both local and international expertise providing its clients with unparalleled access to leading banks in its 14 core markets as well as in other 18 countries worldwide.
UniCredit European banking network includes Italy, Germany, Austria, Bosnia and Herzegovina, Bulgaria, Croatia, Czech Republic, Hungary, Romania, Russia, Serbia, Slovakia, Slovenia and Turkey.

Financial Highlights[1]

Operating income
€ 19,723 m

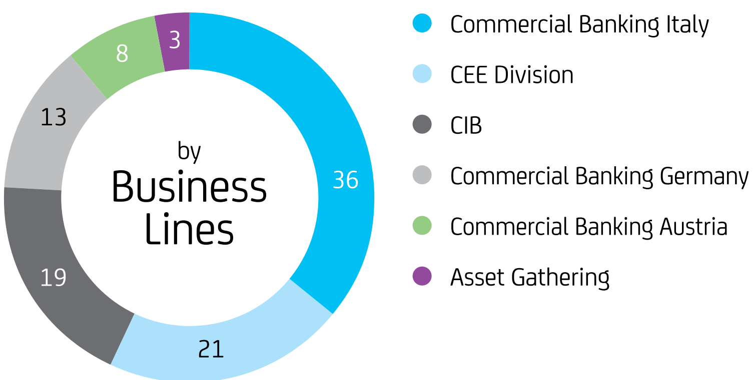
Net profit (loss)
€ 3,892 m

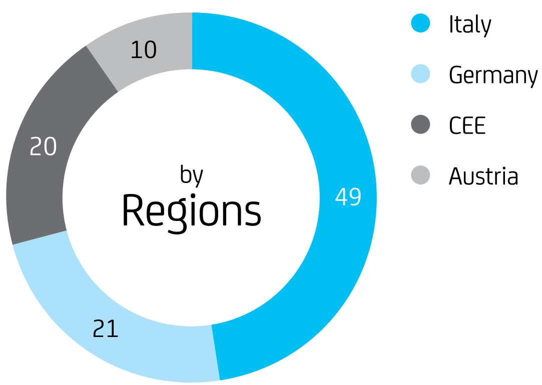
Shareholders' equity
€ 55,841 m

Total assets
€ 831,469 m

Common Equity Tier 1 ratio*
12.07%

Revenues[1] (%)





1. Data as at December 31, 2018.
* Fully loaded CET1 ratio.

A pan-European Winner

European banks must continue to focus on their clients, supporting European companies aiming for international growth. Achieving both reach and scale is important, to provide customers with efficient products at the best possible price.

UniCredit is a successful pan-European banking group. **We deliver the best products and services to our 26 million clients in 14 core markets, responding to their concrete needs.** Our geographically diversified reach provides all our shareholders, clients and colleagues with greater security. And our **"One Bank, One UniCredit"** strategic approach combines central guidance with local implementation, to keep making our Group a pan-European winner.

Achievements 2018

Top Employers Institute: Top employer Europe 2018

Awarded thanks to local certification achieved in Bulgaria, Croatia, Germany, Italy and Russia

- **The Banker: Bank of the Year in Italy 2018**
- **The Banker: Bank of the Year in Bosnia 2018**

Euromoney: Trade Finance Survey 2019

#1 across 28 categories

Global Best Service Provider for: "All Services", "Advisory", "Financing/payments", "Overall Execution" and "Products"

Digital Partnerships

Key transaction partnerships

- Apple Pay
- Samsung Pay
- Alipay
- Google Pay

Digital innovation for customers

- Alexa in Austria, to bank through Amazon's voice assistant
- U-days in Italy, to promote knowledge of digital payments and payment apps: **Apple Pay, Samsung Pay, Alipay, Google Pay**

Business Growth

Our positive overall financial performance proves our good progress in **strengthening the Group through strategic business initiatives and a focus on digitalisation and process simplification, leveraging on best practices across the Group**. This is already driving significant growth. As the banking industry continues to evolve, we will maintain our focus on changing customer needs, ensuring the future sustainability of our business.

In UniCredit, building the bank of tomorrow means:

- Constant focus on customer satisfaction and consistent service quality
- Continued review of processes to improve the customer experience and optimise cost, with a strong focus on risk management
- Further revenues growth

Key Asset Quality Metrics

	FY 2017	FY 2018	FY 2019
Cost-Income Ratio	56.9 %	54.2 %	52-53 %
Group Gross NPEs Ratio	10.33 %	7.67 %	7.5 %
Revenues	19.9 € bn	19.7 € bn	19.8 € bn

Transform 2019 Milestones

Through Transform 2019 – our strategic plan – we are building the bank of tomorrow.

Our strategy is clear and long-term: we are One Bank, One UniCredit – a simple, successful pan-European commercial bank with a fully plugged in CIB delivering a unique Western, Central and Eastern European network to our extensive client franchise. We are and we will remain a pan-European winner.

2018

Improve Asset Quality — **07.02**

PROJECT FINO

Completion of final phase of Project Fino

Adopt Lean but Steering Corporate Center — **13.04**

CORPORATE GOVERNANCE

New Chairman appointed (Fabrizio Saccomanni) based on the Board presenting its own list of candidates

Transform Operating Model — **23.05**

GROUP CHIEF TRANSFORMATION OFFICER

Group Chief Transformation Officer appointed (Finja Carolin Kütz)

Strengthen and Optimise Capital — **02.11**

EBA STRESS TEST

EBA stress test results: third highest CET1 ratio among systemic banks in the Eurozone

Maximise Commercial Bank Value — **31.12**

NEW CLIENTS ACQUISITION

Over **1.9 million** gross new clients acquired

Transform 2019

Message from the Chairman of the Supervisory Board

"A well-balanced business model and high-quality customer base alleviated the effects of adverse macroeconomic trends and enabled the Bank to secure key target indicators."

Marco Radice
Chairman
of the Supervisory Board

Ladies and Gentlemen, Dear Shareholders, Customers, Colleagues and Friends,

I am proud to present the 2018 Annual Report of UniCredit Bank on behalf of the Supervisory Board.

In 2018, UniCredit Group's CEE Division that includes UniCredit Bank as a member continuously made a significant contribution to the Group's aggregate financials, yet again proving CEE region's worth as an engine of UniCredit's growth and development as reflected in the Transform 2019 strategic plan. Over the course of 2018 – the second year of the strategic plan implementation – UniCredit Bank worked in concert with the other CEE Division banks to make a significant contribution to the Group results promoting the targets set out in the plan.

In 2018, the Bank focused on maintaining reliability, efficiency and high quality of assets alongside with improving the Bank's performance in line with the current trends and customers' expectations. A well-balanced business model and high-quality customer base alleviated the effects of adverse macroeconomic trends and enabled the Bank to secure key target indicators, preserve its position among the largest banks in Russia for the size of assets, expand its customer base and stay heavily involved in the projects aimed at the development of the Russian real economy.

At year-end 2018, UniCredit Bank contributed over RUB 16.7 billion worth of net profit to the Group's overall results while preserving the cost-to-income ratio at a comfortable level of 38.6%. In addition, the Bank launched a new project to upgrade the Bank's IT systems and made a major progress in international banking services. International reach and extensive experience in the area represent UniCredit Group's major strengths in this corporate business segment.

In 2019, UniCredit Bank will celebrate its 30th anniversary and I would like to congratulate the Bank on reaching yet another milestone in its steady development and wish many years of successful work, as the Bank has all the necessary resources to do this, primarily, the customer confidence and a competent and highly motivated team. The Bank is consistently committed to the implementation of the Group's strategic plan Transform 2019 by anticipating the customers' requirements and needs and relying on UniCredit Group's vast experience and capabilities.

I would like to thank Erich Hampel for his outstanding performance as Chairman of UniCredit Bank's Supervisory Board over the years and members of UniCredit Bank's Management Board and every employee for impressive performance and competent work in 2018. In 2019, we will do our best to ensure a successful implementation of the strategic plan in compliance with our core principles in the best interests of our shareholders, customers and all stakeholders.

Marco Radice,
Chairman of the Supervisory Board
of UniCredit Bank

About UniCredit Bank

AO UniCredit Bank is a Russian commercial bank, operating in Russia since 1989. Ranked 9th by total assets based on the 2017 results (Interfax-100 ranking), UniCredit Bank is the largest foreign bank in Russia. UniCredit Bank is fully owned (100%) by UniCredit Group (UniCredit S.p.A.).

The Bank benefits from its strong position in the large Russian corporate finance market and sustainable retail banking business. Since 2015, the Bank is included in the list of systemically important credit institutions of Russia*.

General information

- Until 20 December 2007, the Bank was called International Moscow Bank, registered by the State Bank of the USSR on 20 October 1989.
- Since 1991, the Bank has operated under General License No.1 for banking operations.
- The first bank in Russia with majority foreign ownership.
- On 20 December 2007, International Moscow Bank officially changed its name to UniCredit Bank.

Data as of 31.12.2018

Total assets
₽1,362.6 billion

Total Equity
₽195.8 billion

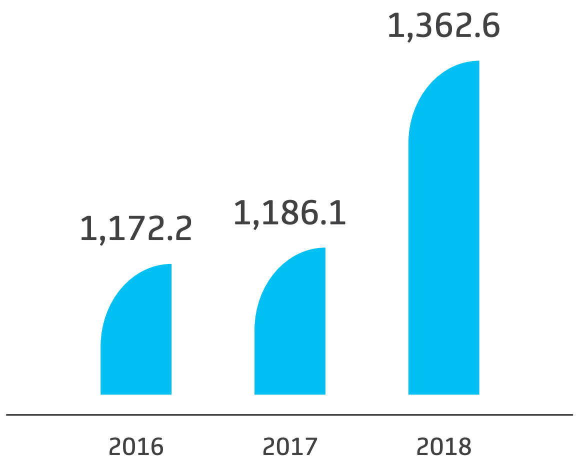
Loans to customers
₽863.1 billion

Customers deposits
₽1,015.64 billion

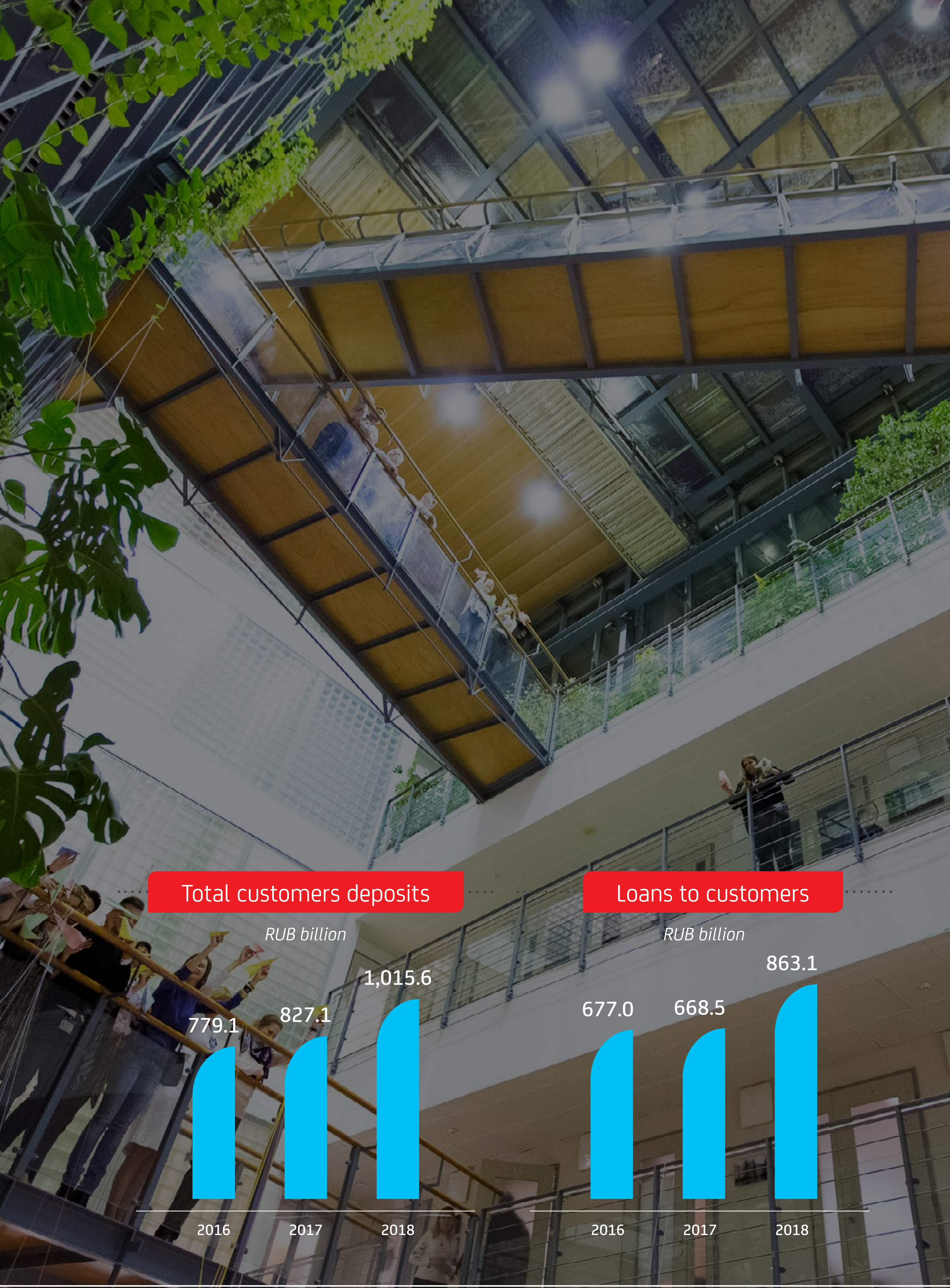
Employees
Around 4 000

Assets

RUB billion



* In accordance with the statement issued by the Press Service of the Bank of Russia.


Total customers deposits
RUB billion
779.1
827.1
1,015.6
2016
2017
2018
Loans to customers
RUB billion
677.0
668.5
863.1
2016
2017
2018

Strengthen and optimise capital.

We will maintain a strong capital position by generating solid profit. We confirm our MDA buffer. The Group fared well in the EBA stress test results, with the third highest CET1 ratio among systemic banks in the Eurozone.

Strategy and Results in 2018

Message from the Chairman of the Management Board

“UniCredit Bank is approaching its 30th anniversary as one of the most stable and successful banks in Russia and it has topped the ranking of Russia’s most reliable banks.”

Mikhail Alekseev
Chairman of the Management Board

Ladies and Gentlemen, Dear Customers, Partners and Colleagues,

In 2018, the Russian UniCredit Bank and all the banks of UniCredit Group continued the successful implementation of Transform 2019 strategic plan for the second year in order to turn the Group into one of the most successful banks in Europe.

2018 proved to be much more successful than the previous year for the Russian banks – the profit of the sector rose and the growth of corporate and private lending recovered. In the meantime, as opposed to the previous year, the Bank of Russia's steps to cleanse the sector did not affect the largest banks any longer.

UniCredit Bank is approaching its 30th anniversary as one of the most stable and successful banks in Russia and it has topped the ranking of Russia's most reliable banks prepared by the Russian Forbes magazine. Under Transform 2019, the Bank persistently focused on developing business with major corporate and affluent customers by making use of the opportunities engendered by economic recovery and by investing in the promotion of digital services.

The Bank was able to keep its position of the largest bank with foreign ownership in Russia consistently making it to Top-10 Russia's most profitable banks: the Bank's net profit amounted to RUB 16.7 billion. Moreover, UniCredit Bank consistently holds the status of one of Russia's systemically important credit institutions according to the list published by the Bank of Russia in 2018.

Maintaining the capital adequacy to meet all the ratios set by the regulator with a good margin was among the Bank's priorities. At year-end, the Bank's capital exceeded RUB 195 billion and statutory capital ratio N1 reached 16.1% providing good evidence of the Bank's impressive stability and reliability.

Strict risk control and asset quality improvement are also among the priorities of the Bank's strategy under the Group's strategic plan. In 2018, the Bank took a number of successful steps to improve the quality of both the existing portfolio and the loans to be issued ensuring a contraction of the share of NPL portfolio in the Bank's total portfolio.

In 2018, as part of upgrading the Bank's operating model, the Bank launched the Sputnik strategic transformation programme to transfer retail and corporate banking to a single IT platform and apply uniform standards to the service-oriented architecture. The first successful instances of introduction under the programme have already improved the customer service quality. Furthermore, the Bank focused on strengthening information security throughout the year.

Over the course of the year, the Bank implemented customer-oriented commercial initiatives concurrently with the Bank's HR development programmes. Specifically, the Bank launched several key programmes enabling employees to take an active part in the Bank's effort to counter present-day challenges, in particular, on the part of fintech companies.

In line with UniCredit Group's culture and arts strategy, UniCredit Bank consistently supported exciting projects in this area throughout 2018. Specifically, the Bank maintained its partnership with the Pushkin State Museum of Fine Arts by supporting "The Soul of Stone" exhibition by Italian artist Fabrizio Plessi.

Pursuant to the Bank's approach to corporate social responsibility, in 2018 the Bank implemented a number of projects focusing on such vulnerable groups as children with a variety of serious health problems, war veterans and senior citizens. It was the ninth time that UniCredit Bank held the "You Can Help" annual employee contest for the best charity idea and supported the four winning projects.

On behalf of the Management Board, I would like to thank all employees of UniCredit Bank for their input to our strong performance. Our common contribution ensures UniCredit Group's strong progress in the implementation of its Transform 2019 plan. In 2019, we will celebrate our 30th anniversary and we will continue our successful work guided by such values as business integrity and respect in line with the Group's core principles for the benefit of the society, our shareholder and customers.

Mikhail Alekseev,
Chairman of the Management
Board of UniCredit Bank

Main Achievements in 2018

“On the eve of its 30th anniversary, UniCredit Bank has proved its reliability and stability. The Bank has made great progress, received a number of significant awards and retained high positions in key ratings ensuring a strong footing of UniCredit in Russia.”

Graziano Cameli
Chief Operating Officer,
Member of the Management Board

UniCredit Bank Tops the List of the Most Reliable Banks in Russia According to Forbes

The Russian Forbes economic magazine published its traditional "100 Most Reliable Russian Banks – 2019" ranking at year-end 2018. AO UniCredit Bank topped the ranking due to both high credit ratings from the leading rating agencies and strong key indicators.

UniCredit Bank Earns the Top Employer-2019 Certificate

UniCredit Group and AO UniCredit Bank earned the official Top Employer Certificates awarded annually for high human resources management standards by the Top Employers Institute. It is the seventh time that the Bank is awarded the Top Employer Certificate.

International Agency Standard & Poor's Global Ratings (S&P) Raises UniCredit Bank's Credit Rating to BBB-/A-3, the Rating Outlook Is "Stable"

On 27 February 2018, the Bank's credit rating was raised following a similar rating action by S&P on 23 February 2018 with respect to the Russian Federation. The Bank's "Stable" rating outlook matches the sovereign ratings of the Russian Federation and the ratings of the parent group (UniCredit SpA).

Russian Rating Agency RAEX (Expert RA) Assigns Credit Rating ruAAA to UniCredit Bank, the Rating Outlook Is "Stable"

On 9 June 2018, the rating was assigned for the first time and is a long-term rating. The rating score is due to strong capitalisation and profitability, adequate liquidity position, strong market positions and medium-high asset quality.

UniCredit Named as the Market Leader in Trade Financing and Ranks 1st in the "Best Services" Category in Russia according to Euromoney Trade Finance Survey 2019

UniCredit ranked 1st in 28 categories; in addition, the Group was named as the market leader in trade financing in Russia and CEE and took leadership positions in the "Best Services" category in Russia and CEE.

UniCredit Bank Ranks 2nd in the People's Ranking of Banks Published by Banki.ru Portal at Year-End 2018

The ranking is based on the website visitors' feedback regarding customer service and banking quality. UniCredit Bank is a regular member of the "top echelon" of 50 banks with the largest number of recorded comments over the last 365 days.

UniCredit Bank Is among the First to Implement the New Function from Yandex – Chat from the Search Engine's Website

For a quick connection to the credit institution, the only thing the customers need to do is to type UniCredit Bank in the search form and the results will show the "Chat with the Company" button to activate a chat with the Bank's Information Centre operator.

UniCredit Bank Earns the "Elite Quality Recognition Award" from JPMorgan Chase Bank for the 10th Time

UniCredit Bank's exceptional quality of commercial MT103 payment orders (99.79% of STP payments) was recognised by the award. Before that, for seven consecutive years the Bank's commercial payments had earned the "Quality Recognition Award".

AO UniCredit Bank Earns the Financial University's Award in the "Most Customer-Oriented Bank" Category

The official awarding ceremony for the prize winners of Financial University's quality of life award was included into the programme of the first day of the 5th International Forum "How to Break into the Top Five?".

UniCredit Is the Leader in the Russian Syndicated Lending Market According to Dealogic

UniCredit topped the book-runners' ranking for the volume of organised syndicated deals. In addition, UniCredit ranked 3rd in the ranking of authorised leading organisers of syndicated loans in Russia in 2018 for the volume and quality of the deals.

M.Yu. Alekseev, CEO of UniCredit Bank, Wins the Economist of the Year Award

On 12 November 2018, the awarding ceremony of the "Economist of the Year" All-Russian Supreme Public Business Award was held to coincide with the Day of Economist professional holiday. M.Yu. Alekseev won the award for developing and implementing the lending programme for real economy enterprises and agricultural producers, the mortgage lending programme, and for supporting social and cultural projects.

UniCredit Group's Private Banking in CEE and Russia Recognised by Professional Wealth Management and The Banker Magazines

An international panel assessed the Private Banking's customer service quality and took into account the key performance indicators relating to portfolio management, asset allocation, risk management, growth strategies, customer service, professional integrity, business models, and others.

UniCredit Bank Named as the Bank with the Best Private Banking Customer Service in Russia

On 30 October 2018, Frank RG published the results of "Private Banking in Russia 2018" survey. UniCredit Private Banking Russia won the award in the "Best Private Banking Customer Service in Russia" category.

UniCredit Bank's "You Can Help" Project Named among the Prize Winners of "Financial Environment" Award

On 29 March 2018, the eight ceremony of "Financial Environment" Award was held. The expert community announced the results of the vote in the "Banks and Payment Services" section. UniCredit Bank's "You Can Help" project was named among 3 winners in the "Social Project" category.

Report on the Bank's Activities

Macroeconomics and the Russian Banking Sector in 2018

Macroeconomics

Economic recovery in Russia continued in 2018: according to the first estimates, the GDP grew by 2.3% (as compared to 1.6% last year), but this acceleration is unlikely to be stable. It was primarily due to changes in imports and implementation of individual investment projects in the export-oriented industries. The growth in both final consumption expenditure and investments in 2018 was slower than in 2017.

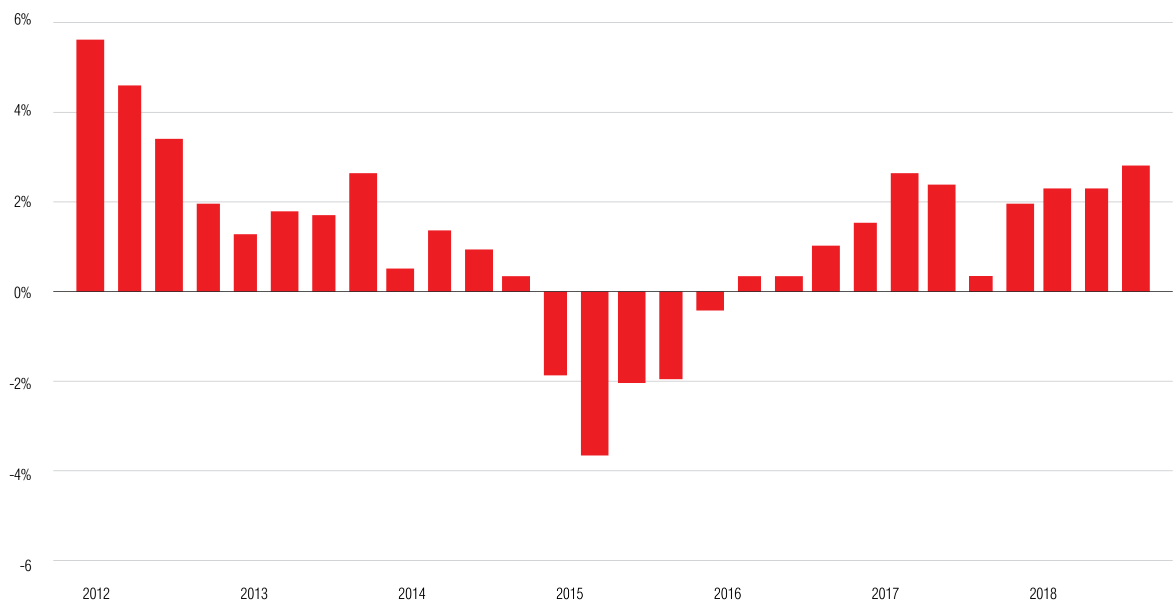
Oil price development was mixed throughout 2018: gradual advance of the first three quarters in the context of OPEC+ agreements to reduce production and expectation of restrictive economic measures against Iran was followed by a slump in the 4th quarter. As a result, the annual average price of Brent was $71 per barrel, 30% higher than in 2017, and yet it fell below $50 per barrel in December.

However, due to the conservative policy of the Ministry of Finance of the Russian Federation, in particular, purchase of foreign exchange in the domestic market under the budget rule mechanism during most of the year, fluctuations of oil prices had virtually no effect on the ruble exchange rate. According to the 'rule', the Ministry of Finance purchases foreign exchange in the amount of extra oil and gas revenue when the oil prices go beyond the base level of $40 per barrel (in the 2017 prices). In 2018, the Ministry purchased over US$35 billion, while US$14 billion purchased in 2017 was credited to the National Wealth Fund (NWF). The foreign exchange purchased in 2018 will end up in the NWF in mid-2019.

The containment of budgetary spending, improvements in the collection of key taxes and high oil prices enabled the government to secure a surplus budget of 2.6% of GDP for the first time since 2011. High fiscal stability did not pass unnoticed by the international rating agencies: Russia's sovereign rating was raised to the investment level in February 2018 by S&P (BBB-) and by Moody's (Baa3) in February 2019.

In the context of the budget rule, capital flows represented the strongest driver of the ruble exchange rate in 2018. In the first months of the year, foreign investors enthusiastically increased investments in the federal bonds ('OFZ'). In March, the share of foreign bondholders reached 35% (of the total issue and 40% of the total federal bonds in market circulation), and the average exchange rate of the Ruble to the US Dollar almost went as low as 57 RUB/USD. However, starting from April, the situation changed drastically – announcement of new external economic restrictive measures by certain foreign countries (in April and August) led to an exodus of foreign investments – by the end of the year, the share of non-residents in the market of federal bonds went below 25% of the total issue. Furthermore, this situation provoked

GDP GROWTH ACCELERATED, Y/Y



a major net outflow of foreign direct investments and Russian companies were forced (similar to 2014-2015) to decrease the net volume of foreign borrowings – at year-end, total external debt declined by over US$75 billion (even though this decline was predominantly due to the devaluation of the ruble). Risks of this kind will continuously have a considerable effect on the capital outflow pattern.

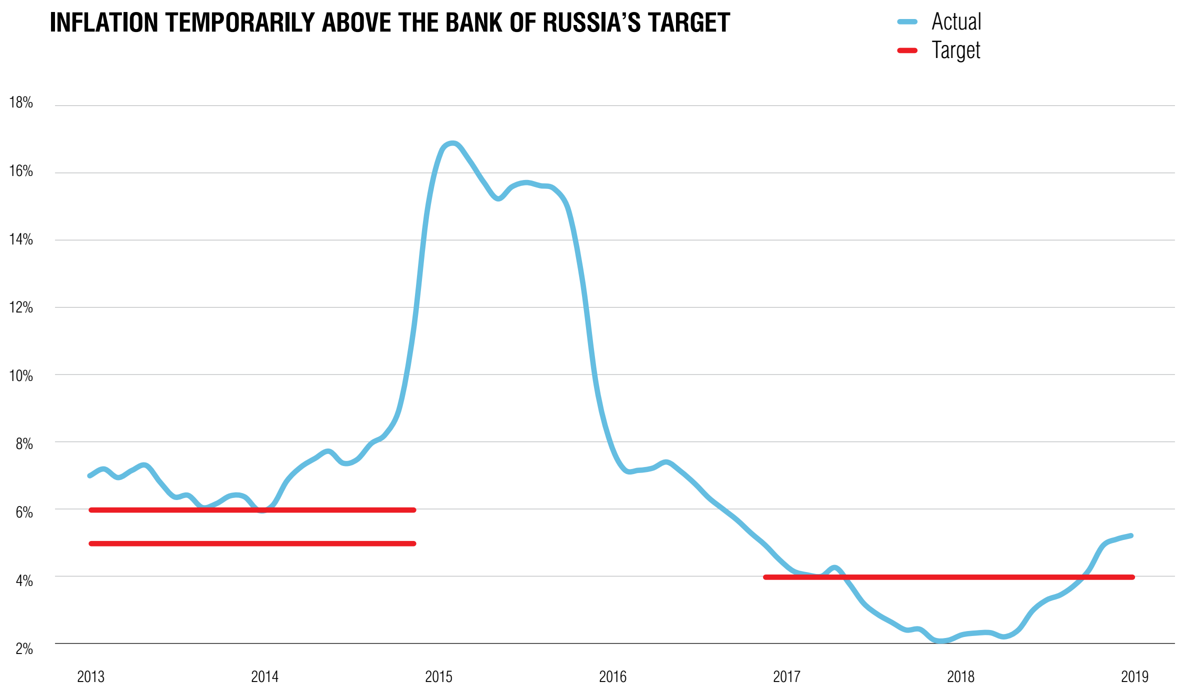
Nevertheless, high oil prices during most of the year and a downturn in import demand (in the 3rd – 4th quarter, imports in money terms were lower compared to the same period last year) resulted in a current account surplus 3 times as high as last year – US$115 billion. However, this balance is highly likely to decline in the future due to a low potential of oil price advance and output restrictions under OPEC+ agreements.

During most of the year, the inflation rates were much lower than the target rates set by the Bank of Russia (primarily, due to low food inflation rates). This enabled the Bank of Russia to continue the normalisation of the monetary policy in the first half of the year and reduce the base rate to 7.25% in the first quarter of 2018. However, the ruble devaluation in the second half of the year combined with inflation associated with expectations of VAT increase by 2 p.p. starting from January 2019 fed inflation late in the year. At year-end, the inflation rate reached 4.3%. The Bank of Russia responded to these developments by raising the rate twice in September and December, thus keeping the base rate unchanged at year-end. Given VAT increase and persistent risks of the ruble devaluation due to the introduction of new external restrictive economic measures, the Bank of Russia is most likely to maintain a relatively tight policy in 2019. At year-end, the inflation rate will exceed the target rate, but is expected to meet it again as early as at the beginning of 2020.

The pay rise for certain categories of public sector employees (in pursuance of the President's "May decrees") was the primary reason for the record-high increase in the average real wages in 2018 by 6.8% – the highest increase since 2012. This helped to bring total real disposable income growth to positive territory for the first time in 5 years: in 2018, it grew by 0.1%. However, consumer spending continued to grow faster than income. As a result, a decline in household savings rates continued and high demand for loans persisted. Combined with a high income differentiation, this raises potential risks to the banking system.

Despite the unexpectedly high economic growth rates, an assessment of the totality of growth-driving factors points at a likely GDP slowdown in 2019. We expect economic growth rates to go down to 1.0 – 1.5% in 2019-2020 in the context of external uncertainty (due to both the restrictive measures and the risks of escalating 'trade wars'), reaction to VAT increase (slumping demand, higher inflation rates and the

INFLATION TEMPORARILY ABOVE THE BANK OF RUSSIA'S TARGET



resulting tight monetary policy of the Bank of Russia) and lower pay rise prospects (as compared to 2018). Rapid change in the economic landscape and structural changes are unlikely and the existing model will continuously shape the development trends in the medium term.

Banking Sector

In 2018, the profit of the Russian banking system amounted to RUB 1,345 billion – 70% higher than in 2017 (RUB 790 billion). In the meantime, the share of the largest bank in the total profit of the sector somewhat decreased – the results indicate a certain alignment of the banks' performance.

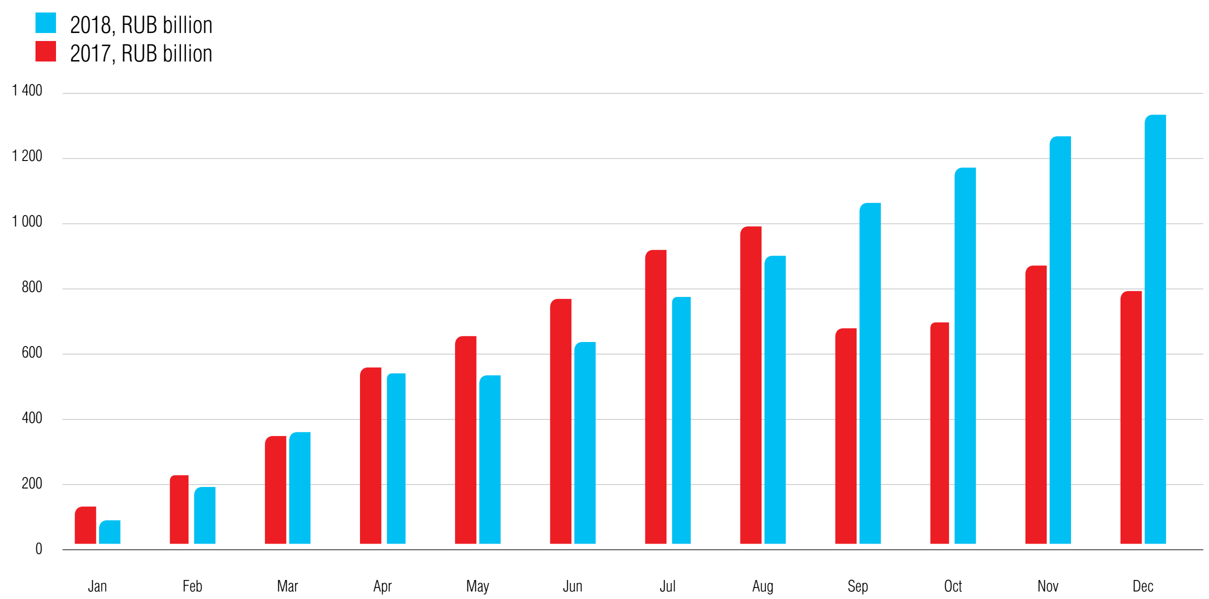
The banking sector's assets gained 10.4% year-on-year, while net of currency revaluation, the growth reached 6.2% year-on-year. By contrast to the last two years, corporate lending finally secured impressive growth rates –10.5% year-on-year (or 5.1% year-on-year net of currency revaluation), the portfolio amounted to RUB 33.4 trillion at year-end; meanwhile, the share of loans in foreign currency continued its gradual decline (from 30% to 29%). The quality of this segment portfolio is relatively stable: overdue debt accounted for 6.3% at year-end (6.4% – at year-end 2017). However, it is noteworthy that changes in the calculation rules for this indicator starting from 2019 are highly likely to show that the real quality is a bit lower.

Retail lending was growing at accelerating rates during most of 2018 – at year-end, total lending reached RUB 14.9 trillion (+22.4% year-on-year). Demand for retail loans was supported by the government subsidy programmes for mortgage loans alongside with the declining interest rates (by the end of 2018, the interest rate for household loans with maturities of over a year went down to the historical lows – 12.4%). In 2018, overdue debt in this segment went down from 7.0% to 5.1%.

Individuals raised the volume of their deposits to RUB 28.5 trillion in 2018 (+9.5%). Most of the growth was accounted for by short-term deposits, the share of long-term deposits contracted by 1 p.p. and went down to 40%. As opposed to 2017, individuals have become net borrowers of the banking sector: retail funding grew by RUB 2.5 trillion, while the total amount of loans was RUB 2.7 trillion.

The banking system's equity gained almost RUB 900 billion during the year to reach RUB 10.3 trillion (+9.3% year-on-year), while the capital adequacy of the banking sector rose from 12.1% to 12.2%.

SECTOR PROFIT INCREASED

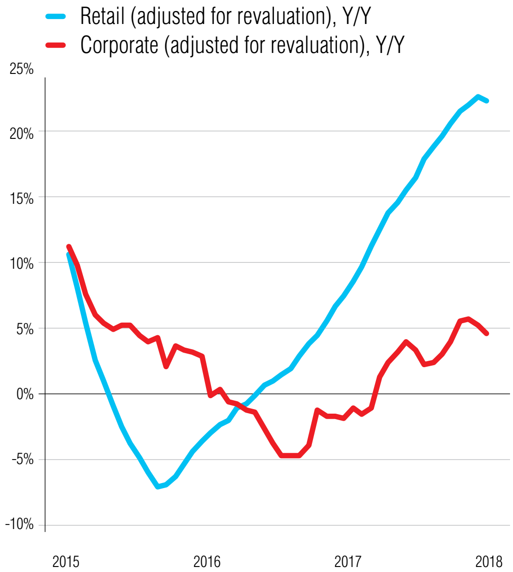


It is noteworthy that these indicators were exposed to the effect of transactions with banks under financial rehabilitation: in 2018, the number of troubled banks identified by the Bank of Russia was much lower than in 2017.

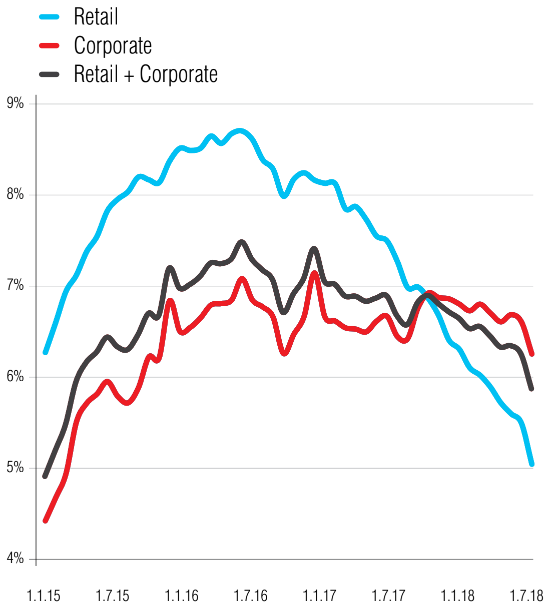
We expect the banking sector to secure moderate growth rates in 2019 (around 5% for the volume of asset) due to the growth of both the corporate and the retail loan portfolio. Retail lending will persist as the primary factor affecting the sector: its growth rates will exceed those of the corporate sector despite a potential slowdown resulting from changes in the rules of shared construction financing and related risks of declining mortgage lending growth rates.

The banks will persistently be exposed to regulatory changes, including both international (Basel, etc.) and national reforms (e.g. increase of the risk factor on mortgage loans). Despite all uncertainty factors, the sector looks quite reliable in terms of the liquidity position and potential additional capitalisation on the part of the regulator and major banks' shareholders. We will hardly see the pre-crisis profitability ratios in the sector any time soon, but each individual bank's ability to generate profit and ensure the sustainability of operations still largely depends on the business model and risk management quality.

LENDING VOLUMES INCREASED IN ALL SEGMENTS



PORTFOLIO QUALITY IMPROVED



2018 Financial Results

"UniCredit Bank once again confirmed its resilience with RUB 16.7 billion net profit achieved in a challenging external environment."

Stefano Santini
Member
of the Management Board

Financial Results of 2018

According to the resolution of the sole shareholder dated April 9, 2018, it was decided to pay dividends in the amount of RUB 6,862 million out of its IFRS net profit after tax of RUB 18,057 million generated in 2017. It was also decided to transfer the remaining part of 2017 net profit of RUB 11,195 million to the retained earnings.

Major Transactions

Under the Russian Federal Law "On Joint Stock Companies", a major transaction is one with value in excess of 25 percent of the company's total assets. For AO UniCredit Bank a major transaction would therefore be the transaction worth more than RUB 339,409 million (under 2018 RAS accounting statements). In 2018, the Bank did not undertake any transactions of this magnitude.

Related Parties Transactions

In 2018, the Bank did not enter into any transactions in which the Bank's directors, top managers or other parties listed in the Federal Law "On Joint Stock Companies" had an interest. Further information about related parties transactions is given in AO UniCredit Bank audited consolidated financial statements.

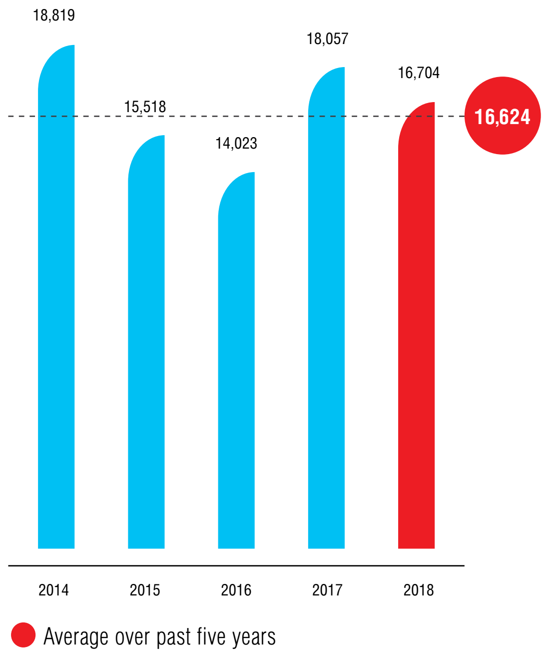
Footnote 29 of the consolidated financial statements lists transactions with related parties made in the normal course of business in accordance with the requirements of IAS 24 "Related Party Disclosures".

As at 1 March 2018, as a result of the transaction between AO UniCredit Bank and its sole shareholder UniCredit S.p.A., AO UniCredit Bank acquired 40% of capital in BARN B.V. (the Netherlands), that is the sole shareholder of AO "RN Bank" (Russian Federation) since 2013. The remaining 60% in the authorized capital of BARN B.V. belongs to RN SF Holding B.V. (the Netherlands), which is a joint venture with equal participation (50%-50%) of RSI Bank S.A. and Nissan Motor Co., Ltd.

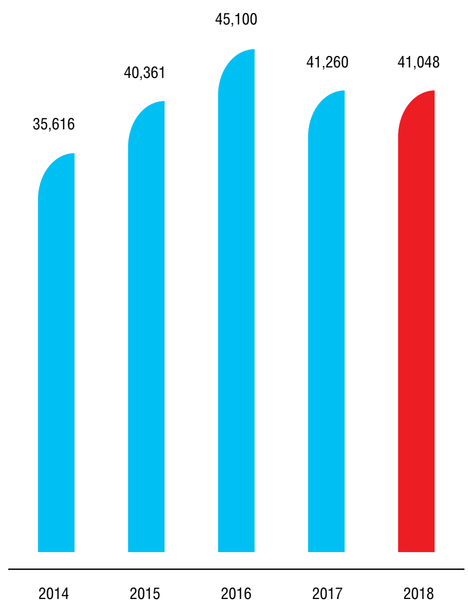
Net Profit

According to IFRS, AO UniCredit Bank Russia reported net profit of RUB 16,704 million in 2018, which is 7.5% lower than in 2017 confirming its resilience in a macro environment impacted by market turmoils in April and August-September 2018. While the Bank's profitability ratios remain at a good level: return on equity (ROE) of 8.4% and return on assets (ROA) of 1.3%.

NET PROFIT AFTER TAX,
RUB million



NET INTEREST INCOME,
RUB million



Report on the Bank's Activities (Continued)

2018 Financial Results (Continued)

Net Interest Income

The overall UniCredit Bank's net interest income totaled RUB 41,048 million and slightly decreased by RUB 212 million or 0.5% compared to 2017 confirming positive trend after market turmoil supported by strong customer business.

Non-Interest Income

Net fee and commission income amounted to RUB 8,734 million and is higher than in 2017 by RUB 1,732 million (+24.7% Y/Y) supported by strong commercial performance both in Corporate and Retail banking.

Loan Impairment

The total allowances for loan impairment increased by RUB 13,391 million at the end of 2018 up to RUB 56,179 million. Asset quality maintained solid: the weight of the impaired loans in total loan portfolio decreased to 7.0% (7.3% in 2017) and overall impaired loans coverage ratio composed 70.9% (76.4% in 2017). The loan impairment allowances to total portfolio coverage ratio amounted to 6.1% (compared to 6.0% in 2017). The loan impairment charge was RUB 12,608 million in 2018, by RUB 2,532 million higher compared to 2017.

Operating Costs

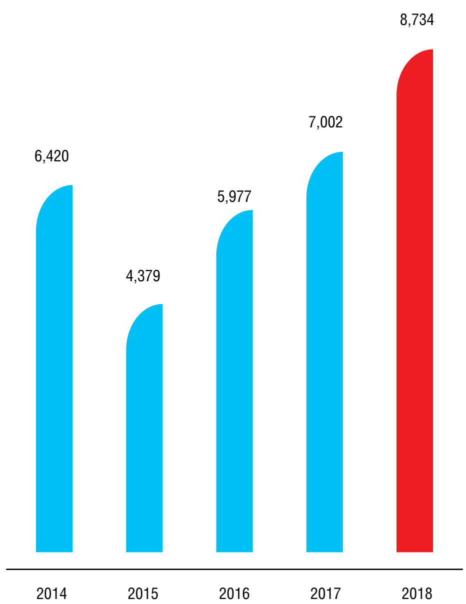
In 2018 total operating costs amounted to RUB 19,023 million (6.9% higher compared to the previous year). Strict cost management procedures allowed to maintain cost/income ratio at good level of 38.6%, one of the lowest among banks in Russia.

Assets

The value of total assets increased by 14.9% and amounted to RUB 1,362,616 million. The gross loans to customers totaled RUB 919,329 million (increased by RUB 208,019 million compared to the last year (o/w RUB 63,798 million due to FX effect)). Retail portfolio (gross, including SME) increased to RUB 160,271 million (+RUB 22,634 million, +16.4% Y/Y). Total gross loans to corporate customers (including reverse repurchase agreements and lease receivables) increased to RUB 759,059 million (+RUB 185,385 million, +32% Y/Y).

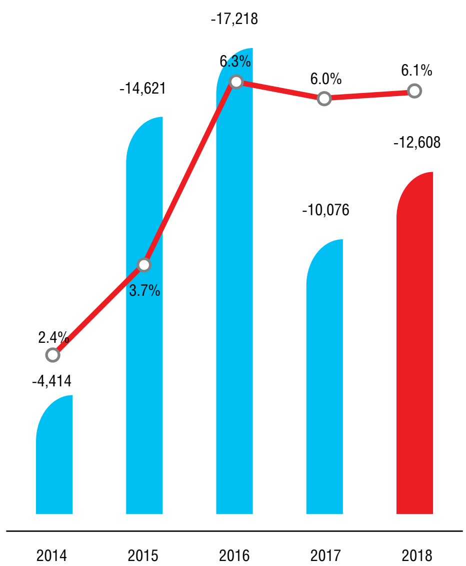
The trading securities portfolio decreased from RUB 20,870 million in 2017 to RUB 5,309 million in 2018, available-for-sale portfolio decreased from RUB 77,466 million in 2017 to RUB 47,196 million in 2018.

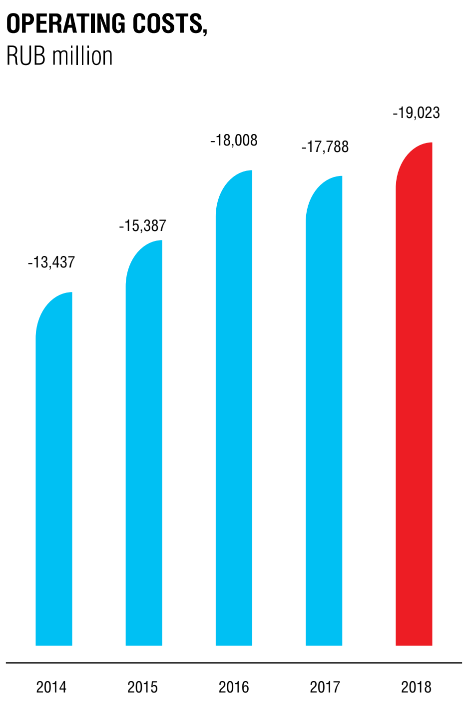
NET FEE INCOME,
RUB million

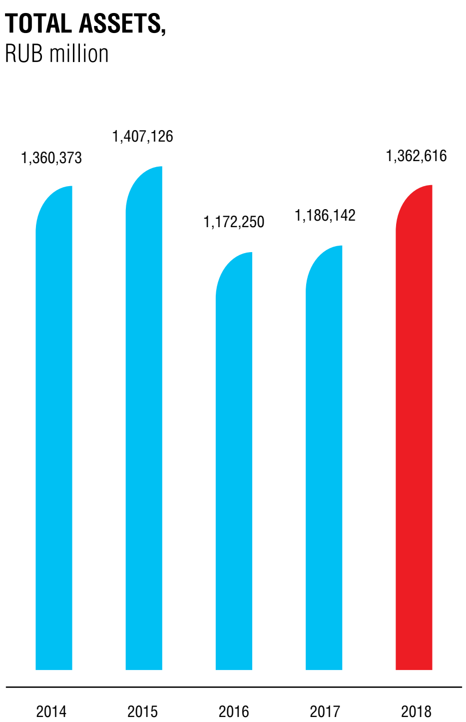


PROVISIONS CHARGE FOR LOANS IMPAIRMENT,
RUB million

COVERAGE RATIO







Liabilities

In 2018, UniCredit Bank continued to maintain well-diversified funding base. The client deposits base increased by 22.8% or RUB 188,538 million compared to the last year (o/w RUB 92,931 million due to FX effect), up to RUB 1,015,641 million at 2018 year end. Corporate deposits, representing 70% of total customer funds, reached the level of RUB 715,992 million, while Retail and Private deposits amounted to RUB 299,649 million.

The volume of debt securities decreased to RUB 48 million at 2018 year end from RUB 6,510 million as of the end of the previous year.

Shareholders' Equity

Total Equity slightly decreased to the level of RUB 195,762 million or by 2.2% compared to 2017, mainly as the result of dividends payout.

The N1 capital adequacy ratio (under CBR methodology) was kept at high level equal to 16.1% at the end of 2018, which is significantly above the CBR limit.

Report on the Bank's Activities (Continued)

Assets and Liabilities Management

According to the results of 2018, the Bank successfully implemented a funding base optimization strategy that had a positive impact on the Bank's net interest income and allowed to diversify the deposit portfolio significantly, while ensuring safe compliance with all liquidity metrics throughout the year. For further diversification of deposit portfolio and decrease of concentration, the Bank is planning to continue implementation of the funding base optimisation strategy in 2019.

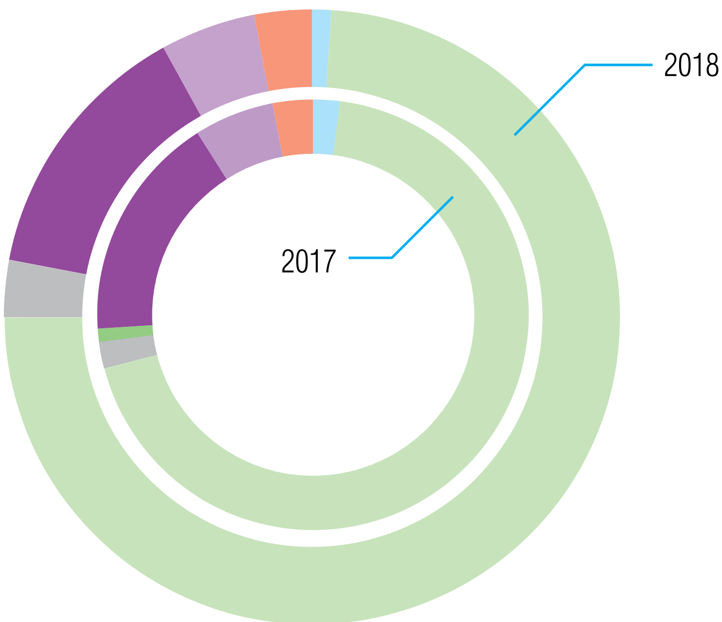
Liquidity management in 2018 was carried out in line with the Group paradigm, which implies more stringent liquidity ratios compared to the CBR requirements. CBR liquidity requirements (liquidity ratios such as N2, N3, N4, N26, N28) were managed with solid liquidity reserve throughout the year. In 2018, the Group imposed the Bank to comply with the Basel III NSFR ratio broken down by the main currencies (rubles, US dollars, euros). This measure ensured a reliable level of structural liquidity in each currency. Moreover, the Bank continued to maintain a high volume of loans that can be pledged with CBR under Regulation No. 4801-U (replacing Regulation No. 312-P), which provides an opportunity to attract funding from CBR via loans secured by non-marketable assets.

As a part of interest rate risk strategy, the Bank has carried out certain measures aimed to stabilise the NII. In particular, an investment tenor for current accounts and free funds was extended, while the amount of free funds subject to investment was increased to be in line with the Bank's capital growth. These measures will allow the Bank to provide greater stability in meeting shareholders' requirements on return on capital.

The Bank has received AAA(RU) credit rating from the Rating Agency "Expert RA", which reflects the highest level of solvency by the national scale, the outlook is "Stable". Experts refer to a strong capitalization and profitability of the Bank, an adequate liquidity position, a strong market position and a moderately high asset quality. High credit rating helped the Bank to continue attraction of funds from institutional investors and other corporate clients that are subject to the CBR requirements under Regulation No. 580-P from March 1, 2017.

In fall 2018, UniCredit Bank fully repaid its liabilities on mortgage-backed bonds with the nominal volume of 4 billion rubles.

STRUCTURE OF LIABILITIES AS OF DECEMBER 31, *%*



	2018	2017
Intragroup Funding	1.2%	1.6%
Due to Customers	74.5%	69.7%
Subordinated Debt	2.5%	2.3%
Own Bonds	0.0%	0.5%
Capital	14.4%	16.9%
Other Liabilities	4.6%	5.8%
Due to Banks	2.8%	3.2%

Improve asset quality.

We are continuing to improve our asset quality by de-risking our balance sheet, fully on track for the accelerated rundown of our Non Core portfolio by 2021. A disciplined risk management approach guarantees high quality origination across the Group.

Corporate and Investment Banking

“In the context of fast paced technological advance and turbulent markets, the Bank continues its 30-year-long success journey relying on its customers’ lasting confidence and accumulated experience in corporate and investment business.”

Kirill Zhukov-Emelyanov,
Member of the Management Board

Corporate customers are proactively introducing innovative technologies into their processes, and their requirements to the quality and speed of banking services are rising. In 2018, the Bank continued its successful cooperation with large companies, international and regional corporate customers offering a full range of flexible financial solutions, including individual solutions based on modern technologies.

The findings of the corporate customer satisfaction survey confirms that the success of UniCredit Bank's corporate business is based on fostering an atmosphere of trust and mutual understanding between the customers and the Bank. A positive change in business indicators was the product of the Bank's successful performance in 2018.

At year-end, the corporate loan portfolio amounted to RUB 755 billion securing a steady growth following the stagnation of 2017. The total income of corporate business accounted for RUB 28.6 billion while the profit before tax gained 3% compared to last year and amounted to RUB 15.9 billion. As for the regional corporate segment, the loan and documentary portfolios are in an uptrend while maintaining the quality.

In 2018, the Bank kept its leadership positions for structured finance deals, secured strong positions in the customer forex and derivatives trading despite low demand for complex hedging instruments on the part of customers. A wide range of liquidity management products enabled the Bank to increase its fee and commission income. Thanks to intensive cross sales, the share of non-lending income in the corporate banking's income increased as compared to last year and came close to 52%.

The Bank gives special attention to participation in the government programmes intended to support and ensure steady development of enterprises. Starting from 2017, the Bank has been involved in the subsidised lending mechanism for the agricultural sector. Over 2018, this area was growing fast: total working and investment financing rose 3-fold.

In 2018, the Bank and the Industrial Development Fund (IDF) signed a cooperation agreement as a part of the government programme 'Development of Industry and Enhancement of Its Competitiveness'. The package product offered by the Bank facilitates efficient use of targeted funds allocated to the customers' investment targets in compliance with all relevant requirements set by the fund.

The Bank succeeded in integrating in the pattern of communication between electronic trading platforms and authorised banks: in compliance with the new legal requirements, the Bank became a full participant of the e-procurement system under Federal Laws 44-FZ and 223-FZ.

The Bank gave special attention to the development of the Bank's offer in the area of foreign trade activities. Thanks to its vast experience in the area, the Bank assists companies with the structuring and execution of import-export deals and processing of international settlements.

Thanks to UniCredit Group's wide international reach, the Bank is capable of offering solutions to its customers based on its wide experience acquired in different countries. UniCredit's solid positions worldwide and positive behaviour of its financials attest to the sustainability and steady growth of the financial group.

The Bank consistently prioritises the promotion of business solutions based on Big Data. The use of Big Data technologies makes it possible to derive maximum benefit from the data on existing and potential customers and their projected financials to create targeted offers, identify business opportunities and cut costs. In 2018, an analytical module was introduced in the customer relations management system that analyses a customer information and advises on the range of transactional products.

The digitalisation of internal processes is keeping pace. In mid-2018, the Bank's management took a decision to implement a new project – Corporate Lending Workflow (CLW) platform representing a loan pipeline that covers the entire corporate lending process. In early 2019, the Bank successfully launched the platform for large corporate customers. The Bank is planning to continue the development of CLW platform in 2019 by including regional corporate customers of the branches and representative offices as well as international companies. The Bank will continue the automation of financing processes involving modern process solutions.

International Center

Despite a challenging macroeconomic situation, the Bank both kept its leadership positions in international corporate banking and secured impressive growth rates in this segment in 2018 ensuring record-high income values in its entire history.

In particular, the largest contribution was made by the major growth of the loan portfolio (over 80% compared to previous year) and growth of the deposit portfolio (over 30%). In 2018, the Bank's priority was to increase income from cooperation with existing customers; at the same time, the Bank acquired a large number of new customers resulting in a higher diversification of the customer base.

As customers from Germany and Italy account for the largest portion of income, the commercial strategy implemented by the Bank as well as strong ties with the colleagues representing UniCredit Group ensured an increase in the number of portfolio customers from other European and non-European countries. The Bank worked particularly hard to foster relations with French and British companies holding a number of activities and

Report on the Bank's Activities (Continued)

campaigns for these purposes throughout 2018. The development of these relations will remain the Bank's priority for the coming year.

At the organisational level, division of the team into units and allocation of responsibilities ensured better performance and higher customer satisfaction. New units divided according to the geographic principle facilitated the task of offering individual solutions that meet the customer's needs, which also helped customers to improve the quality of their communication with the Bank.

In 2019, the Bank will continuously prioritise fruitful cooperation within UniCredit Group's network to increase the market share for the key areas and enhance the customer service quality with the help of UniCredit International Center.

Structured and Project Finance

In 2018, the downtrend in the total syndicated lending volumes continued in Russia due to a complicated geopolitical situation and limited demand for new financing on the part of Russian corporate customers.

Nevertheless, the persistent significant presence of major European banks in the market and consistent interest in club deals on the part of international Asian banks provided the necessary liquidity enabling major borrowers to attract financing on favourable terms with maturities from three to five years (in most cases).

As for the deals involving significantly higher maturity periods, most of the liquidity was provided by Russian state-owned banks and allocated to finance infrastructural projects in various sectors of the Russian economy.

In 2018, UniCredit Bank kept its leadership positions in the market of syndicated lending ensuring UniCredit Group's third rank for the quality and volume of organised financing in Russia. Acting in its traditional role of a Mandated Lead Arranger, the Bank equally undertook to coordinate a number of syndicated deals.

Due to a contraction in the market of international public deals, in addition to the syndicated deals, UniCredit Bank boosted the volumes of bilateral structured financing in 2018 and proceeded with the provision of advisory services in the area of project financing. As a result, the Bank increased the loan portfolio of structured facilities, retained the customer base and ensured the required profitability ratio of the loan portfolio.

In 2019, UniCredit Bank contemplates keeping its leading positions in the Russian syndicated and structured finance markets leveraging on UniCredit Group's expertise and support in the best interest of its customers.

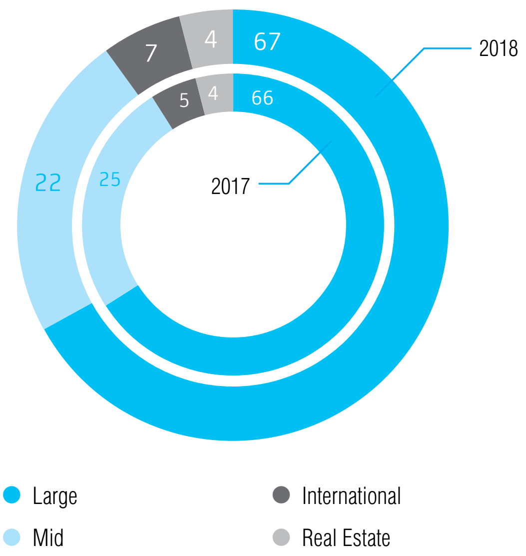
CORPORATE PORTFOLIO STRUCTURE

Chemicals, pharma, healthcare	14.27%
Non-ferrous metals and mining (excl. precious metals)	12.29%
Food and beverage	11.17%
Energy (waste management)	11.02%
Mining of precious metals	10.72%
Financial institution & insurance	6.75%
Other machinery, metals	5.65%
Media, paper	4.57%
Automotive	4.56%
Real estate	3.68%
Steel/metal production	3.42%
Telecom, IT	3.08%
Consumer goods	2.12%
Construction, wood	2.04%
Transport, travel	1.88%
Agriculture, forestry	1.66%
Textiles	0.60%
Services	0.38%
Tourism	0.07%
Electronics	0.06%

Cash Management

Digital technologies and their active use in finance served as the main development driver for Cash Management products and services throughout 2018. In compliance with the new legal requirements, the Bank succeeded in integrating in the pattern of communication between electronic trading platforms and authorised banks and became a full participant of the e-procurement system under Federal Laws 44-FZ and 223-FZ.

CORPORATE LOAN PORTFOLIO STRUCTURE BY SEGMENTS, %



In addition, the Bank was focused on the upgrading of technical sophistication and efficiency of payment facilities. The changes touched upon the processing of customers' payment orders: the time from transfer of ruble and foreign currency payments to the Bank to full execution was made significantly shorter.

As it traditionally supported its customers' foreign trade activities, the Bank worked to improve its facilities in this area, including the introduction of electronic invoices to ensure prompt communication and proper presentation of information to customers, and continued its workshops devoted to currency control issues.

Flexible settings of electronic systems and creativity in product development ensured the inclusion of the Bank in the list of certified partners selected for the opening of the Industrial Development Fund borrowers' settlement accounts.

In 2019, the Bank will proceed with implementation of large-scale projects intended to further expand the range of liquidity management products. A designated module of follow-up adjustments will be devoted to the development of electronic channels and possibility of interactive communication between a customer and the Bank for data acquisition purposes to improve efficiency and convenience.

Correspondent Banking

In 2018, UniCredit Bank continued to render clearing services to correspondent banks, servicing about 210 Loro accounts opened by the banks from 43 countries. Considerable efforts were made to optimize and increase efficiency of the entire network of correspondent banks with Loro and Nostro accounts. AO UniCredit Bank has introduced for banks a service of opening special accounts to deposit funds as collateral in order to participate in tenders for goods and services acquisition in accordance with Federal Law No. 44-FZ 'On the Contract System of Federal and Municipal Procurement of Goods, Works, and Services'.

The Bank has reaffirmed its position among the leaders of Russian banking market by volume of Russian ruble payments on behalf of non-resident banks.

Trade Finance

Trade finance is among the core business areas both for the Bank and for UniCredit Group. The Bank has a strong reputation in Trade Finance market attested to by multiple awards. According to the results of the annual Euromoney Trade Finance Survey 2019 held for the eighth time, the Bank ranked first in Russia in two categories: 'Market Leader' and 'Best Services'.

The primary market trend was the increase in the share of instruments in Russian rubles related to the domestic trade flows. However, customers' demand for settlements under cross-border contracts was persistently high and the Bank continued to work hard in this area offering the solutions that meet the customers' needs.

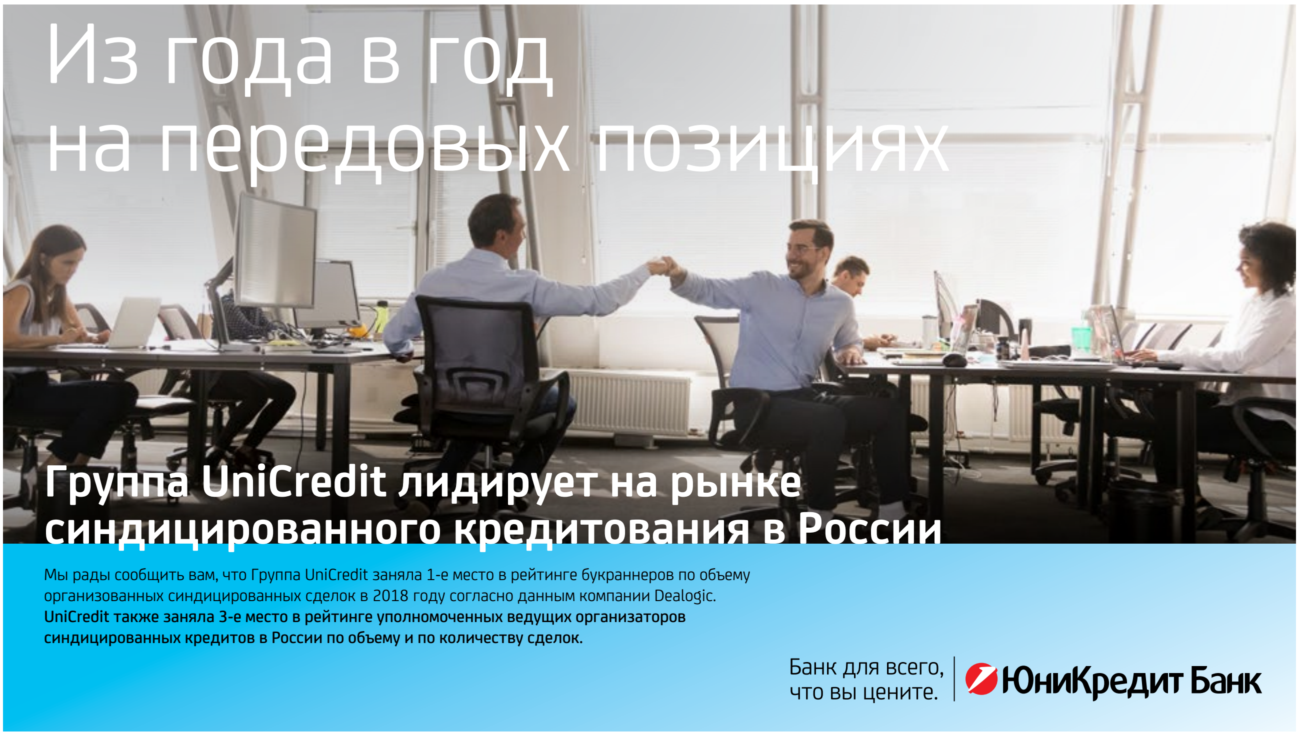
The Bank has a strong competitive edge in the area of international settlements due to high professionalism and long-term partnership with banks in different parts of the world and to UniCredit extensive international reach.

Competition in the Russian market was extremely tough, especially as it regarded the price terms. However, a flexible pricing policy and the introduction of new products, including discounting of letters of credit, enabled the Bank to proactively foster cooperation with customers in this area.

The Bank was among the first in the market to start issuing guarantees to the benefit of customs authorities in electronic form. This appealed to a number of new customers and improved the quality of the Bank's services in general.

As a result, the volume of new business grew by 22% in 2018 as compared to 2017 and the total number of deals – by 13%.

Report on the Bank's Activities (Continued)



In 2019, the Bank will continuously foster cooperation with customers in all customer segments based on a balanced and packaged approach to risk assessment and a flexible pricing policy. The Bank will offer innovative products based on hi-tech solutions. This will enable the Bank to keep and cement its leadership positions both in Russian and in international markets.

Factoring / Receivables Finance

The Bank offers a variety of working capital finance instruments to customers and expands its product range on an ongoing basis: classical factoring with recourse, receivables and payables financing programmes, international factoring. The development of international factoring is largely facilitated by membership in Factors Chain International as well as UniCredit Group's wide international reach. This enables the Bank to offer convenient solutions to its customers both in the Russian and in the international market.

In 2018, the primary market trends comprised the customers' demand for package solutions, including financing of supply chains, and proactive digitalisation of the process.

The Bank is introducing technical factoring solutions on an ongoing basis to optimise the document flow and facilitate and accelerate the financing process. This made it possible to launch a number of successful financing programmes for suppliers in 2018.

Similar to previous years, the customers from all segments showed interest in factoring – large, medium-size regional corporate customers and international companies. As a result, the factoring portfolio added 15% at year-end 2018 as compared to the end of 2017.

In 2019, the Bank plans to develop financing programmes for suppliers and buyers by offering package solutions to customers. The Bank will continue the automation of finance provision processes involving modern IT solutions.

Structured Trade and Export Finance

The year of 2018 affirmed the relevance of financing to cover Export Credit Agencies (ECAs) – this is how certain large-scale landmark projects for the economy at large involving UniCredit Bank were implemented. This is not a coincidence: it is not simple to find an alternative with a comfortable risk structure when the project requirements provide for super-extensive construction periods (up to five years and more) and maximum-length maturities (ten years and more depending on the borrower's sector). Today, export finance is equally appealing in terms of price. According to the trend typical for recent years (2018 was not an exception), this product is preferred by Russia's big corporations when it comes to major capital investments with a lengthy payoff period.

Thanks to its extensive experience of cooperation with European ECAs and now with Asian ECAs as well, UniCredit Bank is providing its customers with all-out support in arranging export financing at all project development stages. Thus, in 2018, the Bank granted an equivalent of over EUR 350 million in loans to customers in the oil and petrochemical industry. Given the persistent popularity of this product with Russian borrowers, the Bank is planning to continuously focus on the creation of the most suitable lending solutions in the area of export finance.

Global Securitites Services

Global Securities Services (GSS) unit of UniCredit Bank is part of UniCredit Group's Global Securities Services division, which provides custody services in 11 markets of Central and Eastern Europe (CEE), including Russia. Based on its long experience in the Russian securities market, the Bank's GSS renders high-quality services to the leading international financial institutions, including global custodians and investment funds. GSS uses the best international standards of customer service ensuring high and uniform service quality both in Russia and in the CEE countries.

In 2018, GSS focused on the automation of it business processes and optimisation of the document flow, in particular, by introducing a larger number of automated controls for straight-through processing of orders and by minimising the number of paper documents to be generated.

UniCredit Bank is a member of National Financial Association (NFA) and takes part in a variety of committees and working groups of the National Settlement Depositary (NSD) and NFA: GSS's representatives in NFA and NSD working groups and committees are fully engaged in the efforts to improve the legislation and the securities market infrastructure. In 2018, GSS's representatives continued their efforts to standardise communication with counterparties during corporate actions and electronic document flow as part of further development of the corporate action reform and to develop basic standards for depositaries.

Financial Markets

In 2018, previous years' market trends grew stronger: declining margin for all products; intensifying competition, including, due to the banking sector's consolidation; restrictions for business associated with geopolitical factors.

In this context, packaged approach to customer management and close cooperation between customer and product units are particularly important, and the Bank gave special attention to these matters last year. These efforts combined with the Bank's timely steps aimed at strengthening the team, automating the processes for forex and deposit deals, and launching new products ensured significant progress, e.g. in the segments of large, medium-size, international customers and financial institutions:

- The turnover of forex transactions added 25%
- The number of active customers grew by 10%
- By year-end 2018, around 60% of deals were made electronically via Business.Online, ExCEEd/UCTrader platform and other channels.

The Bank's plans for 2019 are just as ambitious: it is planning to intensify its work on the flow products, give more attention to the customer base, introduce more up-to-date market products in terms of both interest and currency risk management. Special attention will be given to the development of the Commodities hedging platform.

Despite strong volatility in the corporate bond market in 2018, the Bank affirmed its status of a leading investment bank in Russia. The Bank successfully closed deals with DOM.RF, RN Bank, X5, SUEK-Finance, etc.

In 2019, the Bank will continue its proactive involvement in the local bond market as an arranger, investor and issuer. There are plans to issue bonds from the Bank's registered new programme of exchange-traded bonds with a total nominal value of RUB 200 billion.

Corporate Finance Advisory and Capital Markets

In 2018, the Bank carried on the successful trend from previous years by closing two M&A deals in Russia and placing four issues of Russian issuers' Eurobonds outside Russia. The Bank achieved these major successes despite strong volatility in the markets and low interest for deals on the part of the market agents throughout much of 2018. The Bank's team demonstrated high competence in capturing customers, negotiating with investors and structuring package transactions. The Bank captures customers and executes deals in close cooperation with the Russian and international customer teams of UniCredit Group.

M&A deals closed in 2018 include advisory services to Izovol and Belpanel shareholders on the sale of 100% of shares in TechnoNICOL (March 2018) and advisory services to Gusar shareholders on the buyback of 49% of the company's shares (September 2018). Furthermore, thanks to consistent work on the deals involving flagship customers, mandates made with regional customers that are well-positioned in the market, and tailor-made offer of the Bank's products and services to large corporate customers, the Bank laid a solid foundation for strong performance in the future and better awareness of the Bank's advisory services on M&A matters among the market agents. The Bank will continue these efforts in 2019.

UniCredit Bank is among the leading and most active banks in Russian bond market and has extensive experience in organising the key new issues and bond buyback deals. A strong brand and history of successful placements enabled the Bank to serve as a Joint Lead Manager and/or Joint Bookrunner in the following Eurobond offerings: Rusal USD 500 million Senior Unsecured Notes (January 2018), PhosAgro USD 500 million Senior Unsecured Notes (January 2018), Credit Bank of Moscow USD 500 million Senior Unsecured Notes (February 2018), and Gazprom EUR 1 billion Senior Unsecured Notes (November 2018). The Bank will concentrate its efforts on supporting customers with their transactions in the international bond market in the foreseeable future.

UniCredit Leasing

UniCredit Leasing secured impressive growth rates in 2018 while preserving high performance quality. UniCredit Leasing strengthened its competitive positions in TOP-15 largest leasing companies of Russia as acknowledged by various trade, industry rankings and surveys throughout the year. In recognition of UniCredit Leasing's high corporate and risk management quality, Expert RA Rating Agency yet again confirmed its credit rating ruAAA – the highest possible rating score assigned by the Agency. The rating outlook is "Stable".

UniCredit Leasing's portfolio rose by 23% in the ruble equivalent. New business volumes, income and net profit secured double-digit growth rates. Over 3,500 leasing deals were made. In addition to impressive growth rates of quantitative indicators resulting from systematic efforts to optimise the Company's business processes and costs, such qualitative indicator as cost/income ratio was improved yet again to reach a record high of 25%. As the Company maintained a balanced approach to the financing of new leasing deals ensured by timely response and management of troubled customers, the leasing portfolio quality remained consistently high well above the market averages.

Thanks to close cooperation with UniCredit Bank, the Company made major improvements in the quantitative performance indicators for the regional corporate segment and maintained an uptrend in the leasing business with the largest corporate customers. In the meantime, direct sales to new customers without any previous experience with the Bank secured impressive growth rates.

The same concerns the new business under joint leasing programmes with the leading world manufacturers of various types of machinery and motor vehicles. The sales under JCB Finance programme gained almost 90% in terms of total financing and reached over 1,000 units of construction and farming machinery. The leasing programme for Bobcat construction machinery (Bobcat Financial solutions) was launched. It was this vigorous cooperation with the leading international and Russian manufacturers of construction and farming machinery that helped UniCredit Leasing to improve its positions in the relevant industry rankings. The Company continued the development of joint leasing programmes with multiple global brands, including Renault, Nissan, IVECO and Technogym.

UniCredit Leasing was fully engaged in the subsidy programme for commercial vehicles of the Ministry of Industry and Trade of the Russian Federation and obtained the certification and made the first deals under the subsidy programme for Russian-made road construction machinery of the Ministry of Industry and Trade of the Russian Federation. The subsidised leasing programme for various assets of the Ministry of Industry of the Republic of Belarus was vigorously developed. It provided the residents of the Russian Federation with an opportunity to receive subsidies of 2/3 of the Bank of Russia's discount rate from the Republic of Belarus for the deals made through UniCredit Leasing. In 2018, UniCredit Leasing was certified for work in the Industrial Development Fund's programme. This will enable any Russian enterprises to raise loans at a preferential rate of 1% per annum in rubles from the fund for the purpose of leasing advance payment under the leasing deals aimed at retrofitting the enterprise.

Throughout the last year, UniCredit Leasing vigorously developed its insurance facilities for leasing assets and pledges of the parent UniCredit Bank's corporate customers. The team of UniCredit Leasing gave special attention to the automation of business processes, introduction of new IT-solutions and electronic document flow. As a result, over a third of all customers are using electronic document flow for current communication with the leasing company on a permanent basis.

In 2019, UniCredit Leasing will continue its development as a composite leasing company providing leasing services across Russia with particular focus on the cities where UniCredit Bank's units operate. The Company is planning to further strengthen cooperation with the leading global manufacturers of motor vehicles and special-purpose machinery and develop special leasing programmes, as well as continue its involvement in the government subsidy programmes for commercial motor vehicles and road construction machinery of the Russian Federation and of the Republic of Belarus, including the Industrial Development Fund's leasing programme.

Private Banking

At year-end 2018, UniCredit Private Banking in Russia increased its income by 35% as compared to 2017. UniCredit Private Banking's total portfolio gained 43% due to both customers' deposits and increase in the average portfolio value per customer. Total investments rose by 16%.

Active cooperation with Corporate Banking in 2018 ensured a 5% increase in the number of customers and growth in the size of customer TFA (total financial assets) in UniCredit Private Banking.

Reputable rating agencies, including both international and Russian agencies, duly appreciated the achievements of UniCredit Private Banking in Russia with various awards. In 2018, UniCredit Bank was named as the bank with the best private banking customer service in Russia according to Frank Research Group's survey and earned the 'Best Private Banking Customer Service in Russia' award. Besides, UniCredit Private Banking was highly praised by specialised editions Professional Wealth Management (PWM) and The Banker for its outstanding service quality in the Russian market of private banking. Moreover, UniCredit Group won yet another Private Banking award from Global Finance (World's Best Private Banks Awards) as the best Private Bank in Central and Eastern Europe.

UniCredit Private Banking carries on the tradition of drawing our customers' attention to the seminal events of cultural life both in Russia and abroad. In 2018, UniCredit Private Banking continued the series of meetings devoted to private art collections and sponsored the receptions in the Pushkin National Museum of Fine Arts that have already become familiar to our customers and popular with them.

UniCredit Bank's World Elite Mastercard® cards earned a good reputation with the customers of UniCredit Private Banking while the number of cards grew by 17% during 2018. Our partnership with the Pushkin National Museum of Fine Arts enables the customers of UniCredit Private Banking to visit exhibitions and demonstrations held under the 'Pushkin Museum's Friends' programme subject to presentation of UniCredit Bank's World Elite Mastercard® cards. UniCredit Bank's World Elite Mastercard® cardholders are admitted to the Albertina museum (Vienna, Austria) for free.

Late in 2018, the customers of UniCredit Private Banking gained access to the Mastercard Airport Experience programme from LoungeKey, granting free admission to business and VIP lounges in the airports across the world and extra privileges and offers from the restaurants, spa-centres and Duty Free outlets subject to presentation of the World Elite Mastercard® issued by UniCredit Bank.

Since the customers of UniCredit Private Banking spend a lot of time travelling and UniCredit Private Banking launched Boingo Wi-Fi programme to ensure fast connection to Wi-Fi. Boingo Wi-Fi programme allows to use over 1 million connection points for unlimited Internet access across the world (including on board the aircraft).

The process of family assets succession is a continuously important subject to UniCredit Private Banking. It is the second year in a row that UniCredit Private Banking CEE has sponsored activities under the auspices of the Youngsters Academy created to support future business leaders in Central and Eastern Europe. The Russian customers of UniCredit Private Banking took an active part in this educational programme.

A balanced and thorough selection of partners by UniCredit Private Banking, including based on UniCredit Group's vast international experience, assures the longevity and consistency of cooperation: UniCredit Private Banking continuously maintains successful cooperation with Amundi Asset Management, Franklin Templeton Investments, Schroder Investment Management, BNP Paribas Investment Partners, and J. P. Morgan Asset Management. A comprehensive review of customers' needs enabled UniCredit Private Banking to expand the range of instruments available to customers.

Retail Banking

“In 2018, the Bank secured record-high volumes of mortgage, cash loans, and car loans. In addition, the Bank made a major leap forward in the development of hi-tech facilities.”

Ivan Matveev
Member of the Management Board

In 2018, the share of retail in the Bank's revenue grew consistently enabling the Bank to maintain its strong positions in the Russian banking sector.

In 2018, the Bank secured record-high volumes of mortgage, cash loans, and car loans. The Bank made a major leap forward in the development of hi-tech facilities that make banking simpler and more comfortable for customers. Sales of investment insurance programmes demonstrated impressive growth rates.

Thanks to the upgrading of its products and facilities in 2018, the Bank managed to raise the number of private customers to 2.1 million and the number of SME customers to 23 thous.

The entire team's concerted and effective efforts helped outstrip both the income (by 8%) and the net profit targets (by 112%).

Thanks to its continuous effort to enhance the service quality, the Bank managed to secure the 2nd place in the People's Rating published at Banki.ru at year-end 2018.

Bank Cards

In 2018, the Bank structured its effort to promote the debit cards and service packages so as to improve the competitiveness of the current card range and offers for prime customers and create special offers for designated customer segments. Thus, the Bank improved the terms of PRIME service packages for prime customers, updated the programmes of access to airport business lounges for the holders of PRIME and EXTRA packages; introduced free mass service packages subject to deposit of specific amounts for the customers striving to find the best payroll card, and launched a special campaign for RN Bank customers envisaging free banking for Classic packages.

As for the credit cards, the Bank worked hard to simplify and optimise the card issue processes by making it possible for payroll customers to apply for a credit card on the employer's site on the date of receiving the payroll card and enabling the customers taking a cash or car loan to receive the card in a single visit to the office. The Bank completely relaunched the Mastercard Rewards loyalty programme by improving the terms for earning points and expanding the options for using them.

In 2018, the Bank remained faithful to the practice of introducing new hi-tech facilities intended to make it more convenient and beneficial to use the cards by replacing PIN-envelopes with the possibility of setting or changing the PIN-code in the mobile app at the touch of a button and by creating a section with the Bank partners' special offers in the mobile and Internet bank that enables customers to get a cashback of up to 15%.

Credit Products

2018 witnessed record-high sales of cash loans in the Bank's history to date. As compared to last year, consumer lending gained 39% with 89% of sales accounted for by cross sales reaching a total of RUB 32 billion.

As for mortgage lending, 2018 proved just as successful: +236% as compared to the lending volumes in 2017. Total mortgage lending amounted to RUB 22.4 billion.

In March 2018, the Bank joined the government support programme for families with two and more children implemented by virtue of Resolution of the Government of the Russian Federation No. 1711 dated 30.12.2017.

Furthermore, the Bank launched a new product making it possible to refinance the loans for the purchase of real estate in the primary market without having to wait until the title is registered. Speaking of the refinancing programmes in general, the loan issue procedure was simplified and the product terms were improved.

The Bank revised the current lending programmes as they regard accepting marriage contracts and attracting incomes of third parties who are not immediately related to the borrower. The real estate purchased at the expense of a loan may now be registered as shared or joint common property.

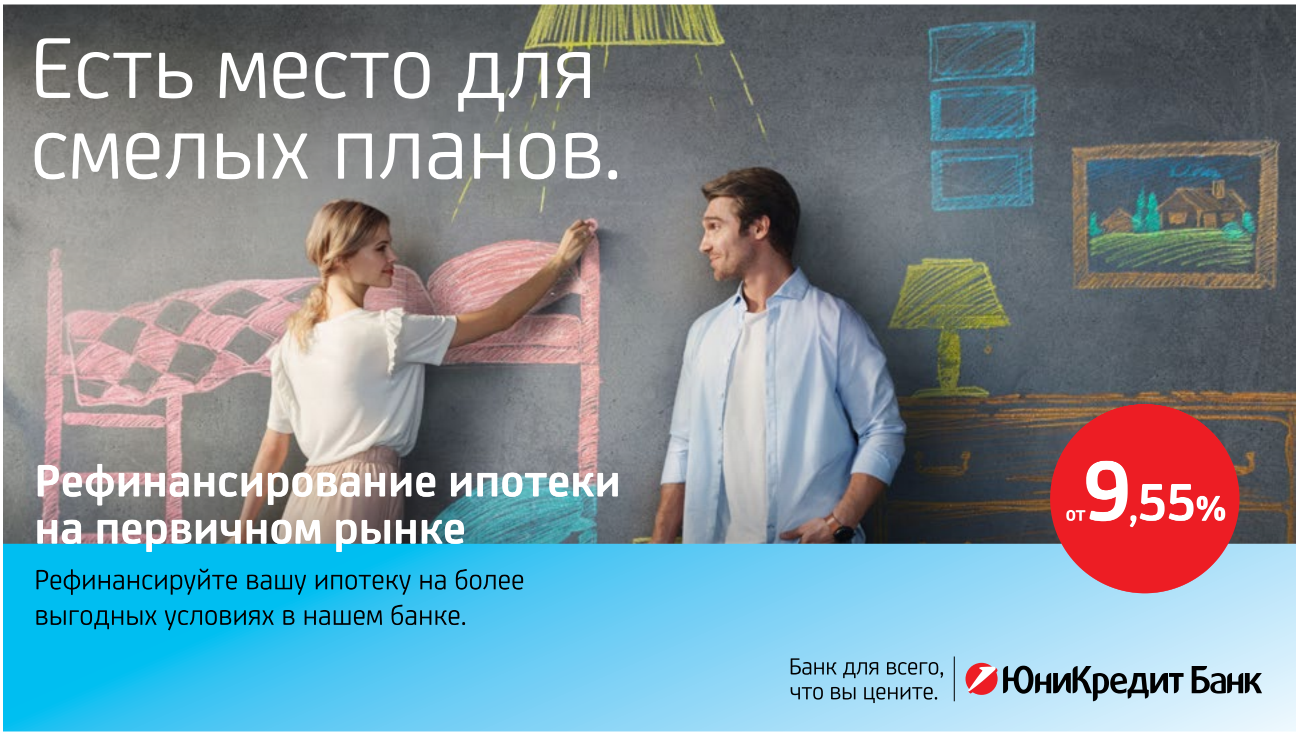
Total car lending also secured record highs in 2018 – RUB 36.2 billion, 6.7% up compared to 2017. As for the products, special note should be taken of the Prime programme intended for cars valued over RUB 1.5 million. 4,798 loans worth of more than RUB 10.5 billion were issued under the programme. Furthermore, the Bank launched the ReStart programme for Jaguar and Land Rover brands in summer 2018 guaranteeing a car repurchase value of up to 65% at loan maturity. If the value of the car ends up below the guaranteed value, the Bank will refund the difference to the customer. 163 loans worth of RUB 370 million in total were issued under ReStart.

Savings, Investments, and Insurance

From the economic standpoint, 2018 proved to be more of a "loan" year rather than a "deposit" year, as the deposit and loan interest rates were persistently declining throughout the entire year. Therefore, we can say with confidence that the Bank's primary achievement in managing individuals' passive funds in 2018 was the fact that it succeeded in retaining 100% of the portfolio as of year-end 2017 enabling UniCredit Bank to preserve its high market position for private customers' money. New customers were captured and withdrawn money

Report on the Bank's Activities (Continued)

Retail Banking (Continued)



was replaced by means of a new deposit offer in U.S. Dollars – it was among the best offers in the market in the first half of the year.

In 2018, similar to last year, investment insurance programmes enjoyed high popularity with the customers gaining 23% in sales volumes year-on-year. Without any doubt, this is a record-high value in the entire history of the Bank's investment insurance and universal life insurance programmes. With a view to meeting the wishes of its customers, the Bank updated the entire range of insurance programmes in 2018 starting with investment insurance programmes and ending with credit life insurance by filling them with the insurance of relevant risks and facilities.

Small and Medium Enterprises

2018 was marked by dynamic growth in new facilities, services, and products for SME customers.

UniCredit Bank was included in the list of banks authorised to open e-tenderer's special accounts under Federal Laws 44-FZ, 223-FZ for e-tenders held on electronic trading platforms and made it technically possible to open such accounts for legal entities and individual entrepreneurs.

The Bank made major improvements in the management of Ruble settlements:

- An extended transaction day is now available to all SME customers;
- To accelerate the processing of customers' payment orders via the Bank's correspondent account, the Bank reduced the automatic submission interval for electronic payment orders down to 30 minutes.

The Bank entered into a master agreement with ICBC concerning the general terms of renminbi transactions in the inter-bank money market. Thus, the Bank is now able to borrow renminbi in the local market to support customer payments, and business – to make payments in renminbi.

Moreover, starting from 2018, the Bank raised the limit for pre-approved overdrafts up to RUB 10 million in a pilot mode. The Bank held a campaign for import-export customers who were offered a loan rate reduced by 1.5% on condition of making import-export transactions. Apart from commercial campaigns, the Bank resumed partially unsecured lending.

Remote Service Channels

As for the promotion of remote facilities, the Bank primarily focused on the development and preparation for the launch of a new remote banking platform intended for subsequent implementation of the new mobile and Internet bank. In the meantime, the Bank continuously upgraded the functions of existing facilities. Besides, the Bank took effort to improve the service processes in the Call Centre in order to improve the service quality and boost sales.

Mobile and Internet Bank

In February 2018, a number of the Bank's offices launched a pilot project aimed at abandoning the practice when PIN-codes are delivered in hard copies during the delivery of a newly-issued or re-issued bank card. The launch of the pilot was made possible by the elaboration of the processes associated with the bank cards, and in 2017 – with IVR, mobile and Internet bank. This enabled the Bank to effectively switch over to a bank card activation solution comfortable for customers when they are supposed to select a PIN-code for the card on their own for free. If requested by the customer, the PIN-code may still be provided in a paper PIN-envelope. The pilot was deemed a success and the process was made regular starting from August 2018. At present, there are still a number of constraints leading to the need to issue a paper PIN-envelope; however, the Bank is continuing its work aimed at making the process fully digital.

Furthermore, the Bank made it possible for customers in Moscow to obtain the information on the housing and utility bills in the mobile and Internet bank in February. In the meantime, the app emails a new bill notification automatically to the address that the customer submitted to the Bank.

Since April 2018, all customers have been able to transfer cash between their accounts and cards online using the ATMs, mobile and Internet bank 24x7. In October 2018, the function was expanded so as to include transfers among different customers' accounts within the Bank. This facility is available for single-currency transfers so far, but the Bank is planning to add FX transactions to the facility in the future. So far, starting from June 2018, the time limit for processing FX transactions between a single customer's accounts has been extended until 8 p.m. (Moscow time) in case of using the mobile and Internet bank.

In July 2018, the Bank launched a pilot project providing for the acceptance of applications for an early full or partial repayment of UniCredit Bank's loans in the mobile bank chat channel. A number of restrictions were maintained for the duration of the pilot, including the need to show up in the Bank's office in person. Starting from September, this option has been made available to customers on a permanent basis. In the period from July to December 2018, over 4,300 applications for an early repayment of loans were processed via chat in the mobile app.

In December 2018, the Bank completed the integration of cross offers for the Bank's CRM customers in the mobile app. A customer can now see the Bank's offers to purchase a product, service or subscribe to a facility in the mobile app immediately after authorisation.

In December 2018, the Bank launched the first stage of the new Internet bank for all its employees in a pilot mode: a borrower's account with an option to repay a loan online, either in full or in part. New functions will be added as soon as they are ready, and after all the functions are fine-tuned, the new Internet bank will become available to the customers of the Bank. The new Internet bank will both have a new design and

Strategy and Results in 2018 (Continued)

Retail Banking (Continued)

take into account the current technical and functional requirements and conform to UniCredit Group's common requirements in order to bring the interface solutions of the Group's banks closer together as part of One Bank, One UniCredit concept.

In 2018, the Bank held a dedicated campaign for Visa Air cardholders. Almost 9,000 prizes were given under the auspices of the campaign, including in the form of money and extra Visa Air miles. The campaign for mobile bank users that has already become a tradition was held at the turn of the year.

Furthermore, the Bank made several other improvements in the remote banking channel in 2018, including the option to make transfers from a supplementary card, provided that it was issued to the same customer as the primary card, and added the subjects for customer enquiries to the chat section ensuring a better routing of enquiries and accelerating their processing.

Business.Online

In 2018, the Bank made significant improvements in FX transaction facility for SME customers by providing them with an opportunity to make transactions online at an individual exchange rate, by expanding the list of available currencies, and providing the option to send FX requests with one signature.

When creating a deposit placement request, customers may obtain the current interest rate depending on the currency, amount, and maturity and cancel payments in an automated mode, receive push notifications, enjoy enhanced interface solutions, and transfer foreign currency from transit accounts.

As a result of the work package implemented by the Bank, customer satisfaction with Business.Online services reached an all-times high of 80 p.p.

Chat Bot

In 2018, the Bank continuously improved the chat bot platform introduced in 2017 that covers Mobile.UniCredit, chat on the Bank's website, Viber, and other messengers.

In August 2018, the Bank was among the first banks in Russia to integrate the chat channel directly into Yandex search results: from now on, potential customers may engage in a conversation with the Bank's operators without having to visit the Bank's website or use any messengers.

In November 2018, the Bank launched its own facility as part of Alisa voice-activated digital assistant by Yandex.

To analyse the customer service quality, the Bank integrated a post-survey function into chat in July 2018 that may be used by customers to evaluate the quality of the dialogue they had with the Bank's operator.

Call Centre

In 2018, the Call Centre consistently maintained its position as one of the key sales channels.

Sales by the Call Centre as a share of total sales by the Bank reached 45% for consumer loans, 31% – for credit cards, and 19% – for SME packages.

In 2018, the Call Centre processed almost 1.6 million enquiries, including calls and questions via chat, email, Internet Bank, mobile app, and social media.

To improve the customer service quality, the Call Centre was provided with a dedicated telephone number (8-800) for legal entities, IVR scheme for individuals and legal entities was simplified, and outsourcing call centres are now being mobilised for sales to legal entities.

To ensure the Group's KYC targets in the 4th quarter of 2018, the Call Centre helped to implement the project involving the updating of the customers' KYC status by means of outgoing calls effectively securing the target – 98% of customers from the active customer base now have an updated KYC status.

Furthermore, the Bank used AI solutions to implement a voice analytics of the recordings of operators' conversations, which enables the Bank to improve the customer service quality in the voice channel consistently provided that follow-up monitoring algorithms are used.

In 2018, the Bank completed the development of the end-2-end facility for Private Banking customers' deposits.

Service Quality & Customer Satisfaction

In 2018, the Bank maintained consistently high customer satisfaction indicators both for retail and corporate customers. The Bank's Net Promoter Score (NPS) in the retail segment reached +55% at year-end 2018, exceeding the market averages.

In 2018, the Bank continuously developed the customer feedback monitoring process that makes it possible to promptly respond to the instances of dissatisfaction with the service quality. Thus, in 2018, the Bank processed over 115,000 comments provided by customers and used this feedback to further optimise the Bank's processes, products, and services.

High quality of service is among UniCredit Bank's key priorities. The Bank constantly monitors customer satisfaction and responds to customer enquiries through various channels, including social media and designated websites. In 2018, the average response time for customer complaints was 6.5 days, while 52% of complaints were processed within 0-3 days.

Risk Management

“High risk culture and systematic approach to risk management guide the Bank’s strategy and naturally cover all its internal processes, ensuring the foundation for stable, sustainable and competitive business.”

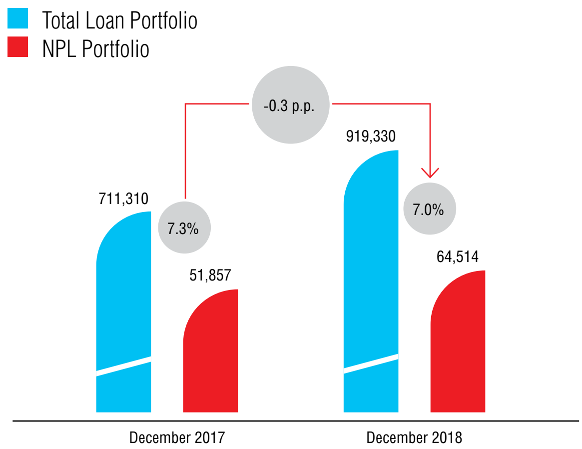
Svetlana Zolotareva
Member of the Management Board

The Bank's successful performance is based on a flexible business model that focuses both on the risk-return profile and the ability to take extra risks during the risk appetite assessment. An integrated approach to managing the risks, the most material ones being the credit, market, operational and liquidity risks, provides the necessary basis for the credit institution's stable, sustainable and competitive business. The Bank is consistently improving its risk and capital management performance. In 2018, new standards of UniCredit Group were implemented in the Bank in terms of the economic capital models for all material risks and stress testing methods for the Risk Taking Capacity. The Bank's Internal Capital Adequacy Assessment Process (ICAAP) is in full conformity with the requirements of the Central Bank of the Russian Federation (Directive No. 3624-U), the Basel Committee (Basel II, Pillar 2) and the standards of UniCredit Group. The ICAAP implementation high quality was confirmed by the Bank of Russia. The Bank carried out annual verification of the map of material risks and their coverage by economic capital, alongside with routine stress tests of the regulatory capital adequacy (in particular, using the method of the Central Bank of the Russian Federation), and the internal capital adequacy, which demonstrated the Bank's high stability under stress. Identification of the material units/authorised risk takers, and the risk-return analysis for the business units were performed based on the quantitative methods of economic capital allocation. In the course of the IT structure consistent improvement, the Bank proceeded with the creation of a new risk platform.

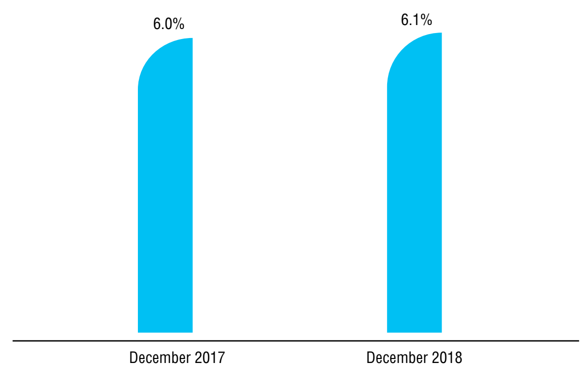
High risk culture and systematic approach to risk management guide the Bank's strategy and naturally cover all its internal processes. The Bank's risk management policies and procedures are intended for identification and adequate analysis of all material risks, and determination of the target, trigger and maximum acceptable levels of risk that can be taken by the Bank to implement the business strategy, along with continuous monitoring thereof. To manage the business models and strategic plans adequately when choosing the desired risk-return profile, the Bank determines the risk appetite framework integrated with the budgeting process. Regular validation ensures an independent assessment of the key models, systems, processes and reports in terms of performance and further improvement. This comprehensive approach enables the Bank to take timely corrective measures for all material risks and ensure the required levels of regulatory and internal capital adequacy to protect the interests of its customers, employees and shareholders.

The Bank is actively managing non-performing loans (NPL) using the best Russian and European practices for more efficient management of NPL portfolio and early identification of non-performing assets. In 2018, the NPL share reduced by 0.3 p. p. (with the level of NPL portfolio coverage by provisions remaining stably high at 70.89%).

THE BANK'S NPL PORTFOLIO*,
RUB million



RATIOS OF LOAN PORTFOLIO COVERAGE BY PROVISIONS (IFRS) IN 2017-2018



The Recovery and Resolution Plan of AO UniCredit Bank fully conforms to the requirements of the Bank of Russia and UniCredit Group, as well as to the international standards. In 2018, the Bank performed the annual updating of this Plan, taking into account the new system of primary and secondary warning indicators, and the new methods of assessing critical economic functions and stress scenarios, and also improved the process of the Plan preparation by implementing the relevant internal regulatory documents. The updated Recovery and Resolution Plan was submitted to the Bank of Russia. As part of applying the Principles of effective risk data aggregation and reporting,

* AO UniCredit Bank and its subsidiary – consolidated loan portfolio

Report on the Bank's Activities (Continued)

the work aimed at bringing the Bank in conformity with the Basel Committee's requirements (BCBS 239) at the local level within the project of UniCredit Group is carried out successfully.

In 2018, the Bank continued to strictly follow the risk and capital management standards set by the Central Bank of the Russian Federation and the Basel Committee on Banking Supervision. All the Bank's key units are involved in the process of implementation and application of advanced risk management standards. The Bank's risk management policies are continuously reviewed and updated to reflect changes in the market conditions, products and services, as well as new and improved risk management methods.

As the Bank continued to develop the risk mitigation tools, it revised its Collateral Management Strategy with due regard to its recent experience.

In 2018, the transition to the new standard IFRS 9 was completed. The necessary models and methodological documents were developed and approved, and the provisions calculation automatic module was improved and successfully transferred for comprehensive IT support.

Within the assistance of the new competent body (the Risk Committee) established in May 2017, the Bank continued monthly regular coverage of the issues concerning the current risk profile, its correspondence to the risk appetite and risk strategy approved by the Supervisory Board to make operating decisions aimed at meeting the performance targets set for the risk profile. The materials discussed during the retail and corporate sessions at the meetings of the Risk Committee made it possible for the Bank management to respond promptly, make effective decisions and correct the business strategy to enhance the risk management quality in the Bank within the framework set out by its special rules and procedures.

In 2019, the Bank will continue a step-by-step development of the loan portfolio quality assessment models as part of the switchover to credit risk and regulatory capital adequacy assessment based on the borrower's Internal Ratings-Based Approach (IRB Approach). In order to improve the ICAAP, works will be continued to implement the new requirements of the Bank of Russia in terms of the interest rate risk of banking book management. The objectives concerning the improvement of the IT infrastructure and maintaining the high quality of data in the Bank's information systems in line with the principles of effective risk data aggregation and reporting are still relevant.

In 2018, the Validation Unit became an independent function directly reporting to the Member of the Management Board responsible for the CRO Block. The Validation Unit performs independent assessments of different areas of the Bank's operation. In 2018, the range of validation activities carried out by the Unit was considerably expanded: in addition to the validations performed within the IRB Approach, the assessment of IFRS 9 processes and models, as well as of the market risk has been introduced. According to the plans for 2019, a number of new validations will be implemented, including those related to the ICAAP process; IFRS 9 Framework and market risk models will be assessed in a more in-depth way. Expanding the scope of validations enables the Bank to perform internal independent assessment of the quality of the existing risk management approaches and systems and those being implemented, as well as to ensure more widespread compliance with the European and Russian risk management standards. Since the end of 2018, the validations have been conducted jointly with the Group Internal Validation. Co-signature of the final reports at local and Group levels ensures compliance of the performed assessments with the international standards and best practices.

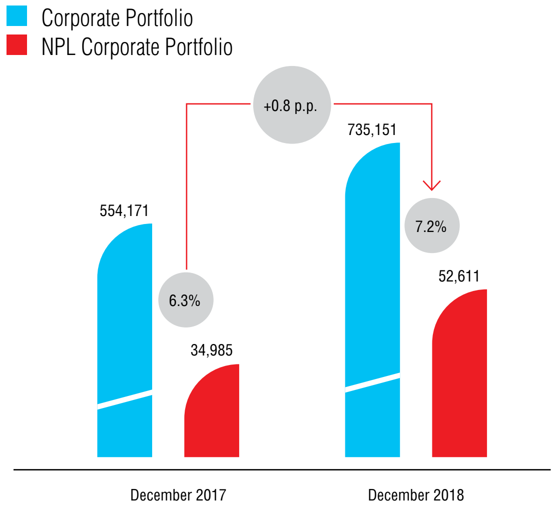
Corporate Credit Risks

To assess risk in the corporate segment, the Bank carries out a comprehensive analysis of the borrowers' financial and qualitative parameters in order to obtain a full picture of the customer's activities and enable the competent bodies to make well balanced decisions. To assess the probability of corporate customers' default, the Bank makes use of the rating models developed for each sub-segments that takes peculiarities of each segment into account. Customers are rated on a quarterly basis and all available information is taken into account. These rating models and relevant rating processes have been developed in accordance with the Basel II standards for the calculation of capital requirements based on internal ratings.

The rating models are updated and validated on regular basis in order to ensure a better ranking of the borrowers by risks, and therefore, making the lending decisions based on a more accurate assessment of the customer's creditworthiness.

To ensure more effective risk management of the corporate loan portfolio, the Bank has implemented an industry specialisation model in the Credit Underwriting Department where each unit is responsible for deep analysis of the risks attributed to specific industries/segments. This approach enables the Bank to promptly analyse changes in every industry, quickly adjust the strategies and make well balanced decisions. Along with the industry-based approach, effective portfolio management is facilitated by the system of regional risk managers who are able to collect and analyse the information on the situation in the key regions of the Bank's operations and effectively manage the loan portfolio both by industry and by region.

SHARE OF THE CORPORATE NPL PORTFOLIO IN THE CORPORATE TERM PORTFOLIO,
RUB million



Based on the UniCredit Group's common approach to corporate portfolio management, the Bank annually adopts industry-specific risk strategies that guide the lending policy of the Bank in the current year. The goal is to maintain an industry-balanced structure of the loan portfolio with due regard to the macroeconomic forecast, relevant industry/segment development prospects and assessment of the borrowers' creditworthiness (probability of default (PD) and expected loss (EL)). In 2018, all the credit risk parameters set for the Bank were fully complied with.

To ensure effective business process, the Bank has implemented a decision-making system for the corporate segment loan transaction allocating credit requests to a certain level of the decision-making body depending on the requested loan limit and the customer's/customer group's risk level (probability of default). In 2018, practically all types of corporate loan transactions were still considered by collegial bodies (Credit Committees).

In 2018, the Russian economy demonstrated insignificant growth , though the indicators of 2017 were exceeded. In general, financial standing of the companies practically in all industries remained and is still quite complicated. In this situation, the Bank has to follow the policy implying quite a precautionary approach to lending, carefully in relation to new customers. The new customers were selected very attentively; the priority was given to maintaining relationship with the existing borrowers. Along with detailed assessment of the credit risk, the Bank pays significant attention to the work with collateral as one of the most significant tools of reducing the Bank's losses in case a borrower faces financial problems. The practice of elaborating collateral strategies, primarily in relation to the customers having low credit ratings, was further developed in 2018. The Collateral Management Unit prepared a schedule for 2018 to visit the borrowers/pledgers with the purpose to inspect collateral, assess the Bank's collateral position and draw up recommendations to improve it.

In order to optimise the corporate lending process, shorten time to decision, prepare the loan documentation and transfer all information in a unified credit file the Bank is currently implementing a new IT platform to work with credit requests of corporate customers.

The Bank is proactively improving the internal insolvent borrower management procedures not limited to early detection of changes in the loan portfolio quality.

In the situation of economic instability, the Bank works individually with each borrower and tries to find a solution on a case-by-case basis for the non-performing loan. The corporate NPL growth (+0.8%) is the result of assigning the NPL status to a number of the Bank's major borrowers.

Given a persistently challenging macroeconomic context, credit risk monitoring of corporate customers on the part of the Bank proved its worth. Over the entire 2018, the Bank continued upgrading the existing processes of detection and further monitoring of the Bank's potentially-problem corporate customers and IT solution (database Documentum (Watch List)) used to record and analyse the negative data obtained from various sources, assign various managerial statuses to customers based on the severity of the problems, set the operating strategy, and schedule and supervise implementation of the action plans. To implement a more flexible and prompt approach to potential loss risk management, the Bank switched from the quarterly to monthly forecasting of migrations among the management statuses.

The Bank continued to expand the list of the sources used within monitoring procedure by daily monitoring of data in relation of bankruptcy proceedings, claims by other banks against the Bank's customers, and business reorganisation/liquidation. For instance, Monitoring had performed testing of the data quality regarding the existence of overdue debt with other credit institutions, as well as debt outstanding, fines and penalties owed to tax authorities.

Retail Credit Risks

The Bank has been developing retail lending in 2018 extensively based on detailed assessment of the business initiatives being implemented and multi-level monitoring of the subsequent behaviour of the loan portfolio both in terms of the anticipated lending and the forecast risk level.

The loan portfolio key quality indicators are within the limits set by the retail credit risk strategy, demonstrating positive dynamics in terms of the probable and actual default levels for the segment of individuals and SME.

In 2018, the methodology of calculating the risk margin at the loan level was developed, the scoring procedure for unsecured loans granted to individuals was optimised, the programme for a few loans consolidation was updated, thus enabling the Bank to assess more accurately the credit risks assumed, optimise the risk management and enhance the retail lending return.

In 2018, the mortgage lending process was optimised, the process of accreditation of developers and construction facilities was improved.

In 2018, the Bank considerably improved the automatic procedures of risk assessment during consideration of loan applications: automatic checks and procedures for financial terms calculation were improved, and the risk procedures of the loan pipeline for obtaining a consumer loan under a pre-approved offer during 1 visit to the Bank were implemented.

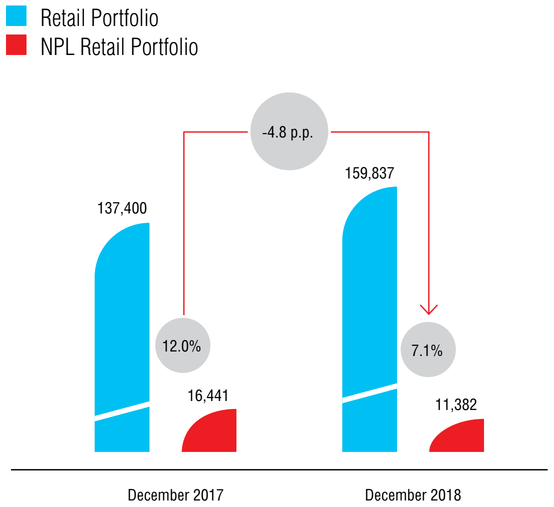
The process of receiving data on the customers' incomes from the Pension Fund of Russia was launched. In 2019, it is planned to use the data received under the credit analysis strategy.

The pre-approved SME lending approach (Pre-approved Overdraft product) was implemented, for which purpose the relevant risk procedures were optimised.

The main area of focus for retail credit risks is still further development of the Bank's risk systems to meet the strategic objectives of automating the retail lending process and risk procedures.

Transition to IFRS 9 standard was completed. The statistical models and methodological documents were developed and implemented, and the Bank's information systems were improved. The methodology for early restructuring of overdue debt according to the requirements of the Holding was updated.

SHARE OF THE NPL PORTFOLIO IN THE TERM RETAIL PORTFOLIO,
RUB million



During the first half of 2018, Monitoring Unit finalised implementation of extended monitoring functional for individual customers under UniCredit Group's project "Golden Standards: Watch List and Retail Customer Monitoring". The functional developed includes a comprehensive list of red flags pointing at the customers' potential problems; a broad list of rules for classifying the customers based on the severity of the problems and credit risk level to provide the Bank with an actual picture related to the portfolio; and also the measures of risk management prior to incurring of overdue debt.

In the second half of 2018, the Bank commenced works aimed at IT implementation of the functional of the Small and Medium Enterprise (SME) customer credit monitoring project under the standards of UniCredit Group. The project is unique due to the synergy of automated calculation of red flags and expert management of action plans and customer classification aimed at reduction of the risk level, which is implemented as part of the CRM system user interface.

As to the NPL portfolio management, in 2018, the Bank made a few major transactions of NPL sale, which enabled it to considerably reduce the NPL share in the Bank's total retail portfolio. The process aimed at reducing the payments to customers after putting the collateralised real property on the books of the Bank was also optimised.

In order to perform further integration of the early and late debt collection processes, improve the analytical component, and use modern approaches to modelling and forecasting debt collection, the Debt Collection Methodology and Progress Office under the Retail Credit Risk Department was established to facilitate accumulating and developing experience gained in the area of the NPL portfolio management.

In 2019, the Bank is planning to further improve the retail credit risk management processes by enhancing their technological effectiveness and implementing new statistical methods of risk assessment to ensure successful development of retail lending with the target credit risk appetite kept unchanged.

Market Risks and Liquidity Risks

In 2018, the Bank continued to improve the market and liquidity risk management system. Development of the control methods used by the Bank for these types of risk is based on the application of the best practices of UniCredit Group and ensures the Bank's stability and reliability during volatile periods.

The Bank exercises control over both the trading operations market risk and the market risks (interest rate and FX risk) arising from the Bank's operations in general.

Sensitivities to certain risk factors, aggregated metrics (VaR, SVaR), and stress tests for market and interest rate risk of the Banking Book are used as metrics for management of market risk. IRC limits were set to ensure additional control over the Bond Trade Book.

Management of the interest rate position of the Banking Book is based on both the sensitivity of the interest income for a certain time horizon to the interest curve shift, and on the sensitivity of the total economic value of the Banking Book to various (including nonparallel) movements of the interest curve. When assessing the Banking Book interest rate risk, the Bank applies behavioural models for current accounts, early repayment (for retail portfolio), NPL portfolio. All the behavioural models are approved by operating units of UniCredit Group but reflect the market situation and positioning of the Bank. In 2018, the Bank revised the approaches and levels used in the equity replication model required for smoothing the interest income in changing market conditions.

Stress testing of the Bank Book interest risk is performed within the general market risk stress testing programme, both using regulatory scenarios (IRRBB standards) and own scenarios (both the Group-wide ones and those reflecting the local specifics).

In addition to shifts of interest rates proper, the Bank also measures sensitivity of the Banking Book economic value to cross-currency basis spreads. These data are taken into account to calculate VaR for the total of the Trade Book and the Bank Book (and therefore, to calculate the economic capital adequacy ratios).

The existing system of limits and market risk metrics ensures manageability of the positions assumed by the Bank.

Particular attention is given to the maintenance of data quality through verification of the Bank's information systems. In 2018, the Bank improved the quality of the open currency position management. In addition, the Bank is continuously revising the list of risk factors affecting the market risk metrics, and checking the reliability of market data used by the Bank. Starting from 2016, market data reliability monitoring has been carried out within the framework of the Group's IPV process (Independent Price Verification) and is in conformity with the Group's best practices.

The Bank's overall strategy towards the market risk and the liquidity risk is determined by the Bank's Asset and Liability Management Committee composed of the representatives of the finance division, business units and risk management. The Committee is promptly notified of all significant events regarding the market risk and the liquidity risk. Any breaches of limits and warning levels for key metrics are also reported to the Bank's Management Board and the Supervisory Board.

The Bank measures and limits the liquidity coverage ratio N26 (LCR), the structural liquidity ratio N28 (NSFR), as well as a set of internal management metrics (both for short-term liquidity and for structural liquidity). The internal metrics, in particular, enable control over the foreign-currency liquidity situation.

In order to effectively manage the asset and liability time structure, the Bank subjects short-term liquidity to stress testing on an ongoing basis in accordance with the scenarios provided by UniCredit Group and in accordance with the local methodology adapted to the peculiarities of the Russian market. Stress tests assess both the total available liquidity and the available foreign-currency liquidity. The findings of the short-term liquidity analysis, including data obtained through stress testing, provide the basis for the monthly Funding Plan to be approved by the Asset and Liability Management Committee. Generation of the Plan equally involves the forecasting of liquidity coverage ratio dynamics and application of the relevant limits.

Report on the Bank's Activities (Continued)

The regulatory metrics (N26, N28) are forecast routinely on the basis of the monthly Funding Plans and long-term plans of the Bank.

Over the course of the year, the amount of liquidity available to the Bank remained quite comfortable.

The Bank performs regular monitoring of funding source concentration in the medium term both by counterparties and by maturity of the funding instruments.

The assessment of market risk economic capital components takes into account all positions of the Bank Book and the Trade Book. The internal model covers:

- general market risk for foreign exchange positions;
- general and specific market risk for debt instruments;
- risk of credit ratings migration in the Trade Book;
- basis risk;
- interest risk of the Bank Book;
- credit spread risk;
- credit valuation adjustment (CVA).

The business process of selling financial derivatives to corporate customers is governed by the internal policy compliant with the Russian law, the requirements of UniCredit Group and the best European practices. The use of counterparties' credit limits under the derivative transactions is calculated daily using the Group's methodology and infrastructure.

Operational Risks

The Bank is continuously working to adapt operational risk management methods in accordance with the changes in the approach of UniCredit Group to operating capital calculation and application of operational risk management, monitoring and mitigation tools.

The Operational Risk Committee is heavily involved in considering and decision-making on the operational issues relating to operational risks and their impact on the Bank's operations. Development of risk culture in the Bank facilitates increase in the number of the Committee members and enables the employees not directly involved in performing the risk management function to participate in the processes of operational risk management. Participation of divisional operational risk managers in the Committee's work ensures an ongoing exchange of important and relevant information between the functional units (divisions) and individual units bearing or assuming the risk.

To improve and maintain the effectiveness of the Bank's operational risk management, a Permanent Workgroup is persistently identifying the most material operational risks and takes the necessary steps to mitigate exposure to such risks in a timely manner. This is achieved by determining the relevant remedial actions and monitoring implementation thereof based on the professional experience and expertise of the Workgroup key members – the Operational Risk Office and the Internal Audit Department.

To monitor the Bank's exposure to operational risk, the expected loss from operational risk (ELOR) ratio is used, with its limit and warning values set under the approved operational risk appetite methodology. The metric reflects the ratio between the expected operating loss and the budget revenues. The values of the expected loss from operational risk are calculated on a quarterly basis at the level of UniCredit Group and are sent to the Bank for monitoring. A report on these indicators is submitted to the Bank's Management Board on a quarterly basis.

Under the Group's strategy, the Operational Risk Office pays special attention to IT risks, cyber-risks, cross-credit events and other risks managed in close cooperation with the Bank's units involved. With this aim in view, the Bank expands and updates a set of key risk indicators (KRI) related to operational risk, which is a comprehensive tool for risk monitoring and early management, and provides the Bank with detailed information on its operational risk profile.

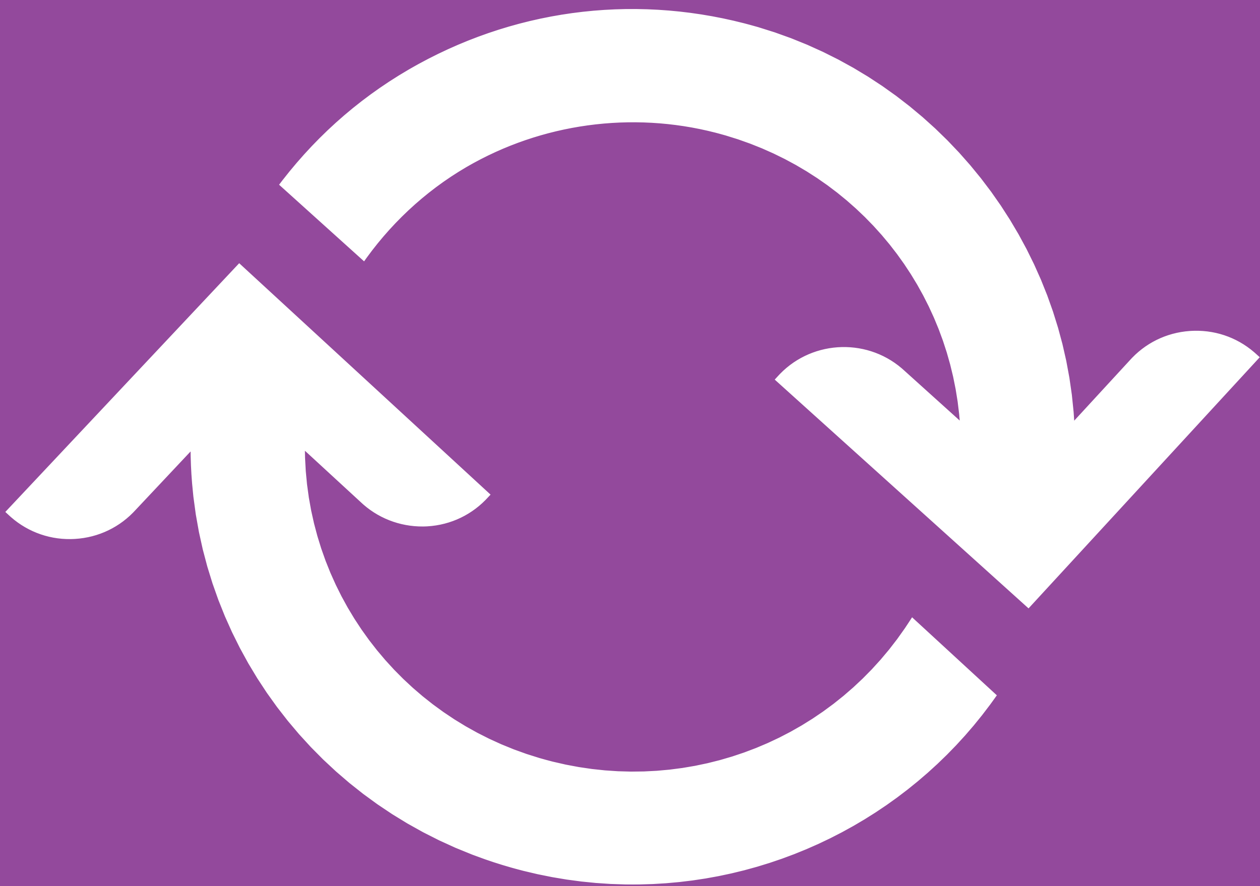
In the course of the year, the Bank participated in the sessions of Oliver Wyman Workgroup for Implementing the Standardized Approach to Operational Risk Assessment in Russia together with other system-relevant banks.

In 2019, the Bank will ensure further consistent development of the operational risk management and control process, as well as its optimisation in terms of susceptibility to internal and external changes.

Reputational Risks

Being a part of a leading European Group, the Bank pays particular attention to the credit institution's reputation. In 2018, the Bank proceeded with the improvement of the reputational risk management system. Reputational risk occurs during the lending of the Bank's customers, if the intended purpose of funds fails to conform to the applicable laws and social conventions. Given the current tasks in today's difficult conditions, the Bank optimised and adjusted both the monitoring mechanisms for the lending process to identify reputational risk in making the Bank's individual transactions, and the reporting system for this type of risk. The Reputational Risk Committee composed of Members of the Management Board made decisions on individual transactions that require a special approach to the assumption of reputational risks.

Transform operating model.



We are leveraging on digitalisation to transform our operating model. We are ahead of schedule, with an improved cost reduction. The optimisation of the cost base will remain important to ensure our Group's efficiency and effectiveness.

Global Banking Services

“In 2018, the Bank launched the strategic program «Sputnik» intended for a transition of retail and corporate banking to a single IT platform and use of unified standards for the service-oriented architecture.”

Algimantas Kundrotas
Member of the Management Board

In 2018, UniCredit Bank transformed Global Banking Services Block. The organisational changes as part of the transformation create a fundamental framework for further reform of the Bank. These changes are as follows:

- establishing the Organisation and Change Management Department;
- strengthening the functions of the Chief Data Office Department;
- consolidating transactional functions in the single Operations Back Office Department.

Organisation & Change Management

Establishing the Organisation and Change Management Department involved a consolidation of project, business needs and innovation management functions with organisational functions in order to:

- ensure an integrated management of business needs;
- centralise responsibility for the outcomes of project activities;
- ensure a unified approach to innovation management;
- ensure the transparency of financial and HR resource allocation.

For a quantum leap in the handling of business needs, the Bank created a single entry point for all change requests in the Bank. An important component is the joint priority-setting approach in cooperation with the business customer based on a common understanding of the value of each particular request. The request management process now involves an analysis of the processing component making it possible to find the optimum process and technical solution in each individual case.A single technology base is now used for the entire chain from identifying the business need and the expected business outcome on the request up to implementing an elaborated solution in the form of a task or routing thereof into the project.

The Bank centralised and streamlined the project management function by designating a single unit responsible for portfolio and project management and for the ultimate outcome of project activities. All project managers were united in Project Factory which assigns them to relevant projects. The Bank's effort ensured a major increase in the number of successful projects in 2018 and a visible shortening of the project delivery time.

As the result, a number of major projects such as centralisation of branches' payments, launch of a new corporate loan pipeline, introduction of the round-the-clock facility for transfers on accounts of individuals, modification of accounting rules, migration of SWIFT application and infrastructure to a new secure platform were successfully completed.

In 2018, the Bank launched the strategic program «Sputnik» intended for a transition of retail and corporate banking to a single IT platform and use of unified standards for the service-oriented architecture. As a result, retail will gain a much more modern automated banking system (Core system) that conforms to the most advanced performance and security requirements enabling the Bank to boost business volumes and expand its product range.

In 2019, the Bank is planning to implement an action plan to boost the change management efficiency in the Bank's top-priority development areas.

Information Technology

In 2018, UniCredit Bank continuously upgraded its information systems in accordance with its business priorities and IT strategy. The upgrading is aimed at providing a scalable and efficient IT landscape focused on business support and development.

The Bank successfully implemented an upgrade of the retail front office system to a new version and introduced a PUSH notification platform in order to cut SMS costs.

The availability of core systems was improved with special priority given to the information security strengthening.

The Bank successfully closed the financial year in a new IT landscape, provided the assurance level of customer services and submitted mandatory statements in a timely manner. Moreover, it was the first time when the closure process did not affect the availability of transfers on accounts of individuals.

In 2019, the Information & Communication Technology Department will focus on information security, IT optimisation and further advancement of the new IT landscape with a view to supporting and developing business, and complying with the regulatory authorities' requirements. The Bank is also planning to renew the obsolete equipment and system software.

Data Governance

In 2018, the Bank implemented a number of data quality management practices with involvement of several Bank's departments. In the end, the Bank introduced the facilities to leverage joint efforts of the employees and streamline data handling activities. The Bank successfully introduced a powerful toolkit for data quality assurance at any stages of data generation and processing. As a result, the Bank is now able to get rid of the routine in control functions and promptly introduce new sophisticated tests thus ensuring high confidence in data and ultimately, a new quality and speed of customer service.

Report on the Bank's Activities (Continued)

Besides, the Bank gave much attention to the introduction of solutions enhancing the reliability of data processing and storage. Implementation of the Bank's action plan ensured major improvements of the data reliability and timeliness indices for Enterprise Data Warehouse and the reporting systems. This was attested to by the fact that the Bank successfully passed the European Central Bank's test for prompt presentation of liquidity indicators.

Over the course of 2019, the Bank is planning to implement a set of activities involving both the enhancement of data management processes and the introduction of state-of-the-art data processing and analysis technologies.

Banking Operations

In 2018, the Operations Back Office Department acquired several new functional areas to ensure a more efficient management of banking operations and continuously improved the key business processes. The Department included the units primarily engaged in the issuance and servicing of the Bank's cards, maintenance of the Bank's ATMs and introduction of new card technologies, products and services. Automated operational processes by means of robotics – RPA (Robotic Process Automation) technology is a new business area for the Bank. Currently, robotic technologies are used for such processes as setting of the credit card limit to zero, generation of the cardholder register, execution of payment orders and extension of credit card insurance products. The Bank is planning to promote this business area proactively in 2019.

Moreover, the Bank completed the project of backup card centre updating and software certification to ensure a continuous issue and failure-free performance of the Bank's cards.

The Bank introduced new services and products intended for keen travellers: Mastercard World Elite cardholders will be able to benefit from Boingo Wi-Fi service, ensuring high-speed Internet connection via access points worldwide; Mastercard World Black Edition, Mastercard World Elite and Visa Platinum cardholders will be admitted to airport business lounges thanks to cooperation with Lounge Key.

In 2019, the Bank will continuously work on the implementation of its own solution for transfers involving other banks' cards for its website, Internet Bank and mobile app. The Bank is planning to develop contactless payment facilities (Apple Pay, Android Pay, Garmin Pay) and introduce new card products and technologies (Visa, Mastercard, MIR) for both retail and SME customers.

Similar to the previous years, the Bank maintains cooperation ties with partner banks (Raiffeisenbank, Credit Bank of Moscow, URALSIB, B&N Bank) and provides its customers with the opportunity to withdraw cash on the same terms that apply to the Bank's own ATMs. For the sake of convenience, customers can now withdraw money from the Bank's ATMs using the new 'changer' function.

The Bank has successfully launched the project enabling the employees of cash-desk to capture additional customer flows in order to increase sales of loan products to retail customers. Furthermore, this approach will help the Bank's clients to never miss a good offer of pre-approved consumer loans or credit card products from the Bank. The branches in Nizhny Novgorod and Voronezh have succeeded in pilot implementation of this practice, which was thereafter spread to other branches of the Bank except Moscow and St. Petersburg, where the implementation will be completed in 2019.

In early 2018, the Bank launched the project involving the handover of the entire credit analysis process cycle for mortgage loans to the Operations Back Office Department enabling the Bank to accelerate the application consideration process significantly and secure a higher position in the ranking of banks offering mortgage loans.

The Bank successfully put a new automated process for accepting and processing the customers' applications for early repayment of retail loans. This ensured major improvements in the application processing efficiency and in the Bank's customer service quality. It is crucial that a new set of functions provides the basis for further development and will enable the next step – provision of customers with an opportunity to repay loans early without having to visit the Bank.

Due to major changes in the Russian currency legislation in 2018, the Bank did large-scale work switching to the new currency control practice without any loss of customer service quality. Despite the time constraints, the Bank successfully accomplished a number of urgent tasks, including the automation of document exchange between the Bank and its customers and the introduction of new structured documents and electronic invoices. In concert with the customer' units, over 20 large training seminars were held for clients engaged in foreign economic activity. These seminars helped to increase the efficiency of work on attracting new clients and preserve the loyalty of existing ones. The Bank maintains a leading position in the banking community in terms of the quality of currency control services provided to customers.

The Bank completed the centralisation of all branches' operations within the Single Payment Centre. Furthermore, the Bank continued to transfer the processing of payments to a single payment module. These activities enabled the Bank to extend the operational hours for the Bank's customers, which is particularly important for the Eastern regions in Russia, located in different time zones.

In late 2018, the Bank's major USD clearer JPMorgan Chase Bank N. A., New York granted once again to the Bank the Elite Quality Recognition Award for exceptional quality and speed of commercial payment orders MT103 (99,79% of STP payments). This award was received for the 10th consecutive year. Less prestigious Quality Recognition Award had been granted to the Bank for seven years preceding this decade.

Over the course of the year, the Bank continuously implemented new procedural and IT solutions for back office support of business in the financial market for all types of transactions. Corporate customers are now offered to use STP processing of FOREX transactions quoted through I-Bank and FOREX transactions made on UniCredit EXCEED electronic trading platform, which made it possible to improve the customer service quality for FOREX transactions, accelerate the processing of these transactions and provide Russian customers with access to the European market quotes.

The Bank introduced OTC derivatives with a clearance through the Central Counterparty Non-Banking Credit Institution National Clearing Centre (Moscow Exchange Group) and new types of OTC Derivatives without central clearance: American FX Option, Commodity Swap for BRENT.

As part of automating control over compliance with the requirements of the tax legislation and preventing deposit transactions with unauthorised customers (owing tax payments to the Federal Tax Service), the Bank implemented a new technology to check the Federal Tax Service's Deposit Suspensions that makes it possible to keep track of the changes in the taxpayers' status promptly using the Federal Tax Service's documents received by the Bank.

In 2019, the Bank will consistently support and improve the business processes in all areas of banking operations and promote the Bank's new business areas.

Real Estate & Facility Management

Reorganisation of the Bank's units and business processes was an important success factor in this area in 2018. The Bank streamlined overall business activities, centralised the capital construction functions, developed new standards, optimised the document flow, introduced state-of-the-art control and analysis tools and implemented a project-based approach.

As scheduled under the banking network development and optimisation plan for 2018, the Bank opened 'Moskovskaya' and 'Akademicheskaya' supplementary offices in St. Petersburg, extended the front office in Kazan, relocated the Representative Office in Minsk (Republic of Belarus) to a new office, and closed the Representative Office in Orenburg; reduced the area of the front office in Yekaterinburg; launched the reconstruction of new quarters for 'Pervomayskaya' supplementary office in Moscow with a view to reducing the rent; purchased new office space in Stavropol to accommodate the Bank's Service Centre. The total area of serviced bank offices reached 78,834.4 sq. m (106 real estate items).

For the sake of customers' convenience, the Bank ensured the transformation of customer areas in the Bank's facilities: 'Stroganovsky' supplementary office in Perm, Nizhny Novgorod Branch, 'Bolshaya Sadovaya' supplementary office and 'Ulitsa Tekucheva' supplementary office in Rostov-on-Don, 'Belgorodsky' front office, and 'Podolsky' supplementary office. The Bank completed comprehensive repairs of its offices in 'Sochinsky' supplementary office, front offices in Omsk, Krasnoyarsk, Novosibirsk, Yekaterinburg, Samara and Ufa, in several offices in St. Petersburg and Moscow. The Bank carried out front repairs of its offices involving the renovation of signboards in Lipetsk, Volgograd, Voronezh, Belgorod, Novorossiysk, Stavropol, Perm and Mytishchi.

Furthermore, it is noteworthy that the Bank made major improvements in the fire safety of the Bank's offices during the reporting period.

Faithful to the tradition, the Bank took part in the World Wildlife Fund's "Earth Hour" environmental campaign in 2018. In 2018, the Bank was customarily represented by 30 offices: 12 offices in Moscow, 6 buildings in St. Petersburg and 12 regional banking facilities. As part of the Accessibility programme, the Bank properly marked the entrances to the Bank's supplementary offices in Moscow, installed ramps in the Perm and Stavropol branches, and surveyed and certified 25 Moscow-based and 18 regional offices to improve physical accessibility for customers.

Sustainability

“The Bank uses best international practices in human capital management and such high standards have been repeatedly acknowledged by the Top Employers Institute certification.”

Valentin Timakov
Head of Human Resources

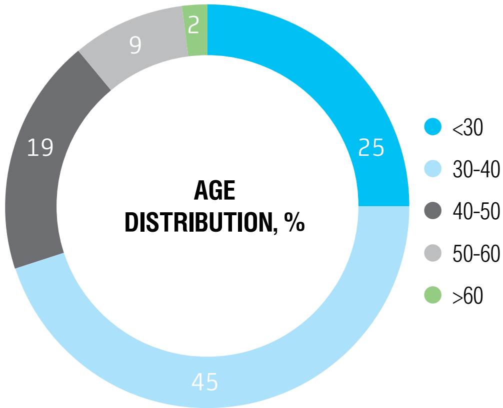
Human Capital Management

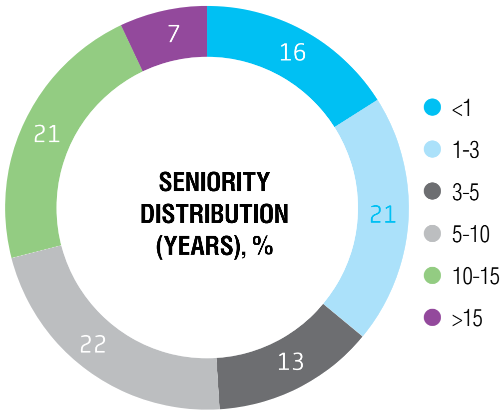
Bank employees form UniCredit capital and the Bank pays a lot of attention to employee development, engagement and well-being.

The Bank is a highly effective modern organisation where the need to be competitive from a market point of view is accompanied by a very comfortable and friendly environment inside the company.

The Bank uses best international practices in human capital management and such high standards have been repeatedly acknowledged by the Top Employers Institute certification, which recognises provision of exceptional working conditions, talent development at all levels, confirms HR leadership status and commitment to continuous improvement of HR practices and professional development of employees.

We are happy to observe career progression of our employees year on year as the Bank matures and grows.





Staff Recruitment and Employer Brand Development

Over the last years, UniCredit Bank's recruitment rates for outside candidates were consistently high. In 2018, the Bank filled 772 vacancies. 33% were filled by internal candidates or recommended by the employees. These figures confirm high loyalty and the Bank's focus on internal resources.

The Bank consistently gives a lot of attention to the promotion of employer brand and value offer. In 2018, UniCredit Bank was represented at all major platforms promoting the HR brand (hh.ru, inplace, finexecutive.ru, Banki.ru) and in the social media. As part of UniCredit Group's employer brand promotion programme (Do What Matters), the career page Job.unicredit.ru was redesigned more attractive, informative and inspiring. The Bank prioritises the recruitment of young talents and expanded its internship programme "Let's start Together". In 2018, 50 interns were able to participate in internship in different units of the Bank and many of them were finally employed. Furthermore, the Bank took part in more than 10 outside events aimed for recruiting students and graduates.

The Bank is trying to follow the trends and spirit of the time. In 2018, the Bank successfully launched a number of projects intended to automate the recruitment process: audio and chat bots to accelerate the candidate search process for mass vacancies, a gamification element to select candidates for starting positions, and video interviews to shortlist candidates. Moreover, the Bank automated the request generation process and integrated the internal portal with the E-Staff recruitment system.

As a confirmation of the high recruitment standards, staff development and employer brand promotion, UniCredit Bank has received the Top Employer certification as one of the best employers in Russia and Europe for the seventh time in a row.

People Development

In 2018, the Bank continued further transformation of the training and development eco-environment in the direction of stronger digitalisation. On-the-job learning, experience-based development, talent management systematisation and future leaders' training were in the focus from the human capital development perspective.

In 2018, the Bank made major improvements in the phased training system and flipped classroom technology, the key blended learning model with a modified sequence of learning activities: theory is studied independently using distance formats (online courses, digital libraries,

Sustainability (Continued)

Human Capital Management (Continued)

video tutorials and webinars), while practice is taught by a trainer in the format of face-to-face sessions. The training practice was replenished with new microteaching tools, online training simulators, training marathons in the social media and an updated video library.

As part of the Leadership in Action approach, the Bank launched a flagship development project for top managers – 'Business Leadership Lab 2018-2019'. Apart from face-to-face sessions intended to develop creative thinking, cooperation skills, and skills to make decisions in situations of uncertainty, the programme involves project teams' work. Project teams initiate and elaborate innovative initiatives relevant for the Bank's development under the guidance of Mentors (from amongst the top managers) and Sponsors (from amongst the Management Board members).

In addition, the Bank launched the 'OnBoarding 1st Time Manager' programme for the newly appointed line managers. It is based on the flipped classroom model and includes e-learning courses, interactive training simulators, social learning and face-to-face sessions.

In 2018, the Bank continued the internal education project PEER2PEER. The project comprised 20 training sessions: internal experts acted as speakers, the Bank employees studied the peculiarities of various business sectors in Russia, and gained experience with the Bank's product areas. At this stage, the primary objective of the project is to accumulate internal experience followed by knowledge sharing between the Bank employees and involvement of external experts in the search for the best practices in the market. Currently, the priority development task of the project is the PEER2PEER transition, without limitation, to the digital format with a view to building the Bank's common Knowledge Base available to any company employee.

Besides, the large-scale digital transformation of staff training and development continued under the DIGITAL ENVIRONMENT 2018 project in 2018. The project concerns the development of the Personal Portal as a one-stop shop for most developmental activities. The Bank introduced a system of mandatory training assignments and notifications, made major follow-up adjustments in the managers' and employees' personal accounts, and introduced a new content navigation system and multiple social learning elements (likes, comments, recommendations, news feeds, and trends). Furthermore, the Personal Portal was prepared for outside access 24/7. These steps ensured a total decline in mandatory training delays, a major increase in the training volumes, a shift in the proportions of face-to-face and distance learning in favour of distance learning, and ultimately, a more than 25% decline in the cost of a training hour.

In 2018, the Bank introduced the Onboarding procedure for basic mass positions in the retail chain. The procedure represents a 3-month adaptation programme made up of the product and operational training along with the development of skills required to service customers. This programme helped to reduce turnover of new joiners, i.e. employed less than one year, which decreased to level of 34% (versus 40% in 2017); shorten the time that the employees need to reach the targets; ensure a standardisation and consistency of expertise in the processes, procedures, products and customer management standards.

To that end, candidate pool development programmes were developed and implemented for retail chain employees ensuring a timely training of the 'bench'. As part of training potential candidates for the

36 — **Average age of employees** (vs. 35 in 2017)

6,7 — **Average seniority, years** (vs. 6,4 in 2017)

11,3% — **Voluntary turnover rate** vs. 15% average turnover in banking sector*

34% — **First year leavers** (vs. 40% in 2017)

47% — **Managers are Female**

* PwC PayWell survey

positions of supplementary office managers, the Bank implemented 'Your Success Palette' project that comprises a series of developmental activities involving a supervising member of the Management Board.

In addition to the foregoing, the Bank implemented new training formats in 2018: incentivising developmental marathons, shadowing, work in closed communities in messengers, table business games clubs, and e-learning training simulators for software and basic soft-skills.

Social Programmes and Benefits for Employees, Diversity Management

The Bank pays high attention to social programmes that support well-being of employees during their careers.

Every year the Bank provides employees with a variety of mostly required and life-improving benefits, such as voluntary medical insurance (VMI) for employees and their children; accident insurance; foreign travel insurance; corporate pension program, additional compensation for annual vacation periods, free meals, extra vacation days, compensation to salary level during sick leaves.

As a socially focused employer, the Bank is committed to constantly upgrade and introduce new instruments of social and financial protection of employees. In particular, in 2018, the Bank introduced Long Sick Leaves Coverage Program aimed to provide financial support in cases of injuries or sicknesses requiring long hospitalisations or out-patient care.

Employees' health is among key indicators of AO UniCredit Bank's well-being. To draw attention to health improvement and diseases preservation matters, the Bank is planning to organise Health Days starting early 2019.

In 2018 14 highly-qualified foreign professionals were employed by the Bank, while 40 Russian employees went to obtain international experience in Group's CEE offices. Share of females on top management positions is persistently high – 47%. The average number of Bank employees in 2018 was 4,000, where 67% were working in Moscow, 8% – in St. Petersburg, and the rest in other regions. Compared to previous year average age of employees increased to 36 years and the average length of service – to 6.7 years. Overall staff turnover rate decreased, compared to previous year and remains consistently below the average turnover rate in banking sector.

The Bank today is a young, experienced, well-trained and competent team of involved employees who are ready for changes and challenges of the time.

Being a member of UniCredit Group, UniCredit Bank observes all the relevant workflow management standards in the area of environmental protection and supports environmental initiatives.

The Bank implements multiple energy consumption controls at various facilities in order to minimise consumption and uses energy-efficient equipment in its day-to-day operations. The Bank uses state-of-the-art technologies to ensure a more eco-friendly management of its real property.

In 2018, UniCredit Bank took part in the Earth Hour global initiative coordinated by the World Wildlife Fund (WWF) on behalf of UniCredit Group. It is the eleventh year in a row that the Group has supported the campaign. On 24 March 2018, the Group turned off the light in its 77 buildings in 13 European countries. This year, the initiative involved 30 offices of the Bank in various cities of Russia.

Yet again in 2018, the Bank selected the winner of "You Can Help" annual contest of Bank employees' charity projects in the environmental category that accepts applications both from the Bank employees and from the participants of its communities in the social media. The Bank allocated RUB 500 thous to support the "Plant a Tree" project implemented by "My Planet" environmental foundation in Chelyabinsk where UniCredit Bank's branch has been operating since 2003. The purpose of the project is to improve the environmental situation in one of Russia's key industrial centres. The project provides for planting 5,000 new trees to make Chelyabinsk cleaner, greener and more beautiful. Over 2,000 trees had been planted by the end of 2008. Out of this amount, 140 trees were planted thanks to UniCredit Bank's involvement – in six kindergartens and six streets.

Furthermore, the Bank continued its productive cooperation with the Charity Shop and "Second Breath" charity foundation in 2018 by co-sponsoring the fourth "Free up Your Wardrobe" campaign that enjoys high popularity with the employees. A container was installed in the Bank's Headquarters in Moscow to collect clothing that was subsequently sold in the Charity Shop and handed over to the "Second Breath" charity foundation to support the poor. Over the course of the campaign, the Bank employees gave 427 kg (about 1,700 items) of clothing to charity. Over a half of this amount was handed over to the social service centres, assisted-care facilities, etc. for humanitarian purposes, while the rest was sent over to recovery and recycling.

Sustainability (Continued)

Charity

UniCredit Bank's activities are closely related to the interests and needs of the present-day Russian society. The Bank has supported charity programmes for many years. The Bank applies clear and transparent criteria to evaluate and select the projects for support programmes in its charity activities. To that end, the Bank created the Charity Council and implemented the Policy "Approaches, Principles and Rules for the Management of AO UniCredit Bank's Sponsorship and Charity Projects" based on UniCredit Group's global policy in this area in 2016. The Charity Council reviews charity organisations' requests, makes decisions to provide assistance and support, and determines the Bank's key activities in this area.

Art Therapy Programme: The Healing Power of Creation

UniCredit Bank has supported art therapy programmes for several years now. A variety of art therapy techniques are used during the sessions with children: drawing, modelling, painting on wood, theatrical performances, music therapy, etc. The creative process supported by an art therapist enables the kids to express their suppressed feelings and emotions. In case of chronic disease, children oftentimes develop a distorted self-image and lose direction in life. Besides, art therapy sessions give an opportunity to show oneself, build confidence, strengthen one's "ego" and change one's attitude to hospitals and treatment in general. According to experts, a single session may give health benefits to a child.

In 2018, the Bank supported the implementation of programmes in the health facilities and special care institutions of Moscow, St. Petersburg and Leningrad Region, and in Tula and Vladimir for children under the care of "Sunflower", "Wings for All", "When They Need You", "Children's Hospital" foundations, the Centre for Curative Pedagogics, and the Psychoneurological Hospital for children suffering from CNS injury and mental disturbances.

Assistance to the Disadvantaged Social Groups. Helping the Elderly

Over a period of several years, UniCredit Bank has supported the Great Patriotic War veterans by allocating money to financial assistance and gifts on the occasion of the Victory Day, New Year and anniversaries. In 2018, the Bank cooperated closely with the Russian Charity Foundation of War, Labour and Armed Forces Veterans (Pensioners), Moscow Non-Profit Organisation of War Veterans, "Military Counterintelligence Veterans" Inter-Regional Non-Profit Organisation and "Devyatichi" Association of State Guard Veterans. Jointly with "Joy of Old Age" relief foundation for the elderly and disabled, the Bank held a social media campaign to support those under the foundation's care.

Classes in the game room of the Burn center

Art therapy in the Oncology Department of the hospital in St. Petersburg

The foundation and used received donations to pay salaries to the caretakers hired by welfare and health care institutions. In December, the Bank employees took part in the foundation's New Year campaign and collected around 400 New Year gifts for the lonely elderly people.

Helping People with Disabilities and Health Conditions

In 2018 – the year of FIFA World Cup in Russia – the Bank supported the "Soccer for Everyone" project by "Perspective" Regional Non-Profit Organisation intended to energise and socialise disabled children through physical fitness and sports activities, specifically, through soccer. As many as 512 children with different disabilities from 4 specialised educational institutions in Moscow took part in the project activities.

The project involved regular adaptation soccer sessions for disabled children in the premises of selected schools and inclusive sports

In the creative workshop for children with autism disorders (Tula)

Volleyball training for disabled children

activities for children and youth with and without disabilities (soccer games, master classes, joint trips to and attendance of soccer games). Moreover, the Bank supported the programme of "Making Your Dream Come True" charity foundation providing for the purchase of desks adapted to the needs of disabled children.

Assistance with the Problems of Children's Health and Well-Being

In 2018, "AiF. Kind Heart" charity foundation joined the list of UniCredit Bank's partners. The Bank's donations were used to purchase an automated peritoneal dialysis machine for the Filatov children's hospital in Moscow. The purchase of this machine is not covered by the state quotas, and yet it is indispensable for the patients awaiting transplantation of the donor kidney.

The Bank also facilitated the implementation of "Breathe with me" and "Ambulance" programmes by "For the Sake of Life" foundation. Under these programmes, the foundation purchased the necessary equipment and consumables for patients suffering from cystic fibrosis and awaiting the lungs transplant.

The Bank continuously supported "Find a Family" charity foundation facilitating the placement in foster families (since 2017) and funded the activities of the Foster Family Support Centre in Nizhny Novgorod. This centre has developed, implemented and continuously improves its original methodology of work with foster families developed with advice from Russia's best experts for family matters and foster family support.

Volunteering. Charity Races

Charity races represent a simple and affordable type of charity intended both to draw attention to social problems and help children on the one hand, and to support the company's value system and strengthen team

Charity race "Sports for Good"

spirit on the other. In 2018, the Bank employees took part in "Sports for Good" charity races organised by "Love Syndrome" charity foundation supporting people with the Down syndrome and by its partners in Moscow and Volgograd.

Charity Campaigns in the Social Media

"Generous Tuesday" is the international charity day held every year on the last week of November. It aims at bringing non-profits, business, government and citizens together to promote charity work.

In November 2018, UniCredit Bank organised a charity campaign to support children under the care of "Sunflower" foundation in the

Sustainability (Continued)

Charity (продолжение)

social media as part of this initiative. After the end of the campaign, the Bank transferred collected money to the foundation that was used to purchase life-saving drugs, run genetic tests and do creative work with hospitalised children. Just before the New Year, the Bank organised yet another campaign to support "Joy of Old Age" foundation for the elderly.

Donor Day

Blood transfusion is an essential part of treatment for children with oncological and haematological diseases. It is already the fourth year in a row that the Bank holds the Donor Days jointly with "Gift of Life" foundation. Over 150 employees took part in the Donor Days in the Bank's Nagatino and Prechistenskaya Embankment offices in 2018.

Multiple donors refused to take the due donor's allowance and donated money for the benefit of the foundation. This money was used to purchase medicines for the patients under the foundation's care.

Bright Day

Each April, the Bank traditionally holds the "Bright Day" annual charity campaign organised jointly with "Sunflower" charity foundation supporting children with immune disorders.

The campaign aims at drawing attention to the problem of diagnosing and treating primary immune deficiency in Russia.

On the "Bright Day", the employees of the Bank's several offices in Moscow and in the regions wore bright clothes at work and took part in the dedicated contest in Instagram. The Bank's office had a collection box for donations that were used to treat children under the care of "Sunflower" foundation.

Charity Fairs, Collection of Clothes, and Gifts

It has already become a good tradition to hold holiday charity fairs in UniCredit Bank's offices in Moscow. Last year, the Bank's Prechistenskaya Embankment office held fairs on the occasion of the International Women's Day (8 March) and the New Year holidays. "Life as a Miracle", "Sunflower" and "For the Sake of Life" charity foundations and the Centre for Curative Pedagogics offered merchandise for sale, raising funds that were allocated to help children under their care.

To support "SOS Children's Villages" international charity organisation, UniCredit Bank's offices in Moscow have had donation collection boxes for several years now.

"You Can Help" Corporate Contest for the Best Idea of a Charity Project

4 projects were selected as the winners of "You Can Help" annual corporate contest. The Bank allocated a total of RUB 1,500,000 to fund these projects.

The contest panel includes both the Bank's in-house experts (members of the Charity Council) and the leading outside experts in the field of charity (managers of major charity foundations)

In 2018, 35 applications were submitted for the contest and four of them were named as the winners. Three projects have already been successfully implemented, and the fourth will be completed over the course of 2019.

Winning projects:

- "House with a Guiding Light" charity foundation: purchase of medicines and equipment for the Moscow Children's Hospice.
- Stavropol Territory Social Support Fund: creation of a greenhouse on the school garden plot of the boarding school for children with disabilities.
- "Assistance" Centre to support families with children with disabilities: project providing for the creation of "My Special Kid" school for parents of children with disabilities.
- "My Planet" environmental charity project to plant trees in Chelyabinsk.

"Your Heart's Personal Contribution" Charity Programme

"Your Heart's Personal Contribution" special corporate charity programme makes it possible to make individual contributions.

The Bank launched it in 2004 to support the Bank employees and their children in hardship. In 2018, the Bank employee's donations were allocated to treat employees' children and to support "Sofia" and "Joy of Old Age" foundations' projects for senior citizens in Kaluga and Bryansk Regions.

Support of Culture and Arts

In 2018, UniCredit Bank continued playing an active part in the cultural life of the country and society by supporting a number of exciting and important projects in this area.

The core area of these efforts is a corporate collection of Russian post avant-garde painters that the Bank has been creating for 25 years already. The Bank's collection of paintings and graphics of the 1920-1930s is composed of true international-scale masterpieces by outstanding painters, specifically, by Daniil Cherkes, Leonid Zusman, Nadezhda Udaltsova, Antonina Sofronova, Leonid Chupyatov, Alexander Drevin, Arseny Shultz, etc. The works by some of them are included in the collections of major museums, including the State Tretyakov Gallery, the State Russian Museum and the Pushkin State Museum of Fine Arts. The value of the works forming part of the Bank's collection has been acknowledged by reputed art experts and the collection itself represents a significant contribution of the Bank in the Russian cultural legacy.

The works from the collection are exhibited in the Bank's offices on a regular basis to all interested persons. In 2018, UniCredit Bank organised a series of such expositions dedicated to a common subject – the portrait genre. Four exhibitions held by the Bank introduced rare portraits by Fyodor Semyonov-Amursky, Alexandra Koltsova-Bychkova, Rostislav Barto, and Mikhail Sokolov to the Bank customers and guests.

In addition, thanks to the Bank's support, all interested persons had an opportunity to learn about post avant-garde at the free lectures delivered by Alexander Balashov, art expert and the collection curator. In 2018, Alexander told about the inception of post avant-garde and its first representatives turning into the symbols of the new art in the 1920-1930s and shared the information about Vasily Koroteev and Boris Rusetsky's lives with his audience.

In 2018, the Bank continued its cooperation with the festival "This Was Just Recently, This Was a Long Time Ago". In April, the Bank supported the gala concert in the Pillar Hall of Unions for WW2 veterans devoted to 73th Victory Day and in December – the recital of the contest held as part of the festival ("Retro: 20th Century through the Voices of Children of the 21st Century").

Yet another charity concert – "Mozart-Gala" – was held in May 2018 in the Grand Hall of the Moscow Conservatory. The concert featured Yulia Lezhneva – an outstanding singer, the prizewinner of multiple prestigious international awards who performs in the world's most prestigious opera houses and concert halls on a regular basis. The Bank gave free tickets for this rare concert to children from low-income families and orphanages, war veterans, and students of musical universities.

As a representative of Italian UniCredit Group, UniCredit Bank supported a number of important initiatives aimed at fostering cultural ties between our countries in 2018.

In June, UniCredit Bank acted as a partner of the project implemented by the Pushkin State Museum of Fine Arts that has a long history of cooperation with the Bank. The Bank sponsored the exhibition by Fabrizio Plessi, Italian world-scale artist and outstanding master of contemporary art. A pioneer of video art, Plessi makes use of modern technology to link the past and the present by amalgamating the traditional artistic methods with classical substance in an unparalleled manner and his exhibition in the Pushkin State Museum of Fine Arts was among the most exciting and uncommon events of the year on the capital city's cultural map.

In addition, UniCredit Bank supported a series of readings devoted to Dante Alighieri's Divine Comedy launched in November under the auspices of the Consulate of the Republic of Italy in Moscow. The series will last for six months. Over this period, the guests will be able to listen to, analyse, discuss the immortal work by exchanging their opinions and impressions.

In December 2018, under the auspices of its cooperation with the Embassy of Italy in Moscow, UniCredit Bank yet again sponsored the Italian Market – a charity Christmas fair traditionally held in the garden of Italian Ambassador's residence. The Bank both provided the event with financial support and offered the sets of hand-made Christmas toys for sale at the fair. The funds raised at the event were forwarded to the Dmitry Rogachev National Research Centre of Paediatric Haematology, Oncology and Immunology.

Support of Sports

Traditionally, the support of sports initiatives and the involvement of employees into various events in this field remains one of the most significant areas of the Bank's social activities.

In January 2018, the 6th UniCredit Bank Open Cross-Country Skiing Championship was held in the Bitsa recreation area. All bank employees as well as their relatives and friends could participate in the event.

In March 2018, the Bank's team took part in the 20th Anniversary Ski Meeting. It is an annual winter sports competition among UniCredit Group employees. The Russian team demonstrated great results. Our sportsmen won the 1st place in Snowboard and the 3rd place in Cross-Country competitions according to overall team ratings. They also were among the top-10 in the slalom team rating.

The Bank provided necessary support to its football team that throughout the year successfully participated in various competitions and tournaments showing good results and gaining awards.

Management

Supervisory Board of AO UniCredit Bank (as of January 1, 2019)

Marco Radice, Chairman of the Supervisory Board

Born in 1957. Graduate of J.D., Parma Law School, 1980, Accademia Guardia di Finanza, Rome, 1982, New York Law School, New York, 1983. From 1992 up to 2006 Marco Radice occupied position Non executive director, Itas s.p.a., Insurance Company, Trento. From April 1995 to May 2015 he was Member of the Board of Directors of Itas Mutua, Insurance Company. From 1994 up to 2001 he was Chairman of the Board of Statutory Internal Auditors, Cassa di Risparmio di Trento e Rovereto, Member / Chairman of the Board of Statutory Internal Auditors of Industrial and Financial Services Companies (Pioneer Alternative Investments S.g.r.p.a., Milano Innovazione S.g.r.p.a., Vivacity S.p.a., Iniziative Urbane s.p.a., Valore S.I.M. s.p.a., Metalsistem s.p.a, Rovimpex s.p.a. and others). From 1998 up to 2006 he was Professor of Financial Services Regulation Law, University of Trento. From April 2010 to May 2012 Mr. Radice was Member of the Board of Directors of UniCredit Audit S.p.a. Since April 1994, he has been Co-Principal at Radice & Cereda. He was also Member of Audit Committee of Bulbank, Bulgaria from 10.05.2012 to 10.07.2017 and has been its Chairman on 11.07.2017. He has been Chairman of Audit Committee of UniCredit Bank Serbia since 23.06.2008, Chairman of the Board of Directors of Itas Vita s.p.a., Insurance Company since May 2000. Since 27.04.2012, he is a member of the Supervisory Board of AO UniCredit Bank. Since 21.12.2018, he is Chairman of the Supervisory Board of AO UniCredit Bank.

Andrea Diamanti, Deputy Chairman of the Supervisory Board

Born in 1973. Andrea Diamanti graduated from Bocconi University, Italy, Degree in Business Administration in 1998, in 2002 he also received a certificate by CFA Institute. Andrea started his career in 1998 at Commerzbank AG, Milan Branch as Assistant Manager. He joined UniCredit in 2000 as Vice President in Global Acquisition and Leveraged Finance at HVB Milan Branch. Since then he has strongly contributed to the growth of the Financial Sponsor Solutions franchise. From December 2005 to May 2012 he was Managing Director of Financial Sponsor Solutions at UniCredit S.p.A. Then from April 2012 to March 2015 he served as Head of Financial Sponsor Solutions Austria & CEE at UniCredit Bank Austria AG responsible for structured finance business line in the region and the whole large corporate loan book in CEE. Then from April 2015 to September 2016 Mr. Diamanti was Head of Financing CEE at UniCredit Bank Austria AG. Since September 2016, Andrea is head of corporate and investment banking in CEE, with responsibilities for the corporate business in the region. He is a Member of the Supervisory Board, Audit Committee, Risk Committee and Remuneration Committee of UniCredit Bank Hungary Zrt. since 23.02.2017, he is also a Member of the Supervisory Board and Risk Committee of UniCredit Bank Czech Republic and Slovakia, a.s. since 01.03.2017. Since 17.04.2017, he is a Member of the Supervisory Board at AO UniCredit Bank. Since 11.04.2018, he was appointed a Deputy Chairman of the Supervisory Board at AO UniCredit Bank.

H. Faik Acıkalın, Member of the Supervisory Board

Born in 1962. Graduated from Middle East Technical University BS with degree in Business Administration in 1987. Faik Acıkalın began his banking career in 1987 as a Management Trainee at Interbank. He subsequently worked in various positions at several banks. In 1998, he joined Dışbank as Executive Vice President. Later after several managerial positions he became the President of Dışbank, which later following the acquisition by Fortis was renamed Fortisbank. In 2007, he became CEO at large newsprint media holding company Doğan Gazetecilik. In April 2009, Acıkalın was appointed as Executive Director of Yapı Kredi's Board of Directors and was also appointed as Chairman of the Executive Committee. From May 2009 to 29.12.2017, he served as Yapı Kredi's CEO. And in addition to his current role, from March 2010 to 29.12.2017, Acıkalın was also appointed as CEO of Koc Financial Services. Also from August 2011 to 29.12.2017, Acıkalın was the President of Koc Holding's Banking and Insurance Group. At the same time from June 2009 to 29.12.2017 Acıkalın served as Chairman of Yapı Kredi subsidiaries (Yapı Kredi Invest, Yapı Kredi Leasing, Yapı Kredi Factoring, Yapı Kredi Bank Nederland NV, Yapı Kredi Bank Azerbaijan, Yapı Kredi Bank Moscow). He also was Cahaiman of Yapı Kredi Bank Malta from March 2014 to 29.12.2017, Chairman of Yapı Kredi Koray Real Estate Investment Trust from March 2011 to 29.12.2017, Vice Chairman of Banque de Commerce et de Placements S.A. from September 2011 to 29.12.2017 and Board Member of the Banks Association of Turkey from May 2009 to December 2017. He willingly retired from his positions in Yapı Kredi Group and Koc Holding, as of 29 December 2017. At the present time, he has served also as Independent Member of Board of Directors at the following companies: Doğan Holding, Turkey (since 30.03.2018), Migros Ticaret AS, Turkey (since 15.05.2018), Eczacıbaşı Group, Turkey (since 22.05.2018). Since 09.04.2018, he is a member of the Supervisory Board of AO UniCredit Bank.

Nikolaus Maximilian Linaric, Member of the Supervisory Board

Born in 1973. Graduated from University of Vienna in 2002, has Masters Degree in law. Nikolaus Maximilian Linaric started his professional career in 1996 working in international and Austrian law firms and private companies. After joining Bank Austria Creditanstalt AG in 2003, he worked in International Credit Risk Management, Country Desk: Bulgaria, Romania, Serbia. Then he worked at managerial positions in Risk Management area in HVB Group's banks in Serbia and UniCredit Bank Austria. In 2011, he was appointed Chief Risk Officer, member of the Management Board of Zagrebacka Banka, Zagreb, Croatia. From July 1 to September 31, 2016, Mr. Linaric was Head of CEE Credit Operations, member and deputy chairman of the Credit Committee of UniCredit Bank Austria, Vienna. Since November 1, 2016 to November 19, 2018 he was Head of Large Credit Transactions & Country Risk, member of GTCC of UniCredit S.p.A., Milan, Italy. Since 20.11.2018, he has been Deputy Chairman of the Management Board and Deputy General Manager of Zagrebacka Banka, Zagreb, Croatia. Since 09.04.2018, he is a member of the Supervisory Board of AO UniCredit Bank.

Anna Maria Ricco,

Member of the Supervisory Board

Born in 1969. Graduated from Universita degli Studi di Milano, has degree in Computer Science. Anna Maria Ricco started her professional career in 1993 at Origin Italy. After an experience in Andersen Consulting, she worked at McKinsey & Co since 2000 up to 2005. Soon after she joined UniCredit Global Banking Services Division in Organisation, covering key positions in several initiatives about integration, including the One4C Project. From October 2007 to January 2011, she was head of staff of UniCredit Chief Operating Officer as well as of Internal Customer Satisfaction Unit. In February 2011 she joined i-Faber with the role of General Manager, then becoming CEO, Member of the Board of Directors. From 2011 to 2013 was the Chairman of the Board of Directors at Joinet Srl, UniCredit. From 03.07.2014 to 29.06.2015 she served as Member of the Board of Directors at SaloneN. 1 SpA, UniCredit Group. From 01.01.2014 to 01.06.2018 she was Head of SL Real Estate, Italy, UniCredit Business Integrated Solutions S.C.p.A. At the present time she has occupied the following positions: Member of the Board of Directors at Unicredit Subito CaSa SpA since 11.03.2014, Member of the Management Committee of Fondo Andromeda since 31.10.2014, Member of the Management Committee of IDeA Fimit SGR, Fondo Sigma Immobiliare since 31.03.2014, Head of Business Transformation and Operation Unit in Italy, UniCredit Servicies, Italy since 01.06.2018. Since 11.08.2014, she is a member of the Supervisory Board of AO UniCredit Bank.

Carlo Vivaldi,

Member of the Supervisory Board

Born in 1965. After graduating from the University of Ca' Foscari (Venice), Department of Business Administration, Carlo Vivaldi started his career in 1991 as teller in Cassamarca, which merged into UniCredit in 1998. In 2000 he moved under New Europe Division of UniCredit. In 2002, he pursued the position of CFO and Executive Vice President at KFS and Yapı Kredi, Turkey. In October 2007, he was appointed as Member of the Management Board and Chief Financial Officer at UniCredit Bank Austria AG and started to serve in several other Supervisory Boards in CEE subsidiaries of UniCredit Group. In May 2009, Carlo Vivaldi was appointed as Member of the Board of Directors at Yapı Kredi, Turkey, and in January 2011, Deputy Chairman of the Board of Directors, Member of Remuneration Committee at Yapı Kredi. In November 2009, he was appointed as Member of the Board of Directors at Koç Financial Services, and on 16.02.2015 he was appointed as Deputy Chairman of the Board of Directors at Koç Financial Services, Turkey. He has also served as Deputy Chairman of the Board of Directors in all Yapi Kredi subsidiaries and Allianz Pension Fund company, and Member of the Board of Directors at Yapı Kredi Koray and Yapi Kredi Bank Malta LTD since March 2011 to February 2015. From 22.03.2011 to 12.07.2013 he was Deputy Chairman of the Board of Directors at Yapı Kredi Sigorta A.Ş., from 17.03.2011 to 16.12.2015, he was Deputy Chairman of the Board of Directors at Yapı Kredi Portföy Yönetimi A.Ş. Since February 16, 2015 to September 30, 2016, Vivaldi served as Head of CEE Division of UniCredit and Deputy Chairman of the Management Board of UniCredit Bank Austria, since October 1, 2016, he has served as the Head of Central & Eastern Europe Division at UniCredit S.p.A., Vienna. At the present time Mr. Vivaldi has occupied the following positions: Senior Executive Vice President, Member of Executive Management Committee, Head of CEE Division at UniCredit S.p.A. since 16.02.2015, Member of Advisory Board at UniCredit Turn-Around Management CEE GmbH since 23.02.2015, Member of Administrative boards at UniCredit & Universities Knight of Labor Ugo Foscolo Foundation since 11.02.2015 and Member of Administrative boards at UniCredit Foundation (UNIDEA) since 18.03.2016. Since 29.04.2015, he is a Member of the Supervisory Board at AO UniCredit Bank.

In 2018, Giuseppe Scognamiglio, Ljiljana Cortan and Erich Hampel resigned from the Supervisory Board, while H. Faik Acıkalın and Nikolaus Maximilian Linaric were appointed to the Supervisory Board. Since 11.04.2018, Andrea Diamanti is appointed Deputy Chairman of the Supervisory Board. By the decision of the sole shareholder as of 21.12.2018, Marco Radice was appointed Chairman of the Supervisory Board.
No shares of AO UniCredit Bank are held by any member of the Supervisory Board.

Management (Continued)

Management Board of AO UniCredit Bank (as of January 1, 2019)

Mikhail Yurievich Alekseev, Chairman of the Management Board

Born in 1964. Mr. Alekseev graduated cum laude from Moscow Finance Institute in 1986. In 1989 he defended a dissertation and received PhD in Economics and in 1992 he defended a dissertation and received PhD (full Doctor) in Economics. Mr. Alekseev started his career in the USSR Ministry of Finance. In 1992 he was elected to the Management Board of Mezhkombank. In 1995, he moved to UNEXIM Bank to the position of the Deputy Chairman of the Management Board. From 1999 to 2006 Mikhail Alekseev held the positions of Senior Vice-President and Deputy Chairman of the Management Board of Rosbank. His next place of employment was Rosprombank (from 2006), where he held the position of President and Chairman of the Board. In July 2008, in accordance with resolution of the Supervisory Board he was appointed Chairman of the Management Board at UniCredit Bank and is responsible for general management of the Bank's operations. Mr. Alekseev was a Member of the Board of Directors of TMK from 28.06.2011 to 25.06.2018, Non-Executive Director of BARN B.V., Netherlands from 15.04.2013 to 30.09.2018. At the present time he has served as Chairman of the Board of Directors of RN Bank since 05.09.2013, Chairman of the Supervisory Board of OOO "UniCredit Leasing" since 10.03.2011, Member of the Advisory Board of the Association of Banks of Russia since 20.05.2009, Member of the Management Board of the Russian Union of Industrialists and Entrepreneurs since 11.11.2009.

Graziano Cameli,

Member of the Management Board, Chief Operating Officer, Executive Vice President

Born in 1967. Graziano Cameli holds a degree in Economics from the University of Trieste (Italian Università degli Studi di Trieste, UNITS), 1992. Graziano Cameli has gained a solid international and professional experience in the finance and banking industry. He started his career path at Assicurazioni Generali and then at McKinsey, joining the Group later in 2005 at Banca di Roma as Head of Planning & Control; further on, he continued his path as Head of Retail & Private Sales. In 2008, Graziano became Head of CEE Retail at Bank Austria. Since 2010 Mr. Cameli held the position of the General Manager and First Deputy Chairman of the Management Board and then from August 2013 the position of CEO at Ukrsotsbank (UniCredit Bank™) in Ukraine. In August 2015 was appointed Chief Operating Officer, Executive Vice President of AO UniCredit Bank, in October 2015 became Member of the Management Board of AO UniCredit Bank. Mr. Cameli is Member of the Board of Directors of RN Bank since 18.08.2018 and Chairman of the Board of Directors of BARN B.V., Netherlands since 01.10.2018.

Algimantas Kundrotas,

Member of the Management Board, Senior Vice President

Born in 1964. Algimantas Kundrotas holds a degree in Economics from Vilnius University, Lithuania, 1989. Algimantas Kundrotas joined the Group in 2000 as Deputy General Manager and Head of Corporate and Treasury Department at UniCredit in Lithuania. From 2007 till 2013 he worked in AS UniCredit Bank in Latvia, first as Director of Business Development, Board Member in charge of the Corporate and Private Banking and since 2012 as General Director, CEO of the bank. In 2014 Algimantas took over the role of Chief Program Officer for CEE2020 in UniCredit Bank Austria AG, and following he was appointed as Chief Program Officer for CEE Transform 2019 in UniCredit SpA Zweigniederlassung Vienna, Austria. In December 2017, Mr. Kundrotas was appointed Senior Vice-President at AO UniCredit Bank (since February 5, 2018). On May 7, 2018, Algimantas Kundrotas was appointed Member of the Management Board of AO UniCredit Bank responsible for the Global Banking Services. Since 28.06.2013 up to the present time, Mr.Kundrotas is Vice-Chairman of the Supervisory Board of UniCredit Leasing, Riga.

Ivan Matveev,

Member of the Management Board, Senior Vice President

Born in 1979. Ivan holds a Master Degree in Strategic Management from State University Higher School of economics (Moscow, Russia), received in 2002, and Master of Business Administration from European School of Business (Munich, Germany). From 1999 to 2004, Ivan Matveev had held various positions in OJSC RAO "Unified Energy Systems of Russia", then he held management positions in IT and retail sectors. Mr. Matveev joined UniCredit Bank in January 2011. From 2011 to 2012, he was Director of the Organisation Department then, since 2012 he had been Head of Retail Sales Department. In September 2015, Ivan Matveev was appointed Member of the Management Board of AO UniCredit Bank responsible for retail business.

Stefano Santini,

Member of the Management Board, Senior Vice President

Born in 1975. Stefano Santini holds a degree in Economics from Bocconi University, 1999. He joined UniCredit in 2000, in the newly established New Europe Division. After working with growing responsibilities in several banks of the Group located in the CEE region, in 2003 he started to cooperate with Bank Pekao in Poland, becoming, in 2005, Deputy Head of Finance Division. In 2006 – following the merger between UniCredit and HVB – he was appointed as Project Manager of the spin off and merger of Bank BPH and Bank Pekao, the largest Polish M&A banking transaction, contributing to create the highest capitalized company in the local market. In April 2010, mr Santini joined the Management Board at UniCredit Bank Hungary as Chief Financial Officer. Three years later, in April 2013, he returned to Bank Pekao as Vice President of the Management Board, supervising the Financial Division (CFO). At the same time, he served as Deputy Chairman of the Supervisory Board at Pekao Investment Banking and Member of the Supervisory Board of Pekao Leasing. On July 4, 2017, Mr. Santini was appointed Senior Vice-President at AO UniCredit Bank. On October 25, 2017, Stefano Santini was appointed Member of the Management Board of AO UniCredit Bank responsible for the Financial Division. Mr. Santini is Member of Board of Directors of BARN B.V., Netherlands since 01.10.2018, Member of the Board of Directors of RN Bank since 28.11.2018.

Kirill Zhukov-Emelyanov,

Member of the Management Board, Senior Vice President

Born in 1970. Mr. Zhukov-Emelyanov graduated from the Moscow State Institute of International Relations (MGIMO-University), International Economic Relations in 1993. He started his career in 1994 with UniCredit Bank (former International Moscow Bank) in the field of corporate finance. From 1999 he managed credit business of Bank Austria Creditanstalt Russia. Following its merger with International Moscow Bank in 2001, he held executive positions at corporate banking division of International Moscow Bank. From 2003, he was responsible for the development of the regional network and corporate business of International Moscow Bank, and then of UniCredit Bank. In December 2008, in accordance with resolution of the Supervisory Board he was appointed Member of the Management Board responsible for corporate banking business and Private Banking of AO UniCredit Bank.

Svetlana Zolotareva,

Member of the Management Board, Senior Vice President

Born in 1979. Svetlana Zolotareva graduated from the Moscow State University, Economics Faculty in 2002, with honors and holds MBA from London Business School & Columbia Business School (2013). Svetlana has worked at UniCredit Bank (previously International Moscow Bank) since September 2002. For this period, Svetlana got experience in various units of the Bank in the area of risk management and corporate banking business. Since 2009, she occupied the position of Head of Mid-Market/Regions Department. Since 2013 she has also supervised the development of Private Banking business area. Since 11.04.2012, Svetlana has also served as Member of Supervisory Board of OOO "UniCredit Leasing". In July 2016, Svetlana Zolotareva was appointed Member of the Board of AO UniCredit Bank responsible for the Risk Division.

In 2018, Algimantas Kundrotas joined the Management Board.
No shares of AO UniCredit Bank are held by any member of the Management Board.

Maximise commercial bank value.

We continue to maximise commercial bank value by successfully focusing on our clients, delivering a positive experience through our multichannel strategy and best-in-class products and services. The fully plugged in CIB leverages on the Group's strong commercial banking relationships to support the real economy.

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Adopt lean but steering center.

We have created a lean but steering center to drive Group-wide performance and ensure accountability. Through leaner support functions and transparent cost allocation, we focus on efficiency and simplification.

Consolidated Financial Statements

and Independent Auditor's Report for the Year Ended 31 December 2018

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

Management of AO UniCredit Bank is responsible for the preparation of the consolidated financial statements that present fairly the financial position of AO UniCredit Bank and its subsidiary and associate (collectively – the "Group") as at 31 December 2018, and the related consolidated statements of comprehensive income for the year then ended, changes in equity and cash flows for the year then ended, and of significant accounting policies and notes to the consolidated financial statements (the "consolidated financial statements") in compliance with International Financial Reporting Standards ("IFRS").

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

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

Management is also responsible for:

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

The consolidated financial statements for the year ended 31 December 2018 were approved by the Supervisory Board of AO UniCredit Bank on 15 March 2019 based on the decision of Board of Management of AO UniCredit Bank dated 12 March 2019.

M. Alekseev
Chairman of the Board of Management

15 March 2019

G. Chernysheva
Chief Accountant

Independent Auditor's Report

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To the Shareholder and the Supervisory Board of AO UniCredit Bank

Opinion

We have audited the consolidated financial statements of AO UniCredit Bank and its subsidiary (collectively – the "Group"), which comprise the consolidated statement of financial position as at December 31, 2018 and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

Basis for Opinion

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

Key Audit Matters

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

Why the matter was determined to be a key audit matter	How the matter was addressed in the audit
Assessment and measurement of expected credit losses of loans to customers	
We focused on this area because assessement of significant increase in credit risk and measurement of expected credit losses (ECL) require considerable judgement and involves estimation uncertainties. Additionally, the transition to IFRS 9 is associated with complex new standard's requirements and application of new techniquecs, which require altering the existing and developing new models for assessement and measurement of the ECL.	We assessed design and implementation, and tested operating effectiveness of relevant controls over the management's processes for the assessement, measurement and monitoring the level of ECL for both collectively and individual assessed loans, including the controls over timely identification of significant increase in credit risk.

Independent Auditor's Report (Continued)

Why the matter was determined to be a key audit matter	How the matter was addressed in the audit
For collectively assessed loans the measurement of the ECL involves application of a complex risk rating system based on historical data adjusted for relevant forward looking information. For individually assessed loans the measurement of ECL is based on estimation of future cash flows, which requires analysis of the borrower's current and future financial performance, collateral value and evaluation of possible outcome. In particular we focused on: • the principal assumptions and significant inputs underlying the estimation of ECL and corresponding risk rating system for performing loans and the integrity of the models to make those calculations; • timely identification of significant increase in credit risk based on quantitive and qualitative factors; • the principal assumptions and significant inputs underlying the calculation of discounted cash flows for defaulted loans (stage 3); • how events of default that have not yet resulted to payment default are identified. See Note 9 to the consolidated financial statements on pages 50-58 respectively.	We challenged the assumptions used in collective credit models and corresponding risk rating system, tested input data and analysed the integrity of those models. Our work included the following procedures: • we analysed the impairment methodology and considered the potential effects on the increase in credit risk and measurement of ECL of the information, which was not captured by management's models; • we analysed the principal assumptions made based on our own knowledge of industry practices and the Group's actual experience; • we tested the integrity of the credit models used to calculate ECL, performed selective recalculations and compared the results. For sample of collectively assessed loans we ascertain whether the significant increase in credit risk had been identified in a timely manner including, where relevant, how forbearance had been considered. For sample of individually assessed loans we tested the forecasts of future cash flows prepared by management for measurement of ECLs including challenging the assumptions made, testing input data and comparing estimates to external evidence in respect to the relevant counterparties. We examined a sample of loans, which had not been identified by management as defaulted and formed our own judgement as to whether that was appropriate using external evidence in respect of the relevant counterparties. In the certain cases, we formed a different view on ECL from that of management's, but in our view, the differences were within a reasonable range of outcomes in the context of the overall loans and advances and the uncertainties are disclosed in the consolidated financial statements.
Information Technology systems and controls	
We focused on this area because the Group's financial accounting and reporting systems are heavily dependent on complex information technology (the "IT") systems and the appropriate design and operating effectiveness of automated accounting procedures and technology-dependent manual controls. Our particular area of focus related to the implementation of a new IT system used in impairment calculations in accordance with IFRS 9.	We assessed and tested the design and operating effectiveness of the controls over the continued integrity of the IT systems that are relevant to financial accounting and reporting process. We tested the implementation of new IT software used for impairment calculations in accordance with IFRS 9. We examined the Group's IT system's governance and change management environment, in particular the controls over program development and changes, access rights to programs and data and IT operations, including compensating controls where required. Where necessary we also carried out direct tests of certain aspects of the security of the Group's IT systems including access management and segregation of duties. The combination of the tests of the controls and the direct tests that we carried out gave us sufficient evidence to enable us to rely on the Group's IT systems for the purposes of our audit.

Other Information

Management is responsible for the other information. The other information comprises the information included in the Annual report, but does not include the consolidated financial statements and our auditor's report thereon. The Annual report is expected to be made available to us after the date of this auditor's report.

Our opinion on the consolidated financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

When we read the Annual report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

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

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

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

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

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

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

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters.

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

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

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

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

We report our findings below:

1. with respect to the Group's compliance with the obligatory ratios: the obligatory ratios as at January 1, 2019 were within the limits established by the CBRF.

   We have not performed any procedures with respect to the Group's financial information other than those we considered necessary to express our opinion on whether the annual financial statements of the Group present fairly, in all material respects, the financial position of the Group as at December 31, 2018, its financial performance and its cash flows for 2018 in accordance with International Financial Reporting Standards and Russian reporting rules for annual financial statements of credit organisations.

2. with respect to compliance of the Group's internal control and risk management systems with the CBRF requirements:

   (a) in accordance with the CBRF requirements and recommendations as at December 31, 2018 the Group's internal audit department was subordinated and accountable to the Group's Supervisory Board and the Group's risk management departments were not subordinated or accountable to the departments undertaking the respective risks, the heads of the Bank's risk management and internal audit departments comply with qualification requirements established by the CBRF;

   (b) as at December 31, 2018, the Group had duly approved in accordance with the CBRF requirements and recommendations the internal policies regarding identification and management of significant risks, including credit, operating, market, interest rate, legal, liquidity, and reputational risks, as well as regarding performance of stress-testing;

(c) as at December 31, 2018, the Group had a reporting system with regard to the Group's significant credit, operating, market, interest rate, legal, liquidity and reputational risks, and with regard to the Group's capital;

(d) frequency and sequential order of reports prepared by the Group's risk management and internal audit departments in 2018 on management of credit, operating, market, interest rate, legal, liquidity and reputational risks were in compliance with the Group's internal policies; these reports included results of monitoring by the Group's risk management and internal audit departments of effectiveness of the Group's respective methodologies and improvement recommendations;

(e) as at December 31, 2018, the authority of the Group's Supervisory Board and the Group's executive bodies included control over compliance with the risk limits and capital adequacy ratios established by the Group. In order to control effectiveness and consistency of application of the Group's risk management policies, during 2018 the Group's Supervisory Board and the Group's executive bodies have regularly discussed reports prepared by the risk management and internal audit departments and have considered proposed corrective measures.

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

Neklyudov Sergei Vyacheslavovych,
Engagement partner

15 March 2019

The Entity: AO UniCredit Bank

Licensed by the Central Bank of the Russian Federation
on 22 December 2014, License #1.

Primary State Registration Number: 1027739082106

Certificate of registration in the Unified State Register series 77 #. 007773325 of 19.08.2002, issued by Moscow Interdistrict Inspectorate of the Russian Ministry of Taxation № 39

9, Prechistenskaya emb., Moscow, Russia 119034.

Audit Firm: AO "Deloitte & Touche CIS"

Certificate of state registration # 018.482,
issued by the Moscow Registration Chamber on 30.10.1992.

Primary State Registration Number: 1027700425444

Certificate of registration in the Unified State Register series 77 No. 004840299 of 13.11.2002, issued by Moscow Interdistrict Inspectorate of the Russian Ministry of Taxation # 39.

Member of Self-regulated organisation of auditors "Russian Union of auditors" (Association), ORNZ 11603080484.

Consolidated Statement of Financial Position

as at 31 December 2018
(in thousands of Russian Roubles)

	Notes	31 December 2018	31 December 2017
ASSETS			
Cash and cash balances	5	15 538 848	30 202 650
Debt securities held for trading	6		
- held by the Group		5 309 437	20 064 838
- pledged under repurchase agreements		-	804 699
Derivative financial assets	8	36 868 281	37 985 906
Derivative financial assets designated for hedging	8	6 788 150	7 860 608
Changes in fair value of portfolio hedged items	8	(1 388 458)	2 661 127
Financial assets at amortized cost			
- Amounts due from credit institutions	7	359 588 990	292 420 614
- Loans to customers	9	863 150 705	668 523 180
Debt securities		-	29 937 423
Financial assets at fair value through other comprehensive income	10		
- held by the Group		46 258 756	76 211 952
- pledged under repurchase agreements		937 601	1 254 314
Investments in associate	11	6 912 137	-
Fixed assets	13	5 450 004	5 362 638
Intangible assets	14	7 331 783	7 452 804
Deferred income tax assets	15	1 836 648	-
Current income tax assets		207 457	-
Other assets	16	7 825 207	5 398 870
TOTAL ASSETS		**1 362 615 546**	**1 186 141 623**
LIABILITIES			
Amounts due to credit institutions	17,20	87 970 079	85 426 996
Amounts due to customers	18	1 015 640 868	827 103 325
Debt securities issued	19	47 553	6 509 793
Financial liabilities held for trading	7	3 427 071	26 399 813
Derivative financial liabilities	8	23 652 339	15 658 296
Derivative financial liabilities designated for hedging	8	20 324 175	10 649 841
Changes in fair value of portfolio hedged items	8	245 169	(1 140 107)
Deferred income tax liabilities	15	-	4 497 677
Current income tax liabilities		140 808	152 459
Other liabilities	16	15 405 180	10 650 121
TOTAL LIABILITIES		**1 166 853 242**	**985 908 214**

	Notes	31 December 2018	31 December 2017
EQUITY			
Share capital	21	41 787 806	41 787 806
Share premium		437 281	437 281
Cash flow hedge reserve		146 889	(268 860)
Revaluation reserve for financial assets at fair value through other comprehensive income		(2 092 519)	226 583
Foreign currency translation reserve		(98 835)	-
Retained earnings		155 581 682	158 050 599
TOTAL EQUITY		**195 762 304**	**200 233 409**
TOTAL LIABILITIES AND EQUITY		**1 362 615 546**	**1 186 141 623**

M. Alekseev
Chairman of the Board of Management

G. Chernysheva
Chief Accountant

15 March 2019

The accompanying notes on pages 90 to 153 are an integral part of these consolidated financial statements.

Consolidated Statement of Comprehensive Income

for the Year Ended 31 December 2018
(in thousands of Russian Roubles)

	Notes	2018	2017
Interest income and similar revenues			
Loans to customers		60 130 759	58 529 921
Derivative financial instruments		28 859 518	26 950 793
Amounts due from credit institutions		11 407 631	9 862 610
Margin from derivative financial instruments designated for hedging	8	931 393	4 567 881
Trading and investment securities		7 759 475	6 308 158
		109 088 776	**106 219 363**
Interest expense and similar charges			
Amounts due to customers		(34 093 436)	(33 346 504)
Derivative financial instruments		(26 709 340)	(23 899 945)
Amounts due to credit institutions		(6 688 426)	(7 000 865)
Debt securities issued		(549 539)	(712 421)
		(68 040 741)	**(64 959 735)**
Net interest income		**41 048 035**	**41 259 628**
Fee and commission income	24	11 672 387	10 006 243
Fee and commission expense	24	(2 938 110)	(3 003 777)
Net fee and commission income		**8 734 277**	**7 002 466**
Dividend income		4 987	2
(Losses)/gains on financial assets and liabilities held for trading	23	(2 691 565)	1 633 637
Fair value adjustments in portfolio hedge accounting	8	79 022	(85 982)
Gains on disposal of:			
- financial assets at amortized cost		564 562	650 708
- financial assets at fair value through other comprehensive income		1 498 063	1 206 050
OPERATING INCOME		**49 237 381**	**51 666 509**
(Impairment)/recovery of impairment on:			
- financial assets at fair value through other comprehensive income		(44 421)	-
- financial assets at amortized costs	7,9	(12 607 941)	(10 075 626)
- other financial transactions	22	2 340 818	(1 088 098)
NET INCOME FROM FINANCIAL ACTIVITIES		**38 925 837**	**40 502 785**
Personnel expenses	25	(9 428 579)	(8 849 268)
Other administrative expenses	25	(7 010 188)	(6 567 260)
Depreciation of fixed assets	13	(733 323)	(743 689)
Impairment of fixed assets	13	(72 433)	(94 592)
Amortization of intangible assets	14	(1 554 452)	(1 340 754)
Other provisions		(47 211)	15 008
Other operating expenses		(177 148)	(207 777)
Operating costs		**(19 023 334)**	**(17 788 332)**

	Notes	2018	2017
Share of gains of associate	11	954 589	-
Gains/(losses) on disposal of fixed assets		3 900	(689)
PROFIT BEFORE INCOME TAX EXPENSE		**20 860 992**	**22 713 764**
Income tax expense	15	(4 156 924)	(4 657 065)
PROFIT FOR THE YEAR		**16 704 068**	**18 056 699**
OTHER COMPREHENSIVE INCOME/(LOSS)			
Items that may be reclassified subsequently to profit and loss			
Cash flow hedge reserve – effective portion of changes in fair value, net of tax:			
- fair value changes	15	407 027	(290 251)
- reclassification adjustment relating to financial assets and liabilities designated for hedging disposed of in the year	15	8 722	5 632
Revaluation reserve for financial assets at fair value through other comprehensive income, net of tax:			
- fair value changes	15	(2 352 645)	586 917
- reclassification adjustment relating to financial assets at fair value through other comprehensive income disposed of in the year	15	(1 056 310)	199 507
Foreign currency translation reserve		(98 835)	-
Other comprehensive (loss)/income for the year, net of tax		**(3 092 041)**	**501 805**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**13 612 027**	**18 558 504**

M. Alekseev
Chairman of the Board of Management

15 March 2019

G. Chernysheva
Chief Accountant

The accompanying notes on pages 90 to 153 are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

for the Year Ended 31 December 2018
(in thousands of Russian Roubles)

	Share capital	Share premium	Cash flow hedge reserve	Revaluation reserve for financial assets at fair value through other comprehensive income	Foreign currency translation reserve	Retained earnings	Total equity
1 January 2017	**41 787 806**	**437 281**	**15 759**	**(559 841)**	**-**	**139 993 900**	**181 674 905**
Total comprehensive income							
Profit for the year	-	-	-	-	-	18 056 699	**18 056 699**
Other comprehensive income							
Change in cash flow hedge reserve, net of tax (Note 15)	-	-	(284 619)	-	-	-	**(284 619)**
Net change in revaluation reserve for financial assets at fair value through other comprehensive income, net of tax (Note 15)	-	-	-	786 424	-	-	**786 424**
Total other comprehensive (loss)/income	**-**	**-**	**(284 619)**	**786 424**	**-**	**-**	**501 805**
TOTAL COMPREHENSIVE (LOSS)/INCOME	**-**	**-**	**(284 619)**	**786 424**	**-**	**18 056 699**	**18 558 504**
31 December 2017	**41 787 806**	**437 281**	**(268 860)**	**226 583**	**-**	**158 050 599**	**200 233 409**
1 January 2018	**41 787 806**	**437 281**	**(268 860)**	**226 583**	**-**	**158 050 599**	**200 233 409**
Effect of change in accounting policy for application of IFRS 9 (Note 2)	-	-	-	1 089 853	-	(12 313 369)	**(11 223 516)**
1 January 2018 (as restated)	**41 787 806**	**437 281**	**(268 860)**	**1 316 436**	**-**	**145 737 230**	**189 009 893**
Total comprehensive income							
Profit for the year	-	-	-	-	-	16 704 068	**16 704 068**
Other comprehensive income							
Change in cash flow hedge reserve, net of tax (Note 15)	-	-	415 749	-	-	-	**415 749**
Net change in revaluation reserve for financial assets at fair value through other comprehensive income, net of tax (Note 15)	-	-	-	(3 408 955)	-		**(3 408 955)**
Change in foreign currency translation reserve	-	-	-	-	(98 835)	-	**(98 835)**
Total other comprehensive income/(loss)	**-**	**-**	**415 749**	**(3 408 955)**	**(98 835)**	**-**	**(3 092 041)**
TOTAL COMPREHENSIVE INCOME/(LOSS)	**-**	**-**	**415 749**	**(3 408 955)**	**(98 835)**	**16 704 068**	**13 612 027**
Transactions with owner, directly recorded in equity							
Dividends paid on ordinary shares (Note 21)	-	-	-	-	-	(6 861 533)	**(6 861 533)**
Total transactions with owner	**-**	**-**	**-**	**-**	**-**	**(6 861 533)**	**(6 861 533)**
Gain on disposal of equity investment at fair value through other comprehensive income	-	-	-	-	-	1 917	**1 917**
31 December 2018	**41 787 806**	**437 281**	**146 889**	**(2 092 519)**	**(98 835)**	**155 581 682**	**195 762 304**

M. Alekseev
Chairman of the Board of Management

15 March 2019

G. Chernysheva
Chief Accountant

The accompanying notes on pages 90 to 153 are an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

for the Year Ended 31 December 2018
(in thousands of Russian Roubles)

	Notes	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES			
Interest received		114 366 264	114 392 817
Interest paid		(92 331 963)	(82 693 914)
Fees and commissions received		11 860 839	10 239 523
Fees and commissions paid		(2 826 300)	(2 941 535)
Net payments from debt securities held for trading		(1 994 306)	(165 783)
Net receipts/(payments) from derivatives and dealing in foreign currencies		466 076	(5 985 933)
Salaries and benefits paid		(8 092 799)	(7 393 810)
Other operating expenses paid		(4 550 540)	(6 160 109)
Cash flows from operating activities before changes in operating assets and liabilities		**16 897 271**	**19 291 256**
Net (increase)/decrease in operating assets			
Obligatory reserve with the CBR		(2 877 214)	(2 810 220)
Debt securities held for trading		15 105 201	(17 951 463)
Amounts due from credit institutions		(64 318 334)	(15 588 388)
Loans to customers		(194 037 412)	(19 004 594)
Other assets		(2 364 457)	151 740
Net (decrease)/increase in operating liabilities			
Amounts due to credit institutions		(1 876 186)	(63 557 748)
Financial liabilities held for trading	7	(22 972 742)	22 055 661
Amounts due to customers		208 153 290	73 851 121
Other liabilities		813 246	2 575 426
Net cash used in operating activities before income tax		**(47 477 337)**	**(987 209)**
Income tax paid		(7 149 549)	(9 315 490)
Net cash used in operating activities		**(54 626 886)**	**(10 302 699)**
CASH FLOWS FROM INVESTING ACTIVITIES			
Dividends received		4 987	2
Purchase of associate	11	(6 033 031)	-
Purchase of financial assets at fair value through other comprehensive income		(376 050 266)	(68 808 390)
Proceeds from redemption and sale of financial assets at fair value through other comprehensive income		436 920 876	53 129 877
Proceeds from sale of fixed and intangible assets		32 241	1 939
Purchase of fixed and intangible assets		(2 549 661)	(2 500 219)
Net cash from/(used in) investing activities		**52 325 146**	**(18 176 791)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Redemption of bonds issued on maturity		(2 301 017)	-
Redemption of bonds issued under put option	19	(4 000 000)	-
Dividends paid on ordinary shares	21	(6 861 533)	-
Net cash used in financing activities		**(13 162 550)**	**-**
Effect of exchange rates changes on cash and cash balances		800 488	93 575
Net decrease in cash and cash balances		**(14 663 802)**	**(28 385 915)**
CASH AND CASH BALANCES, beginning of the year	**5**	**30 202 650**	**58 588 565**
CASH AND CASH BALANCES, ending of the year	**5**	**15 538 848**	**30 202 650**

M. Alekseev
Chairman of the Board of Management

G. Chernysheva
Chief Accountant

15 March 2019

Акционерное общество «ЮниКредит Банк» ОГРН 1027739082106 ИНН 7710030411 AO UniCredit Bank

The accompanying notes on pages 90 to 153 are an integral part of these consolidated financial statements.

Notes to Consolidated Financial Statements

(in thousands of Russian Roubles)

1. Principal activities

These consolidated financial statements include the financial statements of AO UniCredit Bank (hereinafter – the "Bank") and its subsidiary and associate. AO UniCredit Bank, its subsidiary and associate are hereinafter collectively referred to as the "Group".

The Bank (the former International Moscow Bank) was established in 1989 as a closed joint-stock company under the laws of the Russian Federation. The Bank operates under General Banking License issued by the Central Bank of Russia (hereinafter – the "CBR") for banking operations for No. 1, as well as the license of the CBR for operations with precious metals for No. 1, both issued on 22 December 2014. The Bank also possesses licenses of the professional securities market participant for dealing, brokerage and depository activities issued by the Federal Securities Commission on 25 April 2003, as well as authorized to speak to the customs authorities as a guarantor. The Bank is a member of the state deposit insurance system in the Russian Federation.

As at 1 March 2018, as a result of the transaction between the Group and its sole shareholder UniCredit S.p.A., the Group acquired 40% of capital in BARN B.V. (the Netherlands), that is the sole shareholder of AO "RN Bank" (Russian Federation) since 2013. The remaining 60% in the authorized capital of BARN B.V. belongs to RN SF Holding B.V. (the Netherlands), which is a joint venture with equal participation (50%-50%) of RSI Bank S.A. and Nissan Motor Co., Ltd (see Note 11 for details).

As at 31 December 2018 the Group comprises the Bank, the leading operating entity of the Group, LLC UniCredit Leasing, a leasing company as its subsidiary, and holding company BARN B.V. as its associate. LLC UniCredit Leasing owns 100% of the shares in AO Locat Leasing Russia (see note 30 for details). Both companies operate in the financial leasing industry on the local market. BARN B.V. is the holding company based in the Netherlands.

The consolidated financial statements include the following subsidiary and associate:

	Ownership, %			
Entities	**2018**	**2017**	**Country**	**Industry**
LLC UniCredit Leasing	100%	100%	Russia	Finance
BARN B.V.	40%	-	Netherlands	Holding

As at 31 December 2018 the sole shareholder of the Group is UniCredit S.p.A.

The primary activities of the Group are deposit taking, lending, providing payments and settlement services, transactions with foreign currencies and securities and providing finance leases.

As at 31 December 2018 the Bank had 13 branches and 10 representative offices throughout the Russian Federation and one representative office in the Republic of Belarus (31 December 2017: 13 branches and 11 representative offices throughout the Russian Federation and one representative office in the Republic of Belarus).

The Bank's registered legal address is 9, Prechistenskaya Embankment, Moscow, Russian Federation, 119034.

2. Significant accounting policies

Statement of compliance. These consolidated financial statements are prepared in accordance with International Financial Reporting Standards (hereinafter – "IFRS").

Going concern. These consolidated financial statements have been prepared on the going concern basis. The Group has no intention or need to reduce substantially its business operations.

The management and shareholder have the intention to further develop the business of the Group in the Russian Federation both in corporate and retail segments. The management believes that the going concern assumption is appropriate for the Group due to its sufficient capital adequacy ratio and based on historical experience that short term obligations will be refinanced in the normal course of business.

Basis of preparation. These consolidated financial statements are prepared on the historical cost basis except that financial instruments held for trading, financial assets at fair value through other comprehensive income and derivative financial instruments are stated at fair value. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

These consolidated financial statements are presented in Russian Roubles (hereinafter – "RUB"). Amounts in Russian Roubles are rounded to the nearest thousand.

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

	31 December 2018	**31 December 2017**
RUB/1 US Dollar	69.4706	57.6002
RUB/1 Euro	79.4605	68.8668

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

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

New and amended IFRS Standards that are effective for the current year

Impact of initial application of IFRS 9 Financial Instruments. In the current year, the Group has applied IFRS 9 Financial Instruments (as revised in July 2014) and the related consequential amendments to other IFRS Standards that are effective for an annual period that begins on or after 1 January 2018. The transition provisions of IFRS 9 allow Group not to restate comparatives. Corresponding information was not restated, as the modified retrospective approach was applied on transition, which allows recognition of differences to be accounted for in the opening retained earnings at the beginning of the period. Additionally, the Group adopted consequential amendments to *IFRS 7 Financial Instruments*: Disclosures that were applied to the disclosures for 2018.

IFRS 9 introduced new requirements for:
1. The classification and measurement of financial assets and financial liabilities,
2. Impairment of financial assets, and
3. General hedge accounting.

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

Net interest income. Interest income and expense for all financial instruments are recognized in 'Net interest income' as 'Interest income' and 'Interest expense' in the profit or loss account using the effective interest method. The effective interest rate (hereinafter – "EIR") is the rate that exactly discounts estimated future cash flows of the financial instrument through the expected life of the financial instrument or, where appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability. The future cash flows are estimated taking into account all the contractual terms of the instrument.

The calculation of the EIR includes all fees and points paid or received between parties to the contract that are incremental and directly attributable to the specific lending arrangement, transaction costs, and all other premiums or discounts. For financial assets held for trading transaction costs are recognized in profit or loss at initial recognition.

The interest income/ interest expense is calculated by applying the EIR to the gross carrying amount of non-impaired financial assets (i.e. at the amortized cost of the financial asset before adjusting for any expected credit loss allowance), or to the amortized cost of financial liabilities. For impaired financial assets, the interest income is calculated by applying the EIR to the amortized cost of the impaired financial assets (i.e. the gross carrying amount less the allowance for expected credit losses).

Interest income and expense in the Group's consolidated statement of profit or loss also includes the effective portion of fair value changes of derivatives designated as hedging instruments in cash flow hedges of interest rate risk. For fair value hedges of interest rate risk interest income and expense, the effective portion of fair value changes of the designated derivatives as well as the fair value changes of the designated risk of the hedged item are also included in interest income and expense.

Interest income and expenses related to derivative financial instruments is presented as interest income and interest expense from derivative financial instruments.

Fee and commission income/expense. Fee and commission income and expense include fees other than those that are an integral part of EIR (see above). The fees included in this part of the Group's consolidated statement of profit or loss include among other things fees charged for servicing a loan, non-utilization fees relating to loan commitments when it is unlikely that these will result in a specific lending arrangement and loan syndication fees.

Fee and commission expenses with regards to services are accounted for as the services are received.

Net gains/(losses) on financial assets and liabilities held for trading. Net gains/(losses) on trading assets and liabilities includes gains and losses from changes in the fair value of financial assets and financial liabilities held for trading excluding any related interest income/expense.

Dividend income. Dividend income is recognized when the right to receive payment is established. This is the ex-dividend date for listed equity securities, and usually the date when shareholders approve the dividend for unlisted equity securities.

The presentation of dividend income in the consolidated statement of profit or loss depends on the classification and measurement of the equity investment, i.e.:
- For equity instruments which are held for trading, dividend income is presented as trading income;
- For equity instruments designated at FVTOCI dividend income is presented in other income.

Financial assets. The Group recognizes financial assets on its consolidated statement of financial position when it becomes a party to the contractual provisions of the instrument. All regular way purchases of financial assets and liabilities are recognised at the settlement date. All financial assets are initially measured at fair value, plus transaction costs, except for those financial assets classified as held-for-trading. Transaction costs directly attributable to the acquisition of financial assets classified as held-for-trading are recognized immediately in profit or loss.

All recognized financial assets that are within the scope of IFRS 9 are required to be subsequently measured at amortized cost or fair value on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.

Specifically:
- Debt instruments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding (hereinafter – "SPPI"), are subsequently measured at amortized cost;

- Debt instruments that are held within a business model whose objective is both to collect the contractual cash flows and to sell the debt instruments, and that have contractual cash flows that are SPPI, and equity investments are subsequently measured at fair value through other comprehensive income;
- All other debt instruments (e.g. debt instruments managed on a fair value basis, or held for sale) are subsequently measured at fair value through profit and loss.

However, the Group makes the following irrevocable election / designation at initial recognition of a financial asset on an asset- by-asset basis:
- The Group may irrevocably elect to present subsequent changes in fair value of an equity investment that is neither held for trading nor contingent consideration recognized by an acquirer in a business combination to which IFRS 3 applies, in other comprehensive income; and
- The Group may irrevocably designate a debt instrument that meets the amortized cost or fair value through other comprehensive income criteria as measured at fair value through profit and loss if doing so eliminates or significantly reduces an accounting mismatch (referred to as the fair value option).

Debt instruments at amortized cost or at fair value through other comprehensive income. The Group assesses the classification and measurement of a financial asset based on the contractual cash flow characteristics of the asset and the Group's business model for managing the asset.

For an asset to be classified and measured at amortized cost or at FVTOCI, its contractual terms should give rise to cash flows that are solely payments of principal and interest on the principal outstanding (SPPI).

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

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

An assessment of business models for managing financial assets is performed at the date of initial application of IFRS 9 to determine the classification of a financial asset. The business model is applied retrospectively to all financial assets existing at the date of initial application of IFRS 9. The Group determines the business models at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. The Group's business model does not depend on management's intentions for an individual instrument; therefore, the business model assessment is performed at a higher level of aggregation rather than on an instrument-by-instrument basis.

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

The Group considers all relevant information available when making the business model assessment. However, this assessment is not performed based on scenarios that the Group does not reasonably expect to occur, such as so-called 'worst case' or 'stress case' scenarios. The Group takes into account all relevant evidence available such as:
- How the performance of the business model and the financial assets held within that business model are evaluated and reported to the entity's key management personnel;
- The risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way in which those risks are managed; and
- How managers of the business are compensated (e.g. whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected).

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

When a debt instrument measured at fair value through other comprehensive income is derecognized, the cumulative gain/loss previously recognized in other comprehensive income is reclassified from equity to profit or loss. In contrast, for an equity investment designated as measured at fair value through other comprehensive income, the cumulative gain/loss previously recognized in other comprehensive income is not subsequently reclassified to profit or loss but transferred within equity. Debt instruments that are subsequently measured at amortized cost or at fair value through other comprehensive income are subject to impairment.

Financial assets at fair value through profit and loss. Financial assets at fair value through profit and loss are:
- Assets with contractual cash flows that are not SPPI; or/and
- Assets that are held in a business model other than held to collect contractual cash flows or held to collect and sell; or
- Assets designated at at fair value through profit and loss using the fair value option.

These assets are measured at fair value, with any gains/losses arising on remeasurement recognized in profit or loss.

Reclassifications. If the business model under which the Group holds financial assets changes, the financial assets affected are reclassified. The classification and measurement requirements related to the new category apply prospectively from the first day of the first reporting period following the change in business model that result in reclassifying the Group's financial assets. Changes in contractual cash flows are considered under the accounting policy on Modification and derecognition of financial assets described below.

Impairment. The Group recognizes loss allowances for expected credit losses (hereinafter – "ECLs") on the financial instruments that are not measured at fair value through profit and loss. No impairment loss is recognized on equity investments.

With the exception of purchased or originated credit-impaired financial assets (which are considered separately below), ECLs are required to be measured through a loss allowance at an amount equal to:

- 12-month ECL, i.e. lifetime ECL that result from those default events on the financial instrument that are possible within 12 months after the reporting date, (referred to as Stage 1); or
- Full lifetime ECL, i.e. lifetime ECL that result from all possible default events over the life of the financial instrument, (referred to as Stage 2 and Stage 3).

A loss allowance for full lifetime ECL is required for a financial instrument if the credit risk on that financial instrument has increased significantly since initial recognition. For all other financial instruments, ECLs are measured at an amount equal to the 12-month ECL.

ECLs are a probability-weighted estimate of the present value of credit losses. These are measured as the present value of the difference between the cash flows due to the Group under the contract and the cash flows that the Group expects to receive arising from the weighting of multiple future economic scenarios, discounted at the asset's EIR.

- For undrawn loan commitments, the ECL is the difference between the present value of the difference between the contractual cash flows that are due to the Group if the holder of the commitment draws down the loan and the cash flows that the Group expects to receive if the loan is drawn down; and
- For financial guarantee contracts, the ECL is the difference between the expected payments to reimburse the holder of the guaranteed debt instrument less any amounts that the Group expects to receive from the holder, the debtor or any other party.

The Group measures ECL on an individual basis, or on a collective basis for portfolios of loans that share similar risk characteristics. The measurement of the loss allowance is based on the present value of the asset's expected cash flows using the asset's original EIR, regardless of whether it is measured on an individual basis or a collective basis.

Credit-impaired financial assets. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Credit-impaired financial assets are referred to as Stage 3 assets. Evidence of credit-impairment includes observable data about the following events:

- Significant financial difficulty of the borrower or issuer;
- A breach of contract such as a default or past due event;
- The lender of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession that the lender would not otherwise consider;
- The disappearance of an active market for a security because of financial difficulties; or
- The purchase of a financial asset at a deep discount that reflects the incurred credit losses.

It may not be possible to identify a single discrete event instead; the combined effect of several events may have caused financial assets to become credit-impaired. The Group assesses whether debt instruments that are financial assets measured at amortized cost or FVTOCI are credit-impaired at each reporting date. To assess if sovereign and corporate debt instruments are credit impaired, the Group considers factors such as bond yields, credit ratings and the ability of the borrower to raise funding.

A loan is considered credit-impaired when a concession is granted to the borrower due to a deterioration in the borrower's financial condition, unless there is evidence that as a result of granting the concession the risk of not receiving the contractual cash flows has reduced significantly and there are no other indicators of impairment. For financial assets where concessions are contemplated but not granted, the asset is deemed credit impaired when there is observable evidence of credit-impairment including meeting the definition of default. The definition of default (see below) includes unlikeliness to pay indicators and a backstop if amounts are overdue for 90 days or more.

Purchased or originated credit-impaired financial assets. Purchased or originated credit-impaired financial assets are treated differently because the asset is credit-impaired at initial recognition. For these assets, the Group recognizes all changes in lifetime ECL since initial recognition as a loss allowance with any changes recognized in profit or loss. A favorable change for such assets creates an impairment gain.

Definition of default. Critical to the determination of ECL is the definition of default. The definition of default is used in measuring the amount of ECL and in the determination of whether the loss allowance is based on 12-month or lifetime ECL, as default is a component of the probability of default (hereinafter – "PD") which affects both the measurement of ECLs and the identification of a significant increase in credit risk.

The Group considers the following as constituting an event of default:

- The borrower is past due more than 90 days on any material credit obligation to the Group; or
- The borrower is unlikely to pay its credit obligations to the Group in full.

The definition of default is appropriately tailored to reflect different characteristics of different types of assets. Overdrafts are considered as being past due once the customer has breached an advised limit or has been advised of a limit smaller than the current amount outstanding.

When assessing if the borrower is unlikely to pay its credit obligation, the Group takes into account both qualitative and quantitative indicators. The information assessed depends on the type of the asset, for example in corporate lending a qualitative indicator used is the breach of covenants, which is not relevant for retail lending. Quantitative indicators, such as overdue status and non-payment on another obligation of the same counterparty are key inputs in this analysis. The Group uses a variety of sources of information to assess default, which are either developed internally or obtained from external sources.

Significant increase in credit risk. The Group monitors all financial assets, issued loan commitments and financial guarantee contracts that are subject to the impairment requirements to assess whether there has been a significant increase in credit risk since initial recognition. If there has been a significant increase in credit risk, the Group will measure the loss allowance based on lifetime rather than 12-month ECL.

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument at the reporting date based on the remaining maturity of the instrument with the risk of a default occurring that was anticipated for the remaining maturity at the current reporting date when the financial instrument was first recognized. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort, based on the Group's historical experience and expert credit assessment including forward-looking information.

Multiple economic scenarios form the basis of determining the probability of default at initial recognition and at subsequent reporting dates. Different economic scenarios will lead to a different probability of default. The weighting of these different scenarios forms the basis of a weighted average probability of default that is used to determine whether credit risk has significantly increased.

For corporate lending, forward-looking information includes the future prospects of the industries in which the Group's counterparties operate, obtained from economic expert reports, financial analysts, governmental bodies, relevant think tanks and other similar organisations, as well as consideration of various internal and external sources of actual and forecast economic information. For retail, lending forward-looking information includes the same economic forecasts as corporate lending with additional forecasts of local economic indicators, particularly for regions with a concentration to certain industries, as well as internally generated information of customer payment behavior. The Group allocates its counterparties to a relevant internal credit risk grade depending on their credit quality. The quantitative information is a primary indicator of significant increase in credit risk and is based on the change in lifetime PD by comparing:

- The remaining lifetime PD at the reporting date; with
- The remaining lifetime PD for this point in time that was estimated based on facts and circumstances at the time of initial recognition of the exposure.

The PDs used are forward looking and the Group uses the same methodologies and data used to measure the loss allowance for ECL.

The qualitative factors that indicate significant increase in credit risk are reflected in PD models on a timely basis. However, the Group still considers separately some qualitative factors to assess if credit risk has increased significantly. For corporate lending there is particular focus on assets that are included on a 'watch list' given an exposure is on a watch list once there is a concern that the creditworthiness of the specific counterparty has deteriorated. For retail lending the Group considers the expectation of forbearance and payment holidays, credit scores and events such as unemployment, bankruptcy, divorce or death.

Given that a significant increase in credit risk since initial recognition is a relative measure, a given change, in absolute terms, in the PD will be more significant for a financial instrument with a lower initial PD than compared to a financial instrument with a higher PD.

As a backstop when an asset becomes 30 days past due, the Group considers that a significant increase in credit risk has occurred and the asset is in Stage 2 of the impairment model, i.e. the loss allowance is measured as the lifetime ECL.

Modification and derecognition of financial assets. A modification of a financial asset occurs when the contractual terms governing the cash flows of a financial asset are renegotiated or otherwise modified between initial recognition and maturity of the financial asset. A modification affects the amount and/or timing of the contractual cash flows either immediately or at a future date. In addition, the introduction or adjustment of existing covenants of an existing loan would constitute a modification even if these new or adjusted covenants do not yet affect the cash flows immediately but may affect the cash flows depending on whether the covenant is or is not met (e.g. a change to the increase in the interest rate that arises when covenants are breached).

The Group renegotiates loans to customers in financial difficulty to maximize collection and minimize the risk of default. A loan forbearance is granted in cases where although the borrower made all reasonable efforts to pay under the original contractual terms, there is a high risk of default or default has already happened and the borrower is expected to be able to meet the revised terms. The revised terms in most of the cases include an extension of the maturity of the loan, changes to the timing of the cash flows of the loan (principal and interest repayment), reduction in the amount of cash flows due (principal and interest forgiveness) and amendments to covenants. The Group has an established forbearance policy, which applies for corporate and retail lending.

When a financial asset is modified the Group assesses whether this modification results in derecognition. In accordance with the Group's policy a modification results in derecognition when it gives rise to substantially different terms. To determine if the modified terms are substantially different from the original contractual terms the Group considers the following:

- Qualitative factors, such as contractual cash flows after modification are no longer SPPI, change in currency or change of counterparty, the extent of change in interest rates, maturity, covenants.

If these do not clearly indicate a substantial modification, then:

- A quantitative assessment is performed to compare the present value of the remaining contractual cash flows under the original terms with the contractual cash flows under the revised terms, both amounts discounted at the original effective interest.

In the case where the financial asset is derecognized the loss allowance for ECL is remeasured at the date of derecognition to determine the net carrying amount of the asset at that date. The difference between this revised carrying amount and the fair value of the new financial asset with the new terms will lead to a gain or loss on derecognition. The new financial asset will have a loss allowance measured based on 12-month ECL except in the rare occasions where the new loan is considered to be originated credit-impaired asset. This applies only in the case where the fair value of the new loan is recognized at a significant discount to its revised par amount because there remains a high risk of default, which has not been reduced by the modification.

The Group monitors credit risk of modified financial assets by evaluating qualitative and quantitative information, such as if the borrower is in past due status under the new terms.

When the contractual terms of a financial asset are modified and the modification does not result in derecognition, the Group determines if the financial asset's credit risk has increased significantly since initial recognition by comparing:

- The remaining lifetime PD estimated based on data at initial recognition and the original contractual terms; with
- The remaining lifetime PD at the reporting date based on the modified terms.

For financial assets modified as part of the Group's forbearance policy, where modification did not result in derecognition, the estimate of PD reflects the Group's ability to collect the modified cash flows taking into account the Group's previous experience of similar forbearance action, as well as various behavioral indicators, including the borrower's payment performance against the modified contractual terms. If the credit risk remains significantly higher than what was expected at initial recognition the loss allowance will continue to be measured at an amount equal to lifetime ECL.

The loss allowance on forborne loans will generally only be measured based on 12-month ECL when there is evidence of the borrower's improved repayment behavior following modification leading to a reversal of the previous significant increase in credit risk.

Where a modification does not lead to derecognition the Group calculates the modification gain/loss comparing the gross carrying amount before and after the modification (excluding the ECL allowance). Then the Group measures ECL for the modified asset, where the expected cash flows arising from the modified financial asset are included in calculating the expected cash shortfalls from the original asset.

The Group derecognizes a financial asset only when the contractual rights to the asset's cash flows expire (including expiry arising from a modification with substantially different terms), or when the financial asset and substantially all the risks and rewards of ownership of the asset are transferred to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain/loss that had been recognized in other comprehensive income and accumulated in equity is recognized in profit or loss, with the exception of equity investment designated as measured at fair value through other comprehensive income, where the cumulative gain/loss previously recognized in other comprehensive income is not subsequently reclassified to profit or loss.

On derecognition of a financial asset other than in its entirety (e.g. when the Group retains an option to repurchase part of a transferred asset), the Group allocates the previous carrying amount of the financial asset between the part it continues to recognize under continuing involvement, and the part it no longer recognizes on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognized and the sum of the consideration received for the part no longer recognized and any cumulative gain/loss allocated to it that had been recognized in other comprehensive income is recognized in profit or loss. A cumulative gain/loss that had been recognized in other comprehensive income is allocated between the part that continues to be recognized and the part that is no longer recognized based on the relative fair values of those parts. This does not apply for equity investments designated as measured at fair value through other comprehensive income, as the cumulative gain/loss previously recognized in other comprehensive income is not subsequently reclassified to profit or loss.

<u>Write-off.</u> Loans and debt securities are written off when the Group has no reasonable expectations of recovering the financial asset (either in its entirety or in a portion of it). This is the case when the Group determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. A write-off constitutes a derecognition event. The Group may apply enforcement activities to financial assets written off. Recoveries resulting from the Group's enforcement activities will result in impairment gains.

<u>Presentation of allowance for ECL in the statement of financial position.</u> Loss allowances for ECL are presented in the statement of financial position as follows:

- For financial assets measured at amortized cost: as a deduction from the gross carrying amount of the assets;
- For debt instruments measured at fair value through other comprehensive income: no loss allowance is recognized in the statement of financial position as the carrying amount is at fair value. However, the loss allowance is included as part of the revaluation amount in the revaluation reserve;

- For loan commitments and financial guarantee contracts: as a provision; and
- Where a financial instrument includes both a drawn and an undrawn component, and the Group cannot identify the ECL on the loan commitment component separately from those on the drawn component: the Group presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision.

Financial liabilities. Financial liabilities are classified as either financial liabilities at fair value through profit or loss or other financial liabilities.

Financial liabilities at fair value through profit or loss. Financial liabilities are classified as at fair value through profit or loss when the financial liability is (i) held for trading, or (ii) it is designated as at fair value through profit or loss.

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

A financial liability other than a financial liability held for trading or contingent consideration that may be paid by an acquirer as part of a business combination may be designated as at fair value through profit or loss upon initial recognition if:
- Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- The financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- It forms part of a contract containing one or more embedded derivatives, and IFRS 9 permits the entire hybrid (combined) contract to be designated as at fair value through profit or loss.

Financial liabilities at fair value through profit or loss are stated at fair value, with any gains/losses arising on remeasurement recognized in profit or loss to the extent that they are not part of a designated hedging relationship. The net gain/loss recognized in profit or loss incorporates any interest paid on the financial liability and is included in the "Gains/(losses) gains on financial assets and liabilities held for trading" line item in the profit or loss account.

However, for non-derivative financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is recognized in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. The remaining amount of change in the fair value of liability is recognized in profit or loss. Changes in fair value attributable to a financial liability's credit risk that are recognized in other comprehensive income are not subsequently reclassified to profit or loss; instead, they are transferred to retained earnings upon derecognition of the financial liability.

For issued loan commitments and financial guarantee contracts that are designated as at fair value through profit or loss all gains and losses are recognized in profit or loss.

In making the determination of whether recognizing changes in the liability's credit risk in other comprehensive income will create or enlarge an accounting mismatch in profit or loss, the Group assesses whether it expects that the effects of changes in the liability's credit risk will be offset in profit or loss by a change in the fair value of another financial instrument measured at fair value through profit or loss. This determination is made at initial recognition.

Other financial liabilities. Other financial liabilities, including deposits and borrowings, are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortized cost using the effective interest method.The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period.

Derecognition of financial liabilities. The Group derecognizes financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

Derivative financial instruments. The Group enters into a variety of derivative financial instruments some of which are held for trading while others are held to manage its exposure to interest rate risk; credit risk; and foreign exchange rate risk. Derivative held include foreign exchange forward contracts, interest rate swaps, cross currency interest rate swaps.

Derivatives are initially recognized at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each balance sheet date. The resulting gain/loss is recognized in profit or loss immediately.A derivative with a positive fair value is recognized as a financial asset whereas a derivative with a negative fair value is recognized as a financial liability.

Embedded derivatives. Derivatives embedded in financial liabilities or other non-financial asset host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at fair value through profit or loss.

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

Financial guarantee contracts issued by a group entity are initially measured at their fair values and, if not designated as at fair value through profit or loss and not arising from a transfer of a financial asset, are subsequently measured at the higher of:

- The amount of the loss allowance determined in accordance with IFRS 9; and
- The amount initially recognized less, where appropriate, cumulative amount of income recognized in accordance with the Group's revenue recognition policies.

Financial guarantee contracts not designated at fair value through profit or loss are presented as provisions on the consolidated statement of financial position and the remeasurement is presented in other revenue. The Group has not designated any financial guarantee contracts as at fair value through profit or loss.

Effect of transition. The following table shows the transition IAS 39 / IAS 37 and corresponding IFRS 9 classification and measurement categories, and reconciles the IAS 39 / IAS 37 and IFRS 9 carrying amounts for loans, securities and off-balance sheet exposures as at 1 January 2018 as a result of IFRS 9 adoption. There were no changes to the measurement basis of other financial asset categories and liabilities.

	IAS 39 measurement category	IFRS 9 measurement category	IAS 39/ IAS 37 carrying amount	Reclassification	Remeasurement	IFRS 9 / IAS 37 carrying amount
Financial assets						
Debt securities and equity investments	Trading	Trading	20 869 537	-	-	20 869 537
	Available-for- sale	Fair value through other comprehensive income	77 466 266	29 937 423	1 207 293	108 610 982
	Held-to-maturity	Amortized cost	29 937 423	(29 937 423)	-	-
Total debt securities and equity investments			**128 273 226**	**-**	**1 207 293**	**129 480 519**
Amounts due from credit institutions	Amortized cost	Amortized cost	292 420 614	-	(515 196)	291 905 418
Loans to customers	Amortized cost	Amortized cost	668 523 180	-	(10 307 136)	658 216 044
Total amounts due from credit institutions and customers			**960 943 794**	**-**	**(10 822 332)**	**950 121 462**
Financial liabilities						
Provisions for credit losses on off-balance sheet exposures			(1 458 050)	-	(4 415 144)	(5 873 194)
Total provisions for credit losses on off-balance sheet exposures			**(1 458 050)**	**-**	**(4 415 144)**	**(5 873 194)**
Total pre-tax impact of IFRS 9 adoption					**(14 030 183)**	

The following table illustrates the impact of IFRS 9 adoption on the Group's equity, in particular on revaluation reserve and retained earnings as of 1 January 2018:

	Revaluation reserve for available-for-sale securities	Revaluation reserve for financial assets at fair value through other comprehensive income	Retained earnings
31 December 2017	**226 583**	**-**	**158 050 599**
Reclassification of financial assets as a result of business models assessment, net of tax	(226 583)	226 583	-
Remeasurement of financial assets as a result of business model assessment, net of tax (unaudited)	-	965 834	-
Remeasurement of financial assets due to adoption of the impairment loss provisions of IFRS 9, net of tax (unaudited)	-	124 019	(12 313 369)
1 January 2018	**-**	**1 316 436**	**(145 737 230)**

IFRS 15 Revenue from Contracts with Customers. The new standard introduces the core principle that revenue must be recognized 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 recognized, 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 recognized if they are not at significant risk of reversal. Costs incurred to secure contracts with customers have to be capitalized and amortized over the period when the benefits of the contract are consumed.

Notes to Consolidated Financial Statements (Continued)

2. Significant accounting policies (Continued)

The adoption of the new accounting standard could determine (i) the reclassification between lines of income statement used for presenting revenues, (ii) a change in the timing recognition of such revenue, when the contract with the customer contains several performance obligation that must be accounted for separately under the accounting standard, (iii) a different measure of the revenue in order to reflect their variability.

Based on the analysis performed, no major impacts have been detected by the adoption of IFRS 15 on current economic and financial volumes.

In the current year, the Group has applied a number of amendments to IFRS Standards and Interpretations issued by the International Accounting Standards Board (hereinafter – “IASB”) that are effective for an annual period that begins on or after 1 January 2018. Their adoption has not had any material impact on the disclosures or on the amounts reported in these financial statements.

Amendments to IAS 40 Transfers of Investment Property. The amendments clarify that a transfer to, or from, investment property necessitates an assessment of whether a property meets, or has ceased to meet, the definition of investment property, supported by observable evidence that a change in use has occurred. The amendments further clarify that situations other than the ones listed in IAS 40 may evidence a change in use, and that a change in use is possible for properties under construction (i.e. a change in use is not limited to completed properties).

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

The Interpretation specifies that the date of transaction is the date on which the entity initially recognises the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration. If there are multiple payments or receipts in advance, the Interpretation requires an entity to determine the date of transaction for each payment or receipt of advance consideration.

The accounting policies, presentation and methods of computation that were applied only in the preparation of the Group’s financial statements for the year ended 31 December, 2017

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

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

Financial assets. Financial assets are classified into the following specified categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale financial assets. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

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

Financial instruments at fair value through profit or loss. Financial instruments at fair value through profit or loss are financial assets or liabilities that are:
- Acquired or incurred principally for the purpose of selling or repurchasing in the near term;
- Part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking;
- Derivative financial instruments (except for derivative financial instruments that are designated and effective hedging instruments); or,
- Upon initial recognition, designated by the Group as at fair value through profit or loss.

The Group designates financial assets and liabilities at fair value through profit or loss where either:
- The assets or liabilities are managed and evaluated on a fair value basis;
- The designation eliminates or significantly reduces an accounting mismatch which would otherwise arise; or
- The asset or liability contains an embedded derivative that significantly modifies the cash flows that would otherwise be required under the contract.

Gains or losses on financial assets held for trading are recognised in profit or loss.

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

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

Loans and receivables. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than those that the Group:
- Intends to sell immediately or in the near term;
- Upon initial recognition designates as at fair value through profit or loss;
- Upon initial recognition designates as available-for-sale; or,
- May not recover substantially all of its initial investment, other than because of credit deterioration.

Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Available-for-sale financial assets. Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified in any of the three preceding categories. After initial recognition available-for-sale financial assets are measured at fair value with gains or losses being recognised as other comprehensive income in equity until the investment is derecognised or until the investment is determined to be impaired at which time the cumulative gain or loss previously reported in equity is included in profit or loss. Interest income calculated using the effective interest method is recognised in profit or loss.

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

Repurchase and reverse repurchase agreements and securities lending. Repurchase and reverse repurchase agreements are utilized by the Group as an element of its treasury management and trading business. These agreements are treated as secured financing transactions. Securities sold under repurchase agreements are retained in the consolidated statement of financial position and, in case the transferee has the right by contract or custom to sell or repledge them, reclassified as securities pledged under repurchase agreements. The corresponding liability is presented within amounts due to credit institutions or customers. Securities purchased under agreements to resell ("reverse repo") are recorded as amounts due from credit institutions or loans to customers, as appropriate. The difference between sale and repurchase price is treated as interest and accrued over the life of repurchase agreements using the effective interest method.

Securities lent to counterparties are retained in the consolidated statement of financial position. Securities borrowed are not recorded in the consolidated statement of financial position, unless they are sold to third parties, in which case the purchase and sale are recorded within net gains or losses from trading securities in profit or loss. The obligation to return them is recorded at fair value as a trading liability.

Securities purchased under agreements to resell ("reverse repo") and then sold under repurchase agreements are not recorded in the consolidated statement of financial position.

Impairment of financial assets. The Group assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For *amounts due from credit institutions and loans to customers* carried at amortised cost, the Group first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risks characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is an objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets' carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in profit or loss. Interest income continues to be accrued on the reduced carrying amount based on the original effective interest rate of the asset. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account.
If a write-off is later recovered, the recovery is credited to the allowance account in profit or loss.

The Group estimates impairment for loans to corporate customers based on the following approach:

- For exposures for which no identifications of impairement has been identified on an individual basis, the calculation is based on portfolio (statistical) assessment which takes into account historical loss experience, probability of default and loss given default.
- For impaired exposures the calculation is done on individual assessment and is based on the analysis of discounted future cash flows.

The Group estimates impairement for loans to retails customers based on portfolio (statistical) assessment which takes into account historical loss experience for each type of loans, probability of default and loss given default.

The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

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. For purposes of impairment calculation the Group takes into account liquid collateral, reduced by haircut for certain type of collateral.

For *held-to-maturity investments* the Group assesses individually whether there is objective evidence of impairment. If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows. The carrying amount of the asset is reduced and the amount of the loss is recognised in profit or loss.

If, in a subsequent year, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognised, any amounts formerly charged are credited to profit or loss.

For *available-for-sale financial investments,* the Group assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired.

Impairment losses on available-for-sale financial assets are recognised by transferring the cumulative loss that is recognised in other comprehensive income to profit or loss as a reclassification adjustment.

The cumulative loss that is reclassified from other comprehensive income to profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss previously recognised in profit or loss. Changes in impairment provisions attributable to time value are reflected as a component of interest income.

In the case of debt instruments classified as available-for-sale, impairment is assessed based on the same criteria as financial assets carried at amortised cost. Future interest income is based on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded in profit or loss. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through profit or loss.

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

<u>Write off of loans and advances.</u> Loans and advances are written off against the allowance for impairment losses when deemed uncollectible. Loans and advances are written off after management has exercised all possibilities available to collect amounts due to the Group and after the Group has sold all available collateral. Subsequent recoveries of amounts previously written off are reflected as an offset to the charge for impairment of financial assets in the consolidated statement of comprehensive income for the period of recovery.

<u>Derecognition of financial assets.</u> A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- The rights to receive cash flows from the asset have expired;
- The Group has transferred its rights to receive cash flows from the asset, or retained the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "'pass-through"' arrangement; and
- The Group either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Financial liabilities. Financial liabilities are classified as either financial liabilities at fair value through profit or loss or other financial liabilities.

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

A financial liability is classified as held for trading if:

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

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

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

Financial liabilities at fair value through profit or loss are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss.

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

Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

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

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

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

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

Derecognition of financial liabilities. The Group derecognised financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit and loss.

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

The accounting policies, presentation and methods of computation that have been followed in the current year as were applied in the preparation of the Group's financial statements for the year ended 31 December 2017

Foreign currency translation. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Management determined the functional currency for all Group entities to be the RUB as it reflects the economic substance of the underlying events and circumstances of the Group. Transactions in foreign currencies are translated to the functional currency at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the reporting date. Gains and losses resulting from the translation of foreign currency transactions are recognised in profit or loss as gains or losses on financial assets and liabilities held for trading. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Differences between the contractual exchange rate of a transaction in a foreign currency and the CBR exchange rate on the date of the transaction are included in gains or losses on financial assets and liabilities held for trading.

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

Principles of consolidation. These consolidated financial statements incorporate the financial statements of the Bank and entities controlled by the Bank. Control is achieved when the Bank:
- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

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

When the Bank has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Bank considers all relevant facts and circumstances in assessing whether or not the Bank's voting rights in an investee are sufficient to give it power, including:
- the size of the Bank's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Bank, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Bank has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

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

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

When necessary, adjustments are made to the financial statements of subsidiaries and associates to bring their accounting policies into line with the Group's accounting policies.

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

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

When the Group loses control over the subsidiary, a gain or loss is recognized in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable IFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under International Accounting Standard ("IAS") 39, or when applicable, as the cost on initial recognition of an investment in an associate or a joint venture.

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

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

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

Unrealised gains resulting from transactions with associates are eliminated against the investment in the associates. Unrealised losses are eliminated in the same way as unrealised gains except that they are only eliminated to the extent that there is no evidence of impairment.

Derivative financial instruments. In the normal course of business, the Group enters into various derivative financial instruments including futures, forwards, interest rate swaps and cross-currency interest rate swaps. Such financial instruments are held for trading and are recorded at fair value. The fair values are estimated based on quoted market prices or pricing models that take into account the current market and contractual prices of the underlying instruments and other factors. Derivatives are carried as assets when their fair value is positive and as liabilities when it is negative. Gains and losses resulting from these instruments, except for derivatives designated for hedging, are included in profit or loss as gains or losses on financial assets and liabilities held for trading.

The Group books the credit risk of the counterparty as a fair value adjustment for those over-the-counter derivative trades, where master netting agreement exist. Credit risk expressed in the form of credit value adjustment (hereinafter – "CVA") and debit value adjustment (hereinafter – "DVA") is determined on a portfolio basis with the counterparty. Determining CVA/DVA on a net portfolio basis has resulted in adjustments booked individually for derivative financial assets and derivative financial liabilities held for trading (see Note 8 for details).

Hedge accounting. In hedge accounting, the Group distinguishes between cash flow hedges and fair value hedges. To qualify for hedge accounting in accordance with IAS 39, hedges must be highly effective. Derivatives used for hedging purposes are measured at fair value in the consolidated statement of financial position.

At inception of the hedge relationship, the Group formally documents the relationship between the hedged item and the hedging instrument, including the nature of the risk, the objective and strategy for undertaking the hedge and the method that will be used to assess the effectiveness of the hedging relationship.

Also at the inception of the hedge relationship, a formal assessment is undertaken to ensure the hedging instrument is expected to be highly effective in offsetting the designated risk in the hedged item. Hedges are formally assessed for effectiveness on monthly basis. A hedge is regarded as highly effective if the changes in the fair value of cash flows attributable to the hedged risk are expected to offset in a range of 80% to 125% during the hedging period.

Where a derivative is designated as a hedge of the variability in cash flows attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction that could affect profit or loss, the effective portion of changes in the fair value of the derivative is recognised as other comprehensive income in equity. The amount recognised in equity is removed and included in profit or loss in the same period as the hedged cash flows affect profit or loss. Any ineffective portion of changes in the fair value of the derivative is recognised immediately in profit or loss.

If the derivative expires or is sold, terminated, or exercised, or no longer meets the criteria for cash flow hedge accounting, or the designation is revoked, hedge accounting is discontinued and the amount recognised in equity remains in equity until the forecast transaction affects profit or loss. If the forecast transaction is no longer expected to occur, hedge accounting is discontinued and the balance in equity is recognised immediately in profit or loss.

Fair value hedge is defined as a hedge of the exposure to changes in fair value of a recognised asset or liability that is attributable to a particular risk and could affect profit or loss. In a fair value hedge assets or liabilities are hedged against future fair value changes, if those changes affect the Group's results and are caused by a determinable risk. The hedging instrument is stated at its fair value, and any gains or losses on the hedging instrument are recognised in profit or loss as fair value adjustments in portfolio hedge accounting. Gains and losses which are attributable to the hedged risk adjust the carrying value of the hedged item. Changes in the fair value of portfolio hedged items are presented separately in the consolidated statement of financial position and recognized in the consolidated statement of comprehensive income as fair value adjustments in portfolio hedge accounting.

Credit risk expressed in the form of CVA and DVA is also incorporated in the calculation of the fair value of derivative financial assets and derivative financial liabilities designated for hedging (see Note 8 for details).

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

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

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

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

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

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

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability.

The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Cash and cash balances. The Group considers cash and nostro accounts with the CBR to be cash and cash balances. The obligatory reserve deposit with the CBR is not considered to be in this category due to restrictions on its availability.

Obligatory reserve with the CBR. Obligatory reserve with the CBR represent obligatory reserve deposits with the CBR, which are not available to finance the Group's day-to-day operations.

Repossessed assets. In certain circumstances, assets are repossessed following the foreclosure on loans that are in default. Repossessed assets are measured at the lower of carrying amount and fair value less costs to sell.

Fixed assets. Fixed assets are carried at cost, excluding the costs of day-to-day servicing, less accumulated depreciation and any accumulated impairment. Depreciation of an asset begins when it is available for use. Depreciation is calculated on a straight-line basis over the following estimated useful lives:

	Years
Buildings	20-30
Furniture and fixtures	3-5
Computer equipment	3
Leasehold improvements	lesser of the useful life of the asset and period of lease
Other fixed assets	3-5

Costs related to repairs and renewals are charged when incurred and included in other administrative expenses, unless they qualify for capitalization.

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

Intangible assets. Intangible assets include licenses and computer software. Licenses are stated at historical cost net of accumulated amortisation and any accumulated impairment losses. Amortisation is provided so as to write down the cost of an asset on a straight-line basis over its estimated useful economic life. The useful life is currently assessed as not more than 10 years. In case of license obtaining with actual usage for a period of more than 10 years, the useful life is considered till the date, fixed in the contract.

Software development costs (relating to the design and testing of new or substantially improved software) are recognised as intangible assets only when the Group can demonstrate the technical feasibility of completing the software so that it will be available for use or sale, its intention to complete and its ability to use the asset, how the asset will generate future economic benefits, the availability of resources to complete and the ability to measure reliably the expenditure during the development. Other software development costs are recognised as an expense as incurred. Computer software development costs recognised as intangible assets, as well as acquired computer software, are initially recorded at historical cost and are subsequently amortised using the straight-line method over their useful lives, but not exceeding a period of ten years.

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

Taxation. Income tax comprises current and deferred tax. Income tax is recognised in profit or loss except to the extent that it relates to items of other comprehensive income or transactions with shareholders recognised directly in equity, in which case it is recognised within other comprehensive income or directly within equity.

The current income tax expense is calculated in accordance with the regulations of the Russian Federation and of the regions in which the Group has offices, or where its branches, subsidiaries and associates are located. Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred income taxes are provided for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes, except where the deferred income tax arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the reporting date. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefits will be realised.

A deferred tax asset is recorded only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised. Deferred tax liabilities and assets are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

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

There are various operating taxes in the Russian Federation that are assessed on the Group's activities. These taxes are included as a component of other administrative expenses in the consolidated statement of comprehensive income.

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

Collateral. The Group obtains collateral in respect of customer liabilities where this is considered appropriate.

The collateral normally takes the form of a lien over the customer's assets and gives the Group a claim on these assets for both existing and future customer liabilities.

Other provisions. Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of obligation can be made.

Retirement and other employee benefit obligations. The Group makes contributions to the State Pension System of the Russian Federation, which requires current contributions by the employer calculated as a percentage of current gross salary payments; such expense is charged in the period the related salaries are earned.

The Group also provides defined contribution pension coverage for employees. The coverage provided does not represent contributions into a separate legal entity, nor are its assets and liabilities segregated from the assets and liabilities of the Group. Contributions accrued by the Group during the period are included in profit or loss as personnel expenses, and related liabilities to employees are recorded within other liabilities.

Share capital. Ordinary shares are classified as equity. Any excess of the fair value of consideration received over the par value of shares issued is recognised as share premium.

Dividends are recognised as a liability and deducted from equity at the reporting date only if they are declared before or on the reporting date. Dividends are disclosed when they are proposed before the reporting date or proposed or declared after the reporting date but before the consolidated financial statements are authorised for issue.

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

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

New and revised IFRS Standards in issue but not yet effective

At the date of authorisation of these financial statements, The Group has not applied the following new and revised IFRS Standards that have been issued but are not yet effective:

The impact of the application of the new and revised IFRS Standards below is for illustrative purposes only. Entities should analyse the impact of these new or revised IFRS Standards on their financial statements based on their specific facts and circumstances and make appropriate disclosures.

IFRS 16	Leases
IFRS 17	Insurance Contracts
Amendments to IFRS 9	Prepayment Features with Negative Compensation
Amendments to IAS 28	Long-term interests in Associates and Joint Ventures
Annual Improvements to IFRS Standards 2015-2017 Cycle	Amendments to IFRS 3 Business Combinations, IFRS 11 Joint Arrangements, IAS 12 Income Taxes and IAS 23 Borrowing Costs
Amendments to IAS 19 Employee Benefits	Plan Amendment Curtailment or Settlement
IFRS 10 Consolidated Financial Statements and IAS 28 (amendments)	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
Amendments to IFRS 3	DEFINITION OF BUSINESS
Amendments to IAS 1 and IAS 8	Definition to Material
IFRIC 23	Uncertainty over Income Tax Treatments

The management do not expect that the adoption of the Standards listed above will have a material impact on the financial statements of the Group in future periods, except as noted below:

IFRS 16 Leases

General impact of application of IFRS 16 Leases. IFRS 16 provides a comprehensive model for the identification of lease arrangements and their treatment in the financial statements for both lessors and lessees. IFRS 16 will supersede the current lease guidance including IAS 17 *Leases and the related Interpretations* when it becomes effective for accounting periods beginning on or after 1 January 2019. The date of initial application of IFRS 16 for the Group will be 1 January 2019.

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

Impact of the new definition of a lease. The Group will make use of the practical expedient available on transition to IFRS 16 not to reassess whether a contract is or contains a lease. Accordingly, the definition of a lease in accordance with IAS 17 and IFRIC 4 will continue to apply to those leases entered or modified before 1 January 2019.

The change in definition of a lease mainly relates to the concept of control. IFRS 16 distinguishes between leases and service contracts on the basis of whether the use of an identified asset is controlled by the customer. Control is considered to exist if the customer has:
- The right to obtain substantially all of the economic benefits from the use of an identified asset; and
- The right to direct the use of that asset.

The Group will apply the definition of a lease and related guidance set out in IFRS 16 to all lease contracts entered into or modified on or after 1 January 2019 (whether it is a lessor or a lessee in the lease contract).

Impact on Lessee Accounting

Operating leases: IFRS 16 will change how the Group accounts for leases previously classified as operating leases under IAS 17, which were off-balance sheet.

On initial application of IFRS 16, for all leases (except as noted below), the Group will:
(a) Recognise right-of-use assets and lease liabilities in the consolidated statement of financial position, initially measured at the present value of the future lease payments;
(b) Recognise depreciation of right-of-use assets and interest on lease liabilities in the consolidated statement of profit or loss;
(c) Separate the total amount of cash paid into a principal portion (presented within financing activities) and interest (presented within operating activities) in the consolidated cash flow statement.

Lease incentives (e.g. rent-free period) will be recognised as part of the measurement of the right-of-use assets and lease liabilities whereas under IAS 17 they resulted in the recognition of a lease liability incentive, amortised as a reduction of rental expenses on a straight-line basis.

Under IFRS 16, right-of-use assets will be tested for impairment in accordance with IAS 36 Impairment of Assets. This will replace the previous requirement to recognise a provision for onerous lease contracts.

For short-term leases (lease term of 12 months or less) and leases of low-value assets (such as personal computers and office furniture), the Group will opt to recognise a lease expense on a straight-line basis as permitted by IFRS 16.

Finance leases: the main differences between IFRS 16 and IAS 17 with respect to assets formerly held under a finance lease is the measurement of the residual value guarantees provided by the lessee to the lessor. IFRS 16 requires that the Group recognises as part of its lease liability only the amount expected to be payable under a residual value guarantee, rather than the maximum amount guaranteed as required by IAS 17. On initial application the Group will present equipment previously included in property, plant and equipment within the line item for right-of-use assets and the lease liability, previously presented within borrowing, will be presented in a separate line for lease liabilities.

Based on an analysis of the Group's finance leases as at December 31, 2018 on the basis of the facts and circumstances that exist at that date, the management of the Group have assessed that the impact of this change will not have an impact on the amounts recognised in the Group's consolidated financial statements.

Impact on Lessor Accounting. Under IFRS 16, a lessor continues to classify leases as either finance leases or operating leases and account for those two types of leases differently. However, IFRS 16 has changed and expanded the disclosures required, in particular regarding how a lessor manages the risks arising from its residual interest in leased assets.

Under IFRS 16, an intermediate lessor accounts for the head lease and the sublease as two separate contracts. The intermediate lessor is required to classify the sublease as a finance or operating lease by reference to the right-of-use asset arising from the head lease (and not by reference to the underlying asset as was the case under IAS 17).

Because of this change the Group will reclassify certain of its sublease agreements as finance leases. As required by IFRS 9, an allowance for expected credit losses will be recognised on the finance lease receivables. The leased assets will be derecognised and finance lease asset receivables recognised. This change in accounting will change the timing of recognition of the related revenue (recognised in finance income).

IFRS 17 Insurance Contracts. The new Standard establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts and supersedes IFRS 4 *Insurance Contracts.*

The Standard outlines a General Model, which is modified for insurance contracts with direct participation features, described as the Variable Fee Approach. The General Model is simplified if certain criteria are met by measuring the liability for remaining coverage using the Premium Allocation Approach.

The General Model will use current assumptions to estimate the amount, timing and uncertainty of future cashflows and it will explicitly measure the cost of that uncertainty, it takes into account market interest rates and the impact of policyholders' options and guarantees.

The Standard is effective for annual reporting periods beginning on or after 1 January 2021, with early application permitted. It is applied retrospectively unless impracticable, in which case the modified retrospective approach or the fair value approach is applied.

For the purpose of the transition requirements, the date of initial application is the start if the annual reporting period in which the entity first applies the Standard, and the transition date is the beginning of the period immediately preceding the date of initial application. The management of the Group do not anticipate that the application of the Standard in the future will have an impact on the Group's consolidated financial statements as the Group does not have instruments in scope of this standard.

Amendments to IFRS 9 Prepayment Features with Negative Compensation. The amendments to IFRS 9 clarify that for the purpose of assessing whether a prepayment feature meets the SPPI condition, the party exercising the option may pay or receive reasonable compensation for the prepayment irrespective of the reason for prepayment. In other words, prepayment features with negative compensation do not automatically fail SPPI.

The amendment applies to annual periods beginning on or after 1 January 2019, with earlier application permitted. There are specific transition provisions depending on when the amendments are first applied, relative to the initial application of IFRS 9.

The management of the Group do not anticipate that the application of the amendments in the future will have an impact on the Group's consolidated financial statements.

Amendments to IAS 28 Long-term Interests in Associates and Joint Ventures. The amendment clarifies that IFRS 9, including its impairment requirements, applies to long-term interests. Furthermore, in applying IFRS 9 to long-term interests, an entity does not take into account adjustments to their carrying amount reauired by IAS 28 (i.e., adjustments to the carrying amount of long-term interests arising from the allocation of losses of the investee or assessment of impairment in accordance with IAS 28).

The amendments apply retrospectively to annual reporting periods beginning on or after 1 January 2019. Earlier application is permitted. Specific transition provisions apply depending on whether the first-time application of the amendments coincides with that of IFRS 9.

The management of the Group do not anticipate that the application of the amendments in the future will have an impact on the Group's consolidated financial statements.

Annual Improvements to IFRS Standards 2015-2017 Cycle Amendments to IFRS 3 Business Combinations, IFRS 11 Joint Arrangements, IAS 12 Income Taxes and IAS 23 Borrowing Costs. The Annual Improvements include amendments to four Standards.

IAS 12 *Income Taxes.* The amendments clarify that an entity should recognise the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognised the transactions that generated the distributable profits. This is the case irrespective of whether different tax rates apply to distributed and undistributed profits.

IAS 23 *Borrowing Costs.* The amendments clarify that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows generally when calculating the capitalisation rate on general borrowings.

IFRS 3 *Business Combinations.* The amendments to IFRS 3 clarify that when an entity obtains control of a business that is a joint operation, the entity applies the requirements for a business combination achieved in stages, including remeasuring its previously held interest (PHI) in the joint operation at fair value. The PHI to be remeasured includes any unrecognised assets, liabilities and goodwill relating to the joint operation.

IFRS 11 *Joint Arrangements.* The amendments to IFRS 11 clarify that when a party that participates in, but does not have joint control of, a joint operation that is a business obtains joint control of such a joint operation, the entity does not remeasure its PHI in the joint operation.

All the amendments are effective for annual periods beginning on or after 1 January 2019 and generally require prospective application. Earlier application is permitted. The management of the Group do not anticipate that the application of the amendments in the future will have an impact on the Group's consolidated financial statements.

Amendments to IAS 19 Employee Benefits Plan Amendment, Curtailment or Settlement. The amendments clarify that the past service cost (or of the gain or loss on settlement) is calculated by measuring the defined benefit liability (asset) using updated assumptions and comparing benefits offered and plan assets before and after the plan amendment (or curtailment or settlement) but ignoring the effect of the asset ceiling (that may arise when the defined benefit plan is in a surplus position). IAS 19 is now clear that the change in the effect of the asset ceiling that may result from the plan amendment (or curtailment or settlement) is determined in a second step and is recognised in the normal manner in other comprehensive income.

The paragraphs that relate to measuring the current service cost and the net interest on the net defined benefit liability (asset) have also been amended. An entity will now be required 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, in the case of the net interest, the amendments make it clear that for the period post plan amendment, the net interest is calculated by multiplying the net defined benefit liability (asset) as remeasured under IAS 19.99 with the discount rate used in the remeasurement (also taking into account the effect of contributions and benefit payments on the net defined benefit liability (asset)).

The amendments are applied prespectively. They apply only to plan amendments, curtailments or settlements that occur on or after the beginning of the annual period in which the amendments to IAS 19 are first applied. The amendments to IAS 19 must be applied to annual periods beginning on or after 1 January 2019, but they can be applied earlier if an entity elects to do so. The management of the Group do not anticipate that the application of the amendments in the future will have an impact on the Group's consolidated financial statements.

IFRS 10 Consolidated Financial Statements and IAS 28 (amendments) Sale or Contribution of Assets between an Investor and its Associate or Joint Venture. The amendments to IFRS 10 and IAS 28 deal with situations where there is a sale or contribution of assets between an investor and its associate or joint venture. Specifically, the amendments state that gains or losses resulting from the loss of control of a subsidiary that does not contain a business in a transaction with an associate or a joint venture that is accounted for using the equity method, are recognised in the parent's profit or loss only to the extent of the unrelated investors' interests in that associate or joint venture. Similarly, gains and losses resulting from the remeasurement of investments retained in any former subsidiary (that has become an associate or a joint venture that is accounted for using the equity method) to fair value are recognised in the former parent's profit or loss only to the extent of the unrelated investors' interests in the new associate or joint venture.

The effective date of the amendments has yet to be set by the IASB; however, earlier application of the amendments is permitted. The management of the Group anticipate that the application of these amendments may have an impact on the Group's consolidated financial statements in future periods should such transactions arise. The management of the Group do not anticipate that the application of the amendments in the future will have an impact on the Group's consolidated financial statements.

Amendments to IFRS 3 Definition of business. The amendments clarify that to be considered a business, an acquired set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs. The definitions of a business and of outputs were narrowed by focusing on goods and services provided to customers and by removing the reference to an ability to reduce costs. The amendments also remove the assessment of whether market participants are capable of replacing any missing inputs or processes and continuing to produce outputs and add an optional concentration test that permits a simplified assessment of whether an acquired set of activities and assets is not a business. The amendments are effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2020 and to asset acquisitions that occur on or after the beginning of that period. Earlier application is permitted.

Amendments to IAS 1 and IAS 8 Definition to Material. The amendments are intended to make the definition of material in IAS 1 easier to understand and are not intended to alter the underlying concept of materiality in IFRS Standards. The concept of 'obscuring' material information with immaterial information has been included as part of the new definition. The threshold for materiality influencing users has been changed from 'could influence' to 'could reasonably be expected to influence'. The definition of material in IAS 8 has been replaced by a reference to the definition of material in IAS 1. In addition, the IASB amended other Standards and the Conceptual Framework that contain a definition of material or refer to the term 'material' to ensure consistency. The amendments are applied prospectively for annual periods beginning on or after 1 January 2020, with earlier application permitted.

IFRIC 23 Uncertainty over Income Tax Treatments. IFRIC 23 sets out how to determine the accounting tax position when there is uncertainty over income tax treatments. The interpretation requires an entity to:

- Determine whether uncertain tax positions are assessed separately or as a group; and
- Assess whether it is probable that a tax authority will accept an uncertain tax treatment used, or proposed to be used, by an entity in its income tax filings:
  - If yes, the entity should determine its accounting tax position consistently with the tax treatment used or planned to be used in its income tax filings.
  - If no, the entity should reflect the effect of uncertainty in determining its accounting tax position.

The Interpretation is effective for annual periods beginning on or after 1 January 2019. Entities can apply the Interpretation with either full retrospective application or modified retrospective application without restatement of comparatives retrospectively or prespectively. The management of the Group do not anticipate that the application of the amendments in the future will have an impact on the Group's consolidated financial statements.

3. Significant accounting judgements and estimates

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

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

Recoverability of deferred tax assets. The management of the Group is confident that no valuation allowance against deferred tax assets at the reporting date is considered necessary, because it is more likely than the deferred tax asset will be fully realised. As of 31 December 2018 the carrying value of deferred tax assets amounted to RUB 1 836 648 thousand (31 December 2017: none).

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

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

Models and assumptions used. The Group uses various models and assumptions in measuring fair value of financial assets as well as in estimating ECL. Judgement is applied in identifying the most appropriate model for each type of asset, as well as for determining the assumptions used in these models, including assumptions that relate to key drivers of credit risk. For Group-wide segments the Group uses the UniCredit Group IFRS 9 models. Local PD, LGD, EAD (exposure at default) and TL (transfer logic) models have been developed and implemented for all local segments. ECL is calculated for Group-wide and local segments with IFRS 9 parameters on separate contract level.

Probability of default. PD constitutes a key input in measuring ECL. PD is an estimate of the likelihood of default over a given time horizon, the calculation of which includes historical data, assumptions and expectations of future conditions.

Loss Given Default. LGD is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, taking into account cash flows from collateral and integral credit enhancements.

Measurement of ECL. The key inputs used for measuring ECL are:

- Probability of default (PD),
- Loss given default (LGD) and
- Exposure at default (EAD).

As explained above these figures are generally derived from internally developed statistical models and other historical data and they are adjusted to reflect probability-weighted forward-looking information.

PD is an estimate of the likelihood of default over a given time horizon. It is estimated as at a point in time. The calculation is based on statistical rating models, and assessed using rating tools tailored to the various categories of counterparties and exposures. These statistical models are based on market data (where available), as well as internal data comprising both quantitative and qualitative factors. The estimation is based on current conditions, adjusted to take into account estimates of future conditions that will impact PD.

LGD is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, taking into account cash flows from any collateral. The LGD models for secured assets consider forecasts of future collateral valuation taking into account sale discounts, time to realization of collateral, cost of realization of collateral and cure rates (i.e. exit from non-performing status). LGD models for unsecured assets consider time of recovery and recovery rates. The calculation is on a discounted cash flow basis, where the cash flows are discounted by the original EIR of the loan.

EAD is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, and expected drawdowns on committed facilities. The Group's modelling approach for EAD reflects expected changes in the balance outstanding over the lifetime of the loan. The Group uses EAD models that reflect the characteristics of the portfolios.

Incorporation of forward-looking information. The Group uses forward-looking information that is provided by Unicredit Group (the parent company). Forward-looking information is accounted for by means of a non-linear scaling approach of the PDs/LGDs to a target PD/LGD level, which integrates the expectations about the future economic conditions. In line with the current best practices in the banking industry, the Group leverages on the Stress Test Models for including macro-economic effects into the expected credit losses.

The stress test models (or satellite models) are set of models aimed at translating the macro-economic conditions into credit risk parameters (PD/LGD). Within the wider stress testing framework the models serve as basis for calculating the stressed PD/LGD under the Adverse Scenarios adopted for the for stress test purposes They are used both for regulatory and managerial stress test exercises.

Fair value measurement and valuation process. In estimating the fair value of a financial asset or a liability, the Group uses market-observable data to the extent it is available. Where such Level 1 inputs are not available, the Group uses valuation models to determine the fair value of its financial instruments.

Notes to Consolidated Financial Statements (Continued)

3. Significant accounting judgements and estimates (Continued)

Reclassifications

With effect from 1 January 2018, the Group reclassified repossessed assets from other assets to fixed assets. The details of reclassification and effect on the consolidated financial statements for the year ended 31 December 2017 are presented as follows:

	As previously reported	Effect of reclassifications	As adjusted
Consolidated statement of financial position for the year ended 31 December 2017			
Fixed assets (Note 13)	4 909 170	453 468	5 362 638
Other assets (Note 16)	5 852 338	(453 468)	5 398 870

4. Operating segments

For the management purposes, the Group has four reporting business segments:

Corporate and Investment banking (hereinafter – "CIB") includes corporate lending, project and commodity and corporate structured finance, corporate sight and term deposit services, securities, foreign currency and derivatives trading and custody services.

Retail banking comprises banking services to private individuals and Small and Medium Entities (hereinafter – "SME"), credit and debit card services, retail sight and term deposit services, lending to SME and retail lending (consumer loans, car loans and mortgages).

Leasing – represents the leasing activities of the Group.

Other – represents the Group's funding activities and other unallocated items.

Information about each segment is measured on the same basis as the information used for decision making purposes for allocating resources to segments and assessing segment performance and is prepared on the same basis as the consolidated financial statements.

Transactions between the business segments are on normal commercial terms and conditions. Funds are ordinarily reallocated between segments, resulting in funding cost transfers included in segment revenue. Interest charged for these funds is based on the Group's funds transfer pricing policy.

Segment breakdown of assets and liabilities is set out below:

	31 December 2018	31 December 2017
Assets		
CIB	1 096 420 095	896 130 421
Retail banking	146 328 653	123 712 238
Leasing	27 526 767	21 339 598
Other	92 340 031	144 959 366
Total assets	**1 362 615 546**	**1 186 141 623**
Liabilities		
CIB	821 870 005	672 598 151
Retail banking	299 824 819	263 701 533
Leasing	23 207 443	17 614 994
Other	21 950 975	31 993 536
Total liabilities	**1 166 853 242**	**985 908 214**

Segment information for the operating segments for the year ended 31 December 2018 is set out below:

	CIB	Retail Banking	Leasing	Other	Total
Net interest income/(expense) from external customers	29 923 000	9 655 448	1 558 492	(88 905)	41 048 035
Inter-segment (expense)/income	(2 292 547)	1 688 265	-	604 282	-
Net interest income	**27 630 453**	**11 343 713**	**1 558 492**	**515 377**	**41 048 035**
Net fee and commission income from external customers	3 604 607	5 096 769	32 901	-	8 734 277
Dividend income	-	-	-	4 987	4 987
(Losses)/gains on financial assets and liabilities held for trading from external customers	(4 132 146)	1 457 300	983	(17 702)	(2 691 565)
Fair value adjustments in portfolio hedge accounting	-	-	-	79 022	79 022
Gains on disposals of financial assets	1 663 199	399 426	-	-	2 062 625
Operating income	**28 766 113**	**18 297 208**	**1 592 376**	**581 684**	**49 237 381**
Impairment on loans and other financial transactions	(7 373 649)	(2 684 144)	(253 751)	-	(10 311 544)
Net income from financial activities	**21 392 464**	**15 613 064**	**1 338 625**	**581 684**	**38 925 837**
Operating costs including:	(6 500 031)	(10 680 068)	(402 539)	(1 440 696)	(19 023 334)
depreciation of fixed assets and amortization of intangible assets	(822 436)	(1 462 507)	(2 832)	-	(2 287 775)
impairment of fixed assets	(15 322)	(57 111)	-	-	(72 433)
Share of gain in associate	-	-	-	954 589	954 589
Gains on disposal of fixed assets	-	-	-	3 900	3 900
Profit before income tax expense	**14 892 433**	**4 932 996**	**936 086**	**99 477**	**20 860 992**
Income tax expense					(4 156 924)
Profit for the year					**16 704 068**
Cash flow hedge reserve					415 749
Revaluation reserve for financial assets at fair value through other comprehensive income					(3 408 955)
Foreign currency translation reserve					(98 835)
Total comprehensive income					**13 612 027**

Notes to Consolidated Financial Statements (Continued)

4. Operating segments (Continued)

Segment information for the operating segments for the year ended 31 December 2017 is set out below:

	CIB	Retail Banking	Leasing	Other	Total
Net interest income from external customers	31 128 227	8 374 884	1 267 733	488 784	41 259 628
Inter-segment (expense)/income	(6 905 190)	1 464 136	-	5 441 054	-
Net interest income	**24 223 037**	**9 839 020**	**1 267 733**	**5 929 838**	**41 259 628**
Net fee and commission income from external customers	2 910 097	4 081 981	10 388	-	7 002 466
Dividend income	-	-	-	2	2
Gains/(losses) on financial assets and liabilities held for trading from external customers	382 430	1 254 427	470	(3 690)	1 633 637
Fair value adjustments in portfolio hedge accounting	-	-	-	(85 982)	(85 982)
Gains on disposals of financial assets	1 816 007	40 751	-	-	1 856 758
Operating income	**29 331 571**	**15 216 179**	**1 278 591**	**5 840 168**	**51 666 509**
Impairment on loans and other financial transactions	(7 372 939)	(3 630 762)	(160 023)	-	(11 163 724)
Net income from financial activities	**21 958 632**	**11 585 417**	**1 118 568**	**5 840 168**	**40 502 785**
Operating costs including:	(6 622 859)	(10 062 661)	(349 446)	(753 366)	(17 788 332)
depreciation of fixed assets and amortization of intangible assets	(773 777)	(1 305 684)	(4 982)	-	(2 084 443)
impairment of fixed assets	(22 387)	(72 205)	-	-	(94 592)
Losses on disposal of fixed assets	-	-	-	(689)	(689)
Profit before income tax expense	**15 335 773**	**1 522 756**	**769 122**	**5 086 113**	**22 713 764**
Income tax expense					(4 657 065)
Profit for the year					**18 056 699**
Cash flow hedge reserve					(284 619)
Revaluation reserve for financial assets at fair value through other comprehensive income					786 424
Total comprehensive income					**18 558 504**

Information about major customers and geographical areas. The Group operates in the Russian Federation and foreign countries. In presenting geographical information the allocation of net interest income is based on the geographical location of customers and assets.

Geographical information on net interest income and assets for 2018 is presented below:

	Net interest income	Assets
Russian Federation	32 574 486	1 134 812 351
OECD countries	6 017 801	181 603 646
Non-OECD countries	2 455 748	46 199 549
Total	**41 048 035**	**1 362 615 546**

Geographical information on net interest income and assets for 2017 is presented below:

	Net interest income	Assets
Russian Federation	28 049 383	925 493 838
OECD countries	10 820 885	226 989 436
Non-OECD countries	2 389 360	33 658 349
Total	**41 259 628**	**1 186 141 623**

5. Cash and cash balances

Cash and cash balances comprise:

	31 December 2018	31 December 2017
Cash on hand	12 091 358	11 771 673
Current accounts with the CBR	3 447 490	18 430 977
Cash and cash balances	**15 538 848**	**30 202 650**

As at 31 December 2018 there is no cash pledged as collateral for mortgage-backed bonds due to the redemption of these bonds in September 2018 (31 December 2017: RUB 2 452 807 thousand) (see Note 19 for details).

6. Debt securities held for trading

Debt securities held for trading comprise:

	31 December 2018	31 December 2017
USD denominated		
Russian Government Eurobonds	1 556 909	2 383 299
RUB denominated		
Russian Government Bonds	3 752 528	18 455 671
Corporate and bank bonds	-	30 567
Debt securities held for trading	**5 309 437**	**20 869 537**

As at 31 December 2018 all debt securities held for trading were rated no lower than “BBB-” (31 December 2017: 89%).

As at 31 December 2018 there are no trading securities sold under repurchase agreements (31 December 2017: RUB 804 699 thousand) (see Notes 12 and 17 for details).

Nominal interest rates and maturities of debt securities held for trading are as follows:

	31 December 2018		31 December 2017	
	%	Maturity	%	Maturity
Russian Government Bonds	6.9-8.15%	2027, 2034	7.05-7.75%	2026, 2028, 2033
Russian Government Eurobonds	5.25%	2047	4.75-7.5%	2026, 2030
Corporate and bank bonds	-	-	8.9%	2027

7. Amounts due from credit institutions

Amounts due from credit institutions comprise:

	31 December 2018	31 December 2017
Current accounts with credit institutions	82 623 139	44 375 824
Time deposits	114 733 010	187 161 615
Reverse repurchase agreements with credit institutions	150 678 666	51 791 048
Obligatory reserve with the CBR	11 973 998	9 092 127
Gross amounts due from credit institutions	**360 008 813**	**292 420 614**
Less: allowance for loan impairment	(419 823)	-
Total amounts due from credit institutions	**359 588 990**	**292 420 614**

7. Amounts due from credit institutions (Continued)

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

A reconciliation of the impairment loss allowance by stages in accordance with IFRS 9 is as follows:

	2018		
	Stage 1	**Stage 2**	**Total**
Impairment loss allowance at 1 January	**-**	**-**	**-**
Effect of change in accounting policy due to IFRS 9 adoption	515 196	-	515 196
At 1 January according to IFRS 9	**515 196**	**-**	**515 196**
(Recovery)/charge for the year	(128 439)	34	(128 405)
Effect of exchange rate changes	33 032	-	33 032
Impairment loss allowance at 31 December	**419 789**	**34**	**419 823**

The following table shows gross amounts due from credit institutions and related impairment distributed by stages according to IFRS 9 as at 31 December 2018:

	Stage 1	Stage 2	Total
Gross loans	359 347 096	661 717	360 008 813
Impairment	(419 789)	(34)	(419 823)
Total amounts due from credit institutions	**358 927 307**	**661 683**	**359 588 990**

As at 31 December 2018 there are three counterparties with balances that individually exceeded 10% of the Group's equity. As at 31 December 2018, the aggregate amount of these balances is RUB 281 764 826 thousand (31 December 2017: two counterparties with aggregate amount of RUB 193 202 731 thousand). As at 31 December 2018, an allowance of RUB 341 010 thousand was recognised against these loans (31 December 2017: none).

As at 31 December 2018 and 31 December 2017 the Group entered into reverse repurchase agreements with a number of Russian banks. The carrying value of loans and related fair value of assets pledged under these agreements as at 31 December 2018 and 31 December 2017 comprise:

	31 December 2018		31 December 2017	
	Gross amount of loans	**Fair value of collateral**	**Gross amount of loans**	**Fair value of collateral**
Government bonds	82 352 092	88 335 606	35 879 910	38 290 623
Corporate bonds	61 255 653	70 175 830	11 949 616	13 136 468
Bank bonds	7 070 921	7 351 378	3 961 522	4 243 719
Total	**150 678 666**	**165 862 814**	**51 791 048**	**55 670 810**

As at 31 December 2018 included in government bonds are securities with the amount of RUB 3 427 071 thousand (31 December 2017: RUB 26 399 813 thousand) which were sold out of collateral pledged under reverse repurchase agreements with credit institutions and disclosed as financial liabilities held for trading in the consolidated statement of financial position. The Group has the obligation to return these securities at the maturity of the related reverse repurchase agreements.

As at 31 December 2018 there were no securities which were repledged under repurchase agreements with credit institutions (31 December 2017: 4 383 393 thousand) (see Note 17 for details).

As at 31 December 2018 approximately 86% (31 December 2017: 76%) of amounts due from credit institutions were placed with banks rated not lower than "BBB-".

As at 31 December 2018 the Group had term placements with the CBR in the amount of RUB 3 001 110 thousand (31 December 2017: none). As at 31 December 2018, an allowance of RUB 3 021 thousand was recognised against these loans (31 December 2017: none).

8. Derivative financial instruments

The Group enters into derivative financial instruments principally for trading and hedging purposes. The tables below show the fair values of derivative financial instruments, recorded as assets or liabilities, together with their notional amounts. The notional amount, recorded gross, is the amount of a derivative's underlying asset or notional amount to which reference rate or index is applied and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at the year-end and are indicative of neither the market risk nor the credit risk.

The Group values the derivative financial instruments using widely accepted valuation techniques, which are based on market interest rates and forward currency rates. Significant changes in these variables could cause the fair value of the derivatives to change materially.

The table below shows the fair value of derivative instruments held for trading, recorded as assets or liabilities, together with their notional amounts.

	31 December 2018			31 December 2017		
		Fair value			Fair value	
	Notional principal	Asset	Liability	Notional principal	Asset	Liability
Cross-currency interest rate swaps	306 709 553	25 747 186	16 471 553	269 447 898	28 163 370	7 875 459
Interest rate swaps and options	427 697 625	5 248 843	4 497 636	307 937 745	7 338 194	6 107 424
Foreign exchange forwards, swaps and options	271 822 270	5 872 252	2 683 150	139 320 810	2 484 342	1 675 413
Total derivative financial assets/ liabilities		**36 868 281**	**23 652 339**		**37 985 906**	**15 658 296**

The change in fair value of the trading derivative financial instruments attributable to changes in the counterparty credit risk amounts to a loss of RUB 26 774 thousand for the year ended 31 December 2018 (31 December 2017: gain of RUB 525 805 thousand). The change in fair value attributable to changes in credit risk has been calculated by incorporating the current observable credit spreads into the valuation techniques used to value derivative financial instruments by the Group.

The table below shows the fair values of financial instruments designated for hedging, recorded as assets or liabilities, together with their notional amounts.

	31 December 2018			31 December 2017		
		Fair value			Fair value	
	Notional principal	Asset	Liability	Notional principal	Asset	Liability
Cash flow hedge						
Interest rate swaps	557 327 810	2 339 692	1 713 468	254 378 234	862 119	1 132 581
Cross-currency interest rate swaps	190 026 893	505 258	13 004 256	122 585 668	6 143 932	2 198 665
Total cash flow hedge		**2 844 950**	**14 717 724**		**7 006 051**	**3 331 246**
Fair value hedge						
Interest rate swaps	639 715 294	3 943 200	5 606 451	440 281 313	854 557	7 318 595
Total fair value hedge		**3 943 200**	**5 606 451**		**854 557**	**7 318 595**
Total derivative financial assets/ liabilities designated for hedging		**6 788 150**	**20 324 175**		**7 860 608**	**10 649 841**

Portfolio Fair Value Hedge Accounting (hereinafter – the "PFVHA") is a part of interest rate risk hedging strategy of the Group that helps to avoid discrepancies between the economic substance of deals concluded for hedging purposes and their accounting treatment. PFVHA allows managing interest rate risks associated with a portfolio of financial assets or financial liabilities designated as hedged items.
The Group designates interest rate swaps as hedging instruments. The hedging instruments are stated at their fair value and changes in fair value are recognized in the consolidated statement of comprehensive income.

The hedging instruments to hedge variability of fair value are measured at fair value with positive changes in fair value of RUB 1 633 470 thousand recognised in portfolio hedge accounting as at 31 December 2018 (31 December 2017: negative changes of RUB 3 801 234 thousand), presented as a gain of RUB 5 434 704 thousand in fair value adjustments in portfolio hedge accounting in the consolidated statement of comprehensive income for the period ended 31 December 2018 (31 December 2017: presented as a loss of RUB 1 959 743 thousand).

The negative changes in the fair value of hedged items (portfolio of financial assets and financial liabilities) that are attributable to the hedged risk are recognised as RUB 1 633 627 thousand as at 31 December 2018 (31 December 2017: positive changes in the amount of RUB 3 801 941 thousand), presented as loss of RUB 5 434 861 thousand in fair value adjustments in portfolio hedge accounting in the consolidated statement of comprehensive income for the period ended 31 December 2018 (31 December 2017: presented as a gain of RUB 1 959 743 thousand).

Fair value adjustments in portfolio hedge accounting amounted to a gain of RUB 79 022 thousand for the year ended 31 December 2018 (31 December 2017: loss of RUB 85 982 thousand) and consists of a negative difference between a positive change in fair value of financial instruments designated for hedging purposes and a negative change in fair value of hedged items in the amount of RUB 157 thousand (31 December 2017: negative change of RUB 379 thousand) and a positive change in counterparty credit risk attributable to derivative financial instruments designated for hedging purposes in the amount of RUB 79 179 thousand for the year ended 31 December 2018 (31 December 2017: negative change of RUB 85 603 thousand). The change in fair value attributable to changes in credit risk has been calculated by incorporating the current observable credit spreads into the valuation techniques used to value derivative financial instruments by the Group.

Along with PFVHA the Group uses Portfolio Cash Flow hedging. The Group designates certain interest rate swaps and cross-currency interest rate swaps as hedging instruments to hedge variability in cash flows and fair value resulting from interest rate mismatch of the banking book position. The hedged cash flows are expected to occur and to affect the statement of comprehensive income until 2027 for interest rate swaps and cross-currency interest rate swaps. As at 31 December 2018, the positive effective portion of changes in the fair value of derivative financial instruments designated as hedging instruments recognised in equity was RUB 146 889 thousand (31 December 2017: negative RUB 268 860 thousand), net of tax RUB 30 884 thousand (31 December 2017: RUB 67 215 thousand).

Margin from derivative financial instruments designated for hedging amounted to RUB 931 393 thousand for the year ended 31 December 2018 (31 December 2017: RUB 4 567 881 thousand) and consists of interest income from derivative financial instruments designated for hedging in the amount of RUB 32 044 117 thousand (31 December 2017: RUB 25 077 188 thousand) and interest expenses from derivative financial instruments designated for hedging in the amount of RUB 31 112 724 thousand (31 December 2017: RUB 20 509 307 thousand).

9. Loans to customers

Loans to customers comprise:

	31 December 2018	31 December 2017
Corporate customers	706 667 655	532 641 491
Retail customers, including SME	160 270 629	137 636 984
Lease receivables	24 341 470	19 739 478
Reverse repurchase agreements with companies	28 049 453	21 292 270
Gross loans to customers	**919 329 207**	**711 310 223**
Less: allowance for loan impairment	(56 178 502)	(42 787 043)
Total loans to customers	**863 150 705**	**668 523 180**

A reconciliation of the provisions for impairment by classes of loans to customers for the year ended 31 December 2018 is as follows:

	Corporate customers	Retail customers	Lease receivables	Total
Impairment loss allowance at 1 January 2018	**28 523 430**	**13 924 746**	**338 867**	**42 787 043**
Effect of change in accounting policy due to IFRS 9 adoption	5 822 117	4 358 582	126 437	10 307 136
At 1 January 2018	**34 345 547**	**18 283 328**	**465 304**	**53 094 179**
Charge for the year	9 838 939	2 643 656	253 751	12 736 346
Loans sold or recovered through acceptance of collateral during the year	(217 010)	(6 559 527)	-	(6 776 537)
Loans written-off during the year	(3 810 354)	(681 681)	(90 390)	(4 582 425)
Unwinding of discount	(616 728)	-	-	(616 728)
Effect of exchange rate changes	1 986 425	337 242	-	2 323 667
At 31 December 2018	**41 526 819**	**14 023 018**	**628 665**	**56 178 502**

A reconciliation of the provisions for impairment by classes of loans to customers for the year ended 31 December 2017 is as follows:

	Corporate customers	Retail customers	Lease receivables	Total
At 1 January 2017	**31 118 351**	**13 923 587**	**212 813**	**45 254 751**
Charge for the year	6 303 941	3 611 662	160 023	10 075 626
Loans sold or recovered through acceptance of collateral during the year	(5 769 786)	(183 677)	-	(5 953 463)
Loans written-off during the year	(2 901 474)	(3 328 519)	(33 969)	(6 263 962)
Effect of exchange rate changes	(227 602)	(98 307)	-	(325 909)
At 31 December 2017	**28 523 430**	**13 924 746**	**338 867**	**42 787 043**

A reconciliation of the impairment loss allowance by stages in accordance with IFRS 9 is as follows:

	31 December 2018			
	Stage 1	Stage 2	Stage 3	Total
Impairment loss allowance at the beginning of the year according to IFRS 9	**8 357 461**	**2 961 651**	**41 775 067**	**53 094 179**
(Recovery)/charge for the period	(692 340)	(119 865)	13 548 551	12 736 346
Assets sold or recovered through repossession of collateral during the period	(41 793)	-	(6 734 744)	(6 776 537)
Assets written-off during the period	-	-	(4 582 425)	(4 582 425)
Unwinding of discount	-	-	(616 728)	(616 728)
Effect of exchange rate changes	(23 982)	1 675	2 345 974	2 323 667
Impairment loss allowance at the end of the year according to IFRS 9	**7 599 346**	**2 843 461**	**45 735 695**	**56 178 502**

Notes to Consolidated Financial Statements (Continued)

9. Loans to customers (Continued)

The following table shows gross loans and related impairment as at 31 December 2018:

	Gross loans	Impairment	Net loans
Corporate customers			
Loans for which no indications of impairment have been identified on an individual basis, not past due	653 400 614	(5 933 501)	647 467 113
Loans for which no specific impairment is identified on an individual basis, past due			
- Past due less than 31 days	655 851	(13 261)	642 590
Impaired loans			
- Not past due	20 696 823	(8 873 890)	11 822 933
- Past due less than 31 days	3 864 619	(2 618 316)	1 246 303
- Past due 31-90 days	311 446	(131 084)	180 362
- Past due 91-180 days	1 476 125	(958 438)	517 687
- Past due over 180 days	26 262 177	(22 961 587)	3 300 590
Total loans to corporate customers	**706 667 655**	**(41 490 077)**	**665 177 578**
Retail customers			
Not impaired loans, not past due	144 797 026	(2 856 302)	141 940 724
Not impaired loans, past due			
- Past due less than 31 days	2 518 802	(532 444)	1 986 358
- Past due 31-90 days	1 108 034	(544 385)	563 649
- Past due 91-180 days	307 382	(170 327)	137 055
- Past due over 180 days	156 652	(12 929)	143 723
Impaired loans			
- Not past due	352 252	(198 942)	153 310
- Past due less than 31 days	176 614	(90 166)	86 448
- Past due 31-90 days	105 902	(79 576)	26 326
- Past due 91-180 days	664 306	(498 034)	166 272
- Past due over 180 days	10 083 659	(9 039 913)	1 043 746
Total loans to retail customers	**160 270 629**	**(14 023 018)**	**146 247 611**
Lease receivables			
Loans for which no indications of impairment have been identified on an individual basis, not past due	23 569 656	(338 413)	23 231 243
Loans for which no specific impairment is identified on an individual basis, past due			
- Past due less than 31 days	199 976	(3 852)	196 124
- Past due 31-90 days	51 230	(651)	50 579
Impaired loans			
- Not past due	254 873	(77 131)	177 742
- Past due less than 31 days	57 778	(36 812)	20 966
- Past due 31-90 days	59 990	(45 452)	14 538
- Past due 91-180 days	129 208	(111 288)	17 920
- Past due over 180 days	18 759	(15 066)	3 693
Total lease receivables	**24 341 470**	**(628 665)**	**23 712 805**
Reverse repurchase agreements with companies			
Loans for which no indications of impairment have been identified on an individual basis, not past due	28 049 453	(36 742)	28 012 711
Total loans to customers	**919 329 207**	**(56 178 502)**	**863 150 705**

The following table shows gross loans and related impairment as at 31 December 2017:

	Gross loans	Impairment	Net loans
Corporate customers			
Loans for which no indications of impairment have been identified on an individual basis, not past due	497 171 089	(1 663 263)	495 507 826
Loans for which no specific impairment is identified on an individual basis, past due			
- Past due less than 31 days	16 197	(138)	16 059
Impaired loans			
- Not past due	7 232 084	(3 116 168)	4 115 916
- Past due less than 31 days	68 219	(14 374)	53 845
- Past due 31-90 days	2 782 999	(1 900 703)	882 296
- Past due 91-180 days	322 792	(217 187)	105 605
- Past due over 180 days	25 048 111	(21 611 597)	3 436 514
Total loans to corporate customers	**532 641 491**	**(28 523 430)**	**504 118 061**
Retail customers			
Not impaired loans, not past due	118 955 750	(1 059 955)	117 895 795
Not impaired loans, past due			
- Past due less than 31 days	1 653 541	(125 075)	1 528 466
- Past due 31-90 days	836 704	(155 241)	681 463
- Past due 91-180 days	206 464	(93 128)	113 336
- Past due over 180 days	12 399	(7 482)	4 917
Impaired loans			
- Not past due	347 429	(2 130)	345 299
- Past due less than 31 days	56 326	(4 833)	51 493
- Past due 31-90 days	99 565	(17 789)	81 776
- Past due 91-180 days	661 491	(293 929)	367 562
- Past due over 180 days	14 807 315	(12 165 184)	2 642 131
Total loans to retail customers	**137 636 984**	**(13 924 746)**	**123 712 238**
Lease receivables			
Loans for which no indications of impairment have been identified on an individual basis, not past due	19 091 526	(77 650)	19 013 876
Loans for which no specific impairment is identified on an individual basis, past due			
- Past due less than 31 days	147 460	(1 316)	146 144
- Past due 31-90 days	69 518	(589)	68 929
Impaired loans			
- Not past due	39 229	(7 185)	32 044
- Past due less than 31 days	27 205	(12 385)	14 820
- Past due 31-90 days	111 265	(53 992)	57 273
- Past due 91-180 days	159 761	(118 078)	41 683
- Past due over 180 days	93 514	(67 672)	25 842
Total lease receivables	**19 739 478**	**(338 867)**	**19 400 611**
Reverse repurchase agreements with companies			
Loans for which no indications of impairment have been identified on an individual basis, not past due	21 292 270	-	21 292 270
Total loans to customers	**711 310 223**	**(42 787 043)**	**668 523 180**

Notes to Consolidated Financial Statements (Continued)

9. Loans to customers (Continued)

The following table shows gross loans to customers and related impairment distributed by stages according to IFRS 9 as at 31 December 2018:

	Stage 1	Stage 2	Stage 3	Total
Corporate customers				
Gross loans	639 423 638	14 632 827	52 611 190	706 667 655
Impairment	(5 108 557)	(838 205)	(35 543 315)	(41 490 077)
Net loans to corporate customers	**634 315 081**	**13 794 622**	**17 067 875**	**665 177 578**
Retail customers and SME				
Gross loans	139 894 394	8 993 502	11 382 733	160 270 629
Impairment	(2 119 372)	(1 997 015)	(9 906 631)	(14 023 018)
Net loans to retail customers and SME	**137 775 022**	**6 996 487**	**1 476 102**	**146 247 611**
Lease receivables				
Gross lease receivables	23 579 158	241 704	520 608	24 341 470
Impairment	(334 675)	(8 241)	(285 749)	(628 665)
Net lease receivables	**23 244 483**	**233 463**	**234 859**	**23 712 805**
Reverse repurchase agreements with companies				
Gross loans	28 049 453	-	-	28 049 453
Impairment	(36 742)	-	-	(36 742)
Net reverse repurchase agreements with companies	**28 012 711**	**-**	**-**	**28 012 711**
Total loans to customers	**823 347 297**	**21 024 572**	**18 778 836**	**863 150 705**

The following table provides analysis of minimum lease payments as at 31 December 2018:

	Minimum payments	Present value of minimum payments
Amounts receivable under finance leases		
Up to 12 months	12 719 710	10 365 058
From 1 to 5 years	14 308 071	11 881 202
Over 5 years	1 813 764	1 466 545
	28 841 545	**23 712 805**
Less unearned finance income	(5 128 740)	-
Present value of minimum lease payments receivable (net investment in the lease)	**23 712 805**	**23 712 805**

The following table provides analysis of minimum lease payments as at 31 December 2017:

	Minimum payments	Present value of minimum payments
Amounts receivable under finance leases		
Up to 12 months	10 685 884	8 476 845
From 1 to 5 years	11 475 532	9 212 459
Over 5 years	2 244 108	1 711 307
	24 405 524	**19 400 611**
Less unearned finance income	(5 004 913)	-
Present value of minimum lease payments receivable (net investment in the lease)	**19 400 611**	**19 400 611**

Impaired loans. Interest income on impaired loans for the year ended 31 December 2018 amounted to RUB 727 273 thousand (year ended 31 December 2017: RUB 829 505 thousand).

Renegotiated loans. As at 31 December 2018 and 31 December 2017 loans to customers included loans totaling RUB 17 119 252 thousand and RUB 20 895 028 thousand, respectively, whose terms were renegotiated. Otherwise these loans would be past due or impaired.

Write-off and sale of loans. The decision to write-off the loan is taken by the authorized body of the Group. Loans are written-off after receiving all necessary documentation from the authorized state bodies, as well as under the conditions where further debt collection is not possible.

The decisions to sell the loans is taken individually for each case, for both corporate and retail loans. The decision is taken by the authorized body of the Group based on the analysis of all possible alternative strategies for debt collection, the main criterion for the adoption of which is to minimize the losses of the Group's troubled assets.

Collateral and other credit enhancements. The amount and type of collateral required depends on an assessment of the credit risk of the counterparty as well as on the nature of the transaction. Guidelines regarding the acceptability of types of collateral taking into account valuation parameters of borrower risk level are implemented.

The main types of collateral obtained are as follows:

- For reverse repurchase transactions, securities;
- For commercial lending to corporate customers, pledge over real estate properties, equipment, inventories and trade receivables, guarantee of a legal entity with rating not lower than "BBB";
- For retail lending, mortgages over residential properties and motor vehicles;
- For lease receivables, pledge over real estate properties, motor vehicles and equipment.

The primary purpose of collateral arrangements is to reduce the potential credit loss in case of a workout of the credit exposure. Estimates of value are based on the value of collateral assessed at the time of borrowing and regularly reassessed.

The following table summarizes the carrying value of loans, net of impairment, to corporate customers by types of collateral as at 31 December 2018 and 31 December 2017:

	31 December 2018	31 December 2017
Loans to corporate customers		
Real estate	29 006 120	44 060 209
Guarantees	36 940 227	50 290 699
Other collateral	3 681 274	26 868
No collateral or other credit enhancement	595 549 957	409 740 285
Total loans to corporate customers	**665 177 578**	**504 118 061**

The following table summarizes the carrying value of loans, net of impairment, to retail customers by types of collateral as at 31 December 2018 and 31 December 2017:

	31 December 2018	31 December 2017
Loans to retail customers		
Real estate	34 840 376	28 316 161
Motor vehicles	48 205 703	41 310 135
Other collateral	104 273	168 364
No collateral or other credit enhancement	63 097 259	53 917 578
Total loans to retail customers	**146 247 611**	**123 712 238**

9. Loans to customers (Continued)

The following table summarizes the carrying value of lease receivables, net of impairment, by types of collateral as at 31 December 2018 and 31 December 2017:

	31 December 2018	31 December 2017
Lease receivables		
Real estate	485 714	549 178
Motor vehicles	7 375 232	5 651 075
Other collateral	15 851 859	13 200 358
Total lease receivables	**23 712 805**	**19 400 611**

The amounts shown in the tables above represent the carrying value of the loans, and do not necessarily represent the fair value of the collateral.

When lending to legal entities belonging to one economic group, the Group normally also obtains guarantees from other group members.

Included in retail loans as at 31 December 2017 are mortgage loans with gross amount of RUB 1 865 735 thousand pledged as collateral for mortgage-backed bonds issued by the Group in September 2015 (see Note 19 for details).

Repossessed collateral. As at 31 December 2018 and 31 December 2017, the Group obtained certain assets by taking control of collateral obtained for derecognized loans to customers. As at 31 December 2018, the repossessed collateral is comprised of real estate, motor vehicles and other assets with carrying amount of RUB 538 141 thousand (31 December 2017: RUB 453 468 thousand). The Group's policy is to sell these assets as soon as it is practicable.

Reverse repurchase agreements. As at 31 December 2018 and 31 December 2017 the Group entered into reverse repurchase agreements with a number of Russian companies. The carrying value of loans and related fair value of assets pledged under these agreements as at 31 December 2018 and 31 December 2017 comprise:

	31 December 2018		31 December 2017	
	Gross amount of loans	Fair value of collateral	Gross amount of loans	Fair value of collateral
Government bonds	15 567 594	16 291 947	20 658 146	22 027 770
Corporate bonds	12 481 859	13 880 054	361 036	399 199
Bank bonds	-	-	273 088	305 626
Total	**28 049 453**	**30 172 001**	**21 292 270**	**22 732 595**

Concentration of loans to customers. As at 31 December 2018, the Group had RUB 243 755 054 thousand due from the ten largest borrowers (27% of gross loan portfolio) (31 December 2017: RUB 178 361 295 thousand or 25%). As at 31 December 2018, an allowance of RUB 405 822 thousand was recognised against these loans (31 December 2017: RUB 98 324 thousand).

As at 31 December 2018, the Group had ten borrowers or a group of borrowers with aggregate loan amounts that individually exceeded 10% of equity (31 December 2017: three borrowers or a group of borrowers). As at 31 December 2018, the aggregate amount of these loans is RUB 262 552 497 thousand (31 December 2017: RUB 102 064 854 thousand).

Loans to customers are made principally within Russia in the following industry sectors:

	31 December 2018	31 December 2017
Mining and metallurgy	196 286 781	119 496 045
Trade	100 516 039	104 631 720
Chemicals	92 860 752	58 085 056
Energy	74 726 695	73 374 745
Other manufacturing	51 664 744	49 496 435
Finance	49 655 790	32 185 175
Real estate and construction	44 482 087	31 189 569
Timber processing	34 966 454	33 849 881
Machinery construction	32 102 588	17 058 227
Agriculture and food	31 864 853	26 695 322
Telecommunications	21 828 067	15 792 302
Transportation	18 638 894	8 871 798
Other	12 855 697	5 919 219
Gross loans to corporate customers	**762 449 441**	**576 645 494**
Gross loans to individuals	156 879 766	134 664 729
Gross loans to customers	**919 329 207**	**711 310 223**

Loans to individuals are divided by products as follows:

	31 December 2018	31 December 2017
Car loans	53 481 112	50 820 802
Consumer loans	52 432 648	44 142 492
Mortgages loans	42 258 332	31 089 722
Other loans	8 707 674	8 611 713
Gross loans to individuals	**156 879 766**	**134 664 729**

10. Financial assets at fair value through other comprehensive income

Financial assets at fair value through other comprehensive income comprise:

	31 December 2018	31 December 2017
Debt and other fixed income investments		
USD denominated		
Russian Government Eurobonds	20 403 064	12 051 460
RUB denominated		
Russian Government Bonds	20 516 950	30 309 317
Corporate and bank bonds	6 152 651	4 518 457
Cental bank bonds	-	30 467 380
Total debt and other fixed income investments measured at fair value through other comprehensive income	**47 072 665**	**77 346 614**
Equity investments		
RUB denominated		
Equity investments in financial institutions	116 945	116 945
EUR denominated		
Equity investments in financial institutions	6 747	2 707
Total equity investments measures at fair value through other comprehensive income	**123 692**	**119 652**
Total financial assets measures at fair value through other comprehensive income	**47 196 357**	**77 466 266**

As of 31 December 2018 and 1 January 2018 all debt securities classified as financial assets at fair value through other comprehensive income were allocated to Stage 1 in accordance with IFRS 9.

As at 31 December 2018 included in Russian Government bonds are securities sold under repurchase agreements in the amount of RUB 937 601 thousand (31 December 2017: Russian Government bonds in the amount of RUB 1 254 314 thousand) (see Notes 12 and 17 for details).

Nominal interest rates and maturities of these securities are as follows:

	31 December 2018		31 December 2017	
	%	Maturity	%	Maturity
Russian Government Eurobonds	4.25-7.5%	2023-2047	4.25-7.5%	2023-2030
Russian Government Bonds	6.5-8.5%	2024-2034	6.2-7.75%	2018-2033
Corporate and bank bonds	6.75-9.25%	2019-2050	7.5-11.1%	2018-2050
Central bank bonds	-	-	7.75%	2018

As at 31 December 2018 there are no bonds blocked as collateral for “overnight” loans with the CBR (31 December 2017: RUB 703 552 thousand). As at 31 December 2018 and 31 December 2017 the Group has no “overnight” loans with the CBR.

As at 1 January 2018 debt securities measured at amortized cost in amount of RUB 29 937 423 thousand were reclassified into category of financial assets at fair value through other comprehensive income due to change of business model at first time adoption of IFRS 9 and consequently sold during the first quarter of 2018.

As at 31 December 2018 approximately 96% of debt and other fixed income investments were rated not lower than “BBB-” (31 December 2017: 33%).

11. Investments in associate

As at 1 March 2018, as a result of the transaction between the Group and its sole shareholder UniCredit S.p.A., the Group acquired 40% of capital in BARN B.V. (the Netherlands), that is the sole shareholder of AO “RN Bank” (Russian Federation) since 2013 (see Note 1). Total acquisition costs amounted to RUB 6 033 031 thousand, including increase in share capital amounted to RUB 1 209 598 thousand.

Information about associate of the Group as at reporting date is set out below:

			Proportion of ownership interest by the Group	
Name	Principal activity	Place of incorporation and principal place of business	31 December 2018	31 December 2017
BARN B.V.	Holding company	Netherlands	40%	-

The above associate is accounted for using the equity method.

The summarized financial information in respect of BARN B.V. as of reporting date 31 December 2018 and as of the acquisition date 1 March 2018 are set out below. The summarized financial information below represents amounts shown in the associate’s financial statements prepared in accordance with IFRS.

	31 December 2018	1 March 2018 (unaudited)
Total assets	92 344 461	76 869 505
Total liabilities	75 682 206	65 429 009
Equity	16 662 255	11 440 496
Net profit from 1 January 2018	2 814 156	427 683

The carrying amounts of the Group's interest in BARN B.V. as of reporting date 31 December 2018 and as of the acquisition date 1 March 2018 are as follows:

	31 December 2018	1 March 2018 (unaudited)
Net assets of BARN B.V.	16 662 255	11 440 496
Proportion of the Group's ownership interest in BARN B.V.	6 664 902	4 576 198
Goodwill	247 235	247 235
Carrying amount of the Group's interest in BARN B.V.	**6 912 137**	**4 823 433**

The reconciliation of the above financial information to the carrying amount of the interest in associate recognized in the consolidated financial statements is as follows:

Carrying amount of the Group's interest in BARN B.V. as at 1 March 2018 (unaudited)	**4 823 433**
Share of capital increase	1 209 598
Share of post-acquisition net profit of associate	954 589
Share of post-acquisition other comprehensive loss of associate	(75 483)
Carrying amount of the Group's interest in BARN B.V. as at 31 December 2018	**6 912 137**

12. Transfers of financial assets

The Group has transactions to sell securities classified as trading, financial assets at fair value through other comprehensive income under agreements to repurchase (see Notes 6, 10, 17 for details).

The securities sold under agreements to repurchase are transferred to a third party and the Group receives cash in exchange. These financial assets may be repledged or resold by counterparties in the absence of default by the Group, but the counterparty has an obligation to return the securities at the maturity of the contract. The Group has determined that it retains substantially all the risks and rewards of these securities and therefore has not derecognised them. These securities are presented as "pledged under repurchase agreements" in Notes 6 and 10. In addition, the Group recognises a financial liability for cash received as collateral included in deposits and balances due to credit institutions (see Note 17 for details).

These transactions are conducted under terms that are usual and customary to standard lending, as well as requirements determined by exchanges.

As at 31 December 2018 and 31 December 2017 the breakdown by portfolio of transferred financial assets that are not derecognized in their entirety is as follows:

	31 December 2018		31 December 2017	
	Carrying amount of assets	Carrying amount of associated liabilities	Carrying amount of assets	Carrying amount of associated liabilities
Financial assets at fair value through other comprehensive income	937 601	869 379	1 254 314	1 190 460
Debt securities held for trading	-	-	804 699	749 433
Total	**937 601**	**869 379**	**2 059 013**	**1 939 893**

As at 31 December 2018 and 31 December 2017 the breakdown by issuer of transferred financial assets that are not derecognized in their entirety is as follows:

	31 December 2018		31 December 2017	
	Carrying amount of assets	Carrying amount of associated liabilities	Carrying amount of assets	Carrying amount of associated liabilities
Government bonds	937 601	869 379	2 059 013	1 939 893
Total	**937 601**	**869 379**	**2 059 013**	**1 939 893**

13. Fixed assets

The movements in fixed assets were as follows:

	Buildings	Computers and equipment	Other fixed assets	Total
Cost				
1 January 2018	**6 577 320**	**4 674 821**	**985 590**	**12 237 731**
Additions	34 230	698 247	384 926	1 117 403
Disposals	-	(386 028)	(255 254)	(641 282)
31 December 2018	**6 611 550**	**4 987 040**	**1 115 262**	**12 713 852**
Accumulated depreciation				
1 January 2018	**(2 357 932)**	**(4 039 101)**	**(478 060)**	**(6 875 093)**
Depreciation charge	(228 332)	(468 526)	(36 465)	(733 323)
Impaiment	(40 845)	-	(31 588)	(72 433)
Disposals	-	385 689	31 312	417 001
31 December 2018	**(2 627 109)**	**(4 121 938)**	**(514 801)**	**(7 263 848)**
Net book value				
As at 31 December 2018	**3 984 441**	**865 102**	**600 461**	**5 450 004**

Table below includes effect of reclassification (see Note 3).

	Buildings	Computers and equipment	Other fixed assets	Total
Cost				
1 January 2017	**6 577 320**	**4 230 654**	**1 104 449**	**11 912 423**
Additions	-	526 844	276 133	802 977
Disposals	-	(82 677)	(394 992)	(477 669)
31 December 2017	**6 577 320**	**4 674 821**	**985 590**	**12 237 731**
Accumulated depreciation				
1 January 2017	**(2 040 861)**	**(3 627 795)**	**(468 716)**	**(6 137 372)**
Depreciation charge	(222 479)	(492 640)	(28 570)	(743 689)
Impaiment	(94 592)	-	-	(94 592)
Disposals	-	81 334	19 226	100 560
31 December 2017	**(2 357 932)**	**(4 039 101)**	**(478 060)**	**(6 875 093)**
Net book value				
As at 31 December 2017	**4 219 388**	**635 720**	**507 530**	**5 362 638**

14. Intangible assets

The movements in intangible assets were as follows:

	2018	2017
Cost of intangible assets		
1 January	**12 981 728**	**10 702 396**
Additions of intangible assets	1 675 859	2 284 057
Disposals of intangible assets	(243 656)	(4 725)
31 December	**14 413 931**	**12 981 728**
Accumulated amortisation of intangible assets		
1 January	**(5 528 924)**	**(4 191 847)**
Amortisation charge of intangible assets	(1 554 452)	(1 340 754)
Disposals of intangible assets	1 228	3 677
31 December	**(7 082 148)**	**(5 528 924)**
Net book value of intangible assets		
As at 31 December	**7 331 783**	**7 452 804**

15. Taxation

The corporate income tax expense comprises:

	2018	2017
Current tax charge	6 930 442	7 857 892
Deferred tax charge – reversal of temporary differences	(2 773 518)	(3 200 827)
Income tax expense	**4 156 924**	**4 657 065**

Russian legal entities must file individual tax declarations. The tax rate for banks and companies for profits other than on state securities was 20% for 2018 and 2017. The tax rate for interest income on state securities was 15% for 2018 and 2017.

The effective income tax rate differs from the statutory income tax rates. A reconciliation of the effective income tax rate and the statutory income tax rate is as follows:

	2018	2017
Profit before tax	**20 860 992**	**22 713 764**
Statutory tax rate	20%	20%
Theoretical income tax expense at the statutory rate	**4 172 198**	**4 542 753**
Effect of income taxed at lower tax rates	(326 883)	(230 992)
Non-deductible costs and other	311 609	345 304
Income tax expense	**4 156 924**	**4 657 065**

Notes to Consolidated Financial Statements (Continued)

15. Taxation (Continued)

Deferred tax assets and liabilities as at 31 December 2018 and 31 December 2017 comprise:

	Assets		Liabilities		Net	
	2018	2017	2018	2017	2018	2017
Fixed and intangible assets	1 756 244	1 433 865	(3 246 456)	(2 842 513)	(1 490 212)	(1 408 648)
Debt securities held for trading and derivatives	3 079 963	5 261 627	(1 894 877)	(7 675 904)	1 185 086	(2 414 277)
Financial assets at fair value through other comprehensive income	538 278	67 215	(15 148)	(538 454)	523 130	(471 239)
Loan impairment and credit related commitments	2 952 689	1 450 633	(3 073 720)	(2 949 442)	(121 031)	(1 498 809)
Other items	2 627 415	1 382 708	(887 740)	(87 412)	1 739 675	1 295 296
Total deferred tax assets/(liabilities)	**10 954 589**	**9 596 048**	**(9 117 941)**	**(14 093 725)**	**1 836 648**	**(4 497 677)**

Movement in deferred tax assets and liabilities during the year ended 31 December 2018 is presented in the table below:

	1 January 2018	Effect of change in accounting policy for application of IFRS 9	Recognised in profit or loss	Recognised in other comprehensive income	31 December 2018
Fixed and intangible assets	(1 408 648)	-	(81 564)	-	(1 490 212)
Debt securities held for trading and derivatives	(2 414 277)	-	3 697 462	(98 099)	1 185 086
Financial assets at fair value through other comprehensive income	(471 239)	(241 458)	383 588	852 239	523 130
Loan impairment and credit related commitments	(1 498 809)	3 048 125	(1 670 347)	-	(121 031)
Other items	1 295 296	-	444 379	-	1 739 675
	(4 497 677)	**2 806 667**	**2 773 518**	**754 140**	**1 836 648**

Movement in deferred tax assets and liabilities during the year ended 31 December 2017 is presented in the table below:

	1 January 2017	Recognised in profit or loss	Recognised in other comprehensive income	31 December 2017
Fixed and intangible assets	(1 297 069)	(111 579)	-	(1 408 648)
Debt securities held for trading and derivatives	(3 051 925)	566 493	71 155	(2 414 277)
Available-for-sale and held-to-maturity securities	(127 246)	(147 387)	(196 606)	(471 239)
Loan impairment and credit related commitments	(4 410 636)	2 911 827	-	(1 498 809)
Other items	1 313 823	(18 527)	-	1 295 296
	(7 573 053)	**3 200 827**	**(125 451)**	**(4 497 677)**

Tax effect relating to components of other comprehensive income comprises:

	2018			2017		
	Amount before tax	Tax expense	Amount net-of-tax	Amount before tax	Tax expense	Amount net-of-tax
Cash flow hedge reserve	513 848	(98 099)	415 749	(355 774)	71 155	(284 619)
Revaluation reserve for financial assets at fair value through other comprehensive income	(4 261 194)	852 239	(3 408 955)	983 030	(196 606)	786 424
Foreign currency translation reserve	(98 835)	-	(98 835)	-	-	-
Other comprehensive income	**(3 846 181)**	**754 140**	**(3 092 041)**	**627 256**	**(125 451)**	**501 805**

16. Other assets and liabilities

Other assets comprise:

	31 December 2018	31 December 2017
Advances, prepayments and deferred expenses	4 934 120	2 528 643
Accrued income other than income capitalised in related financial assets	841 400	1 136 189
VAT receivables on leases	416 387	87 304
Other	1 633 300	1 646 734
Other assets	**7 825 207**	**5 398 870**

Other liabilities comprise:

	31 December 2018	31 December 2017
Accrued compensation expense	3 923 670	3 850 155
Provision for off-balance	3 532 376	1 458 050
Accounts payable	2 495 992	2 048 937
Transit accounts	1 180 261	461 019
Deferred income	1 004 746	432 414
Other provisions	470 337	423 126
Liability arising on initial designation of fair value macro hedge	448 277	559 793
Taxes payables	391 629	383 112
Other	1 957 892	1 033 515
Other liabilities	**15 405 180**	**10 650 121**

17. Amounts due to credit institutions

Amounts due to credit institutions comprise:

	31 December 2018	31 December 2017
Current accounts	9 328 075	8 602 207
Time deposits and loans	44 255 468	43 007 455
Repurchase agreements with credit institutions (Note 12)	869 379	6 099 280
Subordinated debt (Note 20)	33 517 157	27 718 054
Amounts due to credit institutions	**87 970 079**	**85 426 996**

As at 31 December 2018, the ten largest deposits, excluding subordinated debt, represented 77% of total amounts due to credit institutions (31 December 2017: 71%).

As at 31 December 2018, the Group has no counterparty with aggregate balances that individually exceeded 10% of equity (31 December 2017: none).

As at 31 December 2018 fair value of securities pledged under repurchase agreements with credit institutions is RUB 937 601 thousand (31 December 2017: RUB 2 059 013 thousand) (see Notes 6, 10, 12 and 28 for details).

As at 31 December 2017 included in repurchase agreements with credit institutions are agreements in the amount of RUB 4 159 387 thousand which are secured by Russian government bonds with fair value of RUB 4 383 393 thousand obtained under reverse repurchase agreements with credit institutions (see Note 7 for details).

18. Amounts due to customers

The amounts due to customers include the following:

	31 December 2018	31 December 2017
Current accounts	207 011 786	215 024 971
Time deposits	808 629 082	612 078 354
Amounts due to customers	**1 015 640 868**	**827 103 325**

As at 31 December 2018, approximately 45% of total amounts due to customers was placed with the Group by its ten largest customers (31 December 2017: 44%).

Analysis of customer accounts by type of customers is as follows:

	31 December 2018	31 December 2017
Corporate		
Current accounts	79 068 909	102 333 257
Time deposits	636 922 591	461 068 535
Total corporate accounts	**715 991 500**	**563 401 792**
Retail		
Current accounts	127 942 877	112 691 714
Time deposits	171 706 491	151 009 819
Total retail accounts	**299 649 368**	**263 701 533**
Amounts due to customers	**1 015 640 868**	**827 103 325**

Included in retail time deposits are deposits of individuals in the amount of RUB 151 315 470 thousand (31 December 2017: RUB 133 536 325 thousand). In accordance with the Russian Civil Code, the Group is obliged to repay such deposits upon demand of the depositor. In case a term deposit is repaid upon demand of the depositor prior to maturity, the related interest rate on it is paid based on the interest rate for demand deposits, unless a different interest rate is specified in the contract. The remaining part of retail time deposits in the amount of RUB 20 391 021 thousand (31 December 2017: RUB 17 473 494 thousand) is represented by deposits placed by SME.

19. Debt securities issued

Debt securities issued consisted of the following bonds:

Issue	Date of issue	Maturity date	Currency	Coupon rate, %	Carrying value at 31 December 2018	Carrying value at 31 December 2017
UniCredit Bank, BO-22	12.08.2014	06.08.2019	RUB	9.00	46 732	46 721
UniCredit Bank, BO-21	23.05.2014	17.05.2019	RUB	9.00	818	818
UniCredit Bank, BO-11	26.11.2014	20.11.2019	RUB	9.10	3	3
UniCredit Bank, 02-IP	23.09.2015	16.09.2020	RUB	-	-	4 138 040
UniCredit Bank, BO-10	26.11.2013	20.11.2018	RUB	-	-	2 324 211
Debt securities issued					**47 553**	**6 509 793**

In September 2018 the Group redeemed before maturity under call option the mortgage-backed bonds (UniCredit Bank, 02-IP) with the nominal value of RUB 4 000 000 thousand. As at 31 December 2017 these bonds with carrying value of RUB 4 138 040 thousand were secured by a pool of mortgage loans with the carrying value of RUB 1 865 735 thousand and by cash in the amount of RUB 2 452 807 thousand (see Notes 5 and 9 for details).

20. Subordinated debt

	31 December 2018	31 December 2017
UniCredit S.p.A		
USD 480 900 thousand, quarterly interest payment, maturing March 2025	33 517 157	27 718 054
Subordinated Debt	**33 517 157**	**27 718 054**

In the event of bankruptcy or liquidation of the Group, repayment of this debt is subordinate to the repayments of the Group's liabilities to all other creditors.

21. Shareholder's equity

As at 31 December 2018 and 31 December 2017, the authorised, issued and paid share capital comprises 2 404 181 ordinary shares with a par value of RUB 16 820 each.

In 2018 the Group declared and paid dividends of RUB 2 854 per share on ordinary shares in the total amount of RUB 6 861 533 thousand.

22. Commitments and contingencies

Credit related commitments and contingencies

	31 December 2018	31 December 2017
Guarantees issued	146 447 347	140 404 906
Letters of credit	58 185 712	35 299 023
Undrawn loan commitments	44 865 942	75 414 793
Undrawn commitments to issue documentary instruments	16 017 856	39 329 152
Gross credit related commitments and contingencies	**265 516 857**	**290 447 874**

The table above does not include uncommitted lines for loans and documentary instruments. As at 31 December 2018 the amount of uncommitted lines is RUB 576 916 706 thousand (31 December 2017: RUB 374 691 425 thousand).

As of 31 December 2018 provision for credit related commitments and contingencies and uncommitted credit lines comprised RUB 3 532 376 thousand (31 December 2017: RUB 1 458 050 thousand).

The Group issues guarantees and letters of credit for its customers. These instruments bear a credit risk similar to that of loans issued. With respect to the documentary instruments shown above, as at 31 December 2018, collateral deposits of RUB 17 290 901 thousand were held by the Group (31 December 2017: RUB 11 816 217 thousand).

A reconciliation of provision for credit losses on financial guarantees and other committed and uncommitted credit related commitments and contingencies in accordance with IFRS 9 is as follows:

	Stage 1	Stage 2	Stage 3	Total
At 1 January 2018	-	-	-	-
Effect of change in accounting policy due to IFRS 9 adoption	3 614 982	515 157	285 005	4 415 144
At 1 January 2018 according to IFRS 9	**3 614 982**	**515 157**	**285 005**	**4 415 144**
Recovery for the period	(512 857)	(393 339)	(243 982)	(1 150 178)
At 31 December 2018	**3 102 125**	**121 818**	**41 023**	**3 264 966**

22. Commitments and contingencies (Continued)

A reconciliation of the provisions on credit related commitments in accordance with IAS 37 is as follows:

	2018	2017
At 1 January	**1 458 050**	**369 952**
(Recovery)/charge for the period	(1 190 640)	1 088 098
At 31 December	**267 410**	**1 458 050**

The following table shows gross financial guarantees and other committed and uncommitted credit related commitments and contingencies and related expected loss under IFRS 9 by stages as of 31 December 2018:

	Stage 1	Stage 2	Stage 3	Total
Gross credit related commitments and contingencies	715 583 026	34 351 805	57 073	**749 991 904**
Provisions for credit related commitments and contingencies	(3 102 125)	(121 818)	(41 023)	**(3 264 966)**
Net credit related commitments and contingencies	**712 480 901**	**34 229 987**	**16 050**	**746 726 938**

The following table shows gross credit related commitments and related impairment under IAS 37 as of 31 December 2018:

	Performing exposure	Impaired exposure	Total
Gross credit related commitments and contingencies	91 160 605	1 281 054	**92 441 659**
Provisions for credit related commitments and contingencies	-	(267 410)	**(267 410)**
Net credit related commitments and contingencies	**91 160 605**	**1 013 644**	**92 174 249**

Operating lease commitments

	31 December 2018	31 December 2017
Not later than 1 year	578 957	780 762
Later than 1 year but not later than 5 years	2 528 249	2 818 476
Later than 5 years	166 835	95 213
	3 274 041	**3 694 451**

Operating environment. Emerging markets such as Russia are subject to different risks than more developed markets, including economic, political and social, and legal and legislative risks. Laws and regulations affecting businesses in Russia continue to change rapidly, tax and regulatory frameworks are subject to varying interpretations. The future economic direction of Russia is heavily influenced by the fiscal and monetary policies adopted by the government, together with developments in the legal, regulatory, and political environment. Because Russia produces and exports large volumes of oil and gas, its economy is particularly sensitive to the price of oil and gas on the world market.

Following high volatility in natural resources prices, the ruble exchange rate and interest rates in 2017 and 2018 have been relatively stable. The Russian economy continued to be negatively impacted by ongoing political tension in the region and continuing international sanctions imposed in several packages by the U.S. and the E.U. on certain Russian officials, businessmen and companies. The above mentioned events have led to reduced access of the Russian businesses to international capital markets, increased inflation, economic recession and other negative economic consequences. The impact of further economic developments on future operations and financial position of the Group is at this stage difficult to determine.

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

Taxation. Laws and regulations affecting business in the Russian Federation continue to change rapidly. Management's interpretation of such legislation as applied to the activity of the Group may be challenged by the relevant regional and federal authorities. Recent events suggest that the tax authorities are taking a more assertive position in their interpretation of the legislation and assessments and as a result, it is possible that transactions and activities that have not been challenged in the past may be challenged. Fiscal periods generally remain open to tax audit by the authorities in respect of taxes for three calendar years proceeding the year of tax audit. Under certain circumstances reviews may cover longer periods. Management believes that it has provided adequately for tax liabilities based on its interpretations of tax legislation. However, the relevant authorities may have differing interpretations, and the effects on the financial statements could be significant.

In 2018, amendments were introduced to the Tax Code of the Russian Federation and certain other legislative acts," which provides, among other things, an increase in the general rate of Value Added Tax (VAT) from 18% to 20%. The new rates will apply to goods, work, services, and property rights supplied starting from 1 January 2019. As the banking operations are exempted from VAT the management does not expect any significant effect of these changes on the consolidated financial statements of the Group, except for corresponding increase of the cost of goods and services purchased.

Fiduciary activities. The Group also provides depositary services to its customers. As at 31 December 2018 and 31 December 2017, the Group had customer securities totaling 36 942 398 341 items and 36 119 600 986 items, respectively, in its nominal holder accounts.

Legal proceedings. From time to time and in the normal course of business, claims against the Group are received from customers and counterparties. As at 31 December 2018 the provision for legal proceedings in the amount of RUB 470 337 thousand (31 December 2017: RUB 423 126 thousand) was recognized in other liabilities in the consolidated statement of financial position.

23. (Losses)/gains on financial assets and liabilities held for trading

Gains/(losses) on financial assets and liabilities held for trading comprise:

	2018	2017
Net losses from debt securities held for trading	(1 489 460)	(767 718)
Net (losses)/gains from foreign exchange, interest based derivatives and translation of other foreign currency assets and liabilities	(1 202 105)	2 401 355
(Losses)/gains on financial assets and liabilities held for trading	**(2 691 565)**	**1 633 637**

24. Fee and commission income and expense

Fee and commission income comprises:

	2018	2017
Agent insurance fee	3 722 675	2 532 788
Retail services	3 001 499	2 966 160
Customer accounts handling and settlements	2 618 699	2 054 748
Documentary business	2 316 387	2 428 068
Other	13 127	24 479
Fee and commission income	**11 672 387**	**10 006 243**

Fee and commission expense comprises:

	2018	2017
Accounts handling and settlements	(1 249 745)	(1 094 383)
Retail services	(1 218 835)	(1 015 988)
Documentary business	(326 908)	(794 188)
Other	(142 622)	(99 218)
Fee and commission expense	**(2 938 110)**	**(3 003 777)**

25. Personnel and other administrative expenses

Personnel and other administrative expenses comprise:

	2018	2017
Salaries and bonuses	7 121 938	6 782 297
Social security costs	443 764	426 942
Other compensation expenses	180 945	95 152
Other employment taxes	1 681 932	1 544 877
Personnel expenses	**9 428 579**	**8 849 268**
Communication and information services	2 486 603	1 858 531
Deposit insurance	1 336 187	915 525
Rent, repairs and maintenance	1 307 438	1 497 435
Advertising and marketing	512 772	635 475
Security expenses	385 422	369 960
Other taxes	150 574	134 691
Legal, audit and other professional services	141 416	160 362
Other	689 776	995 281
Other administrative expenses	**7 010 188**	**6 567 260**

26. Capital management

The Group maintains an actively managed capital base to cover risks inherent in the business. The adequacy of capital is monitored using, among other measures, principles and approaches established by Basel II and Basel III, Regulation and Directive of the European Parliament and the Council (CRD IV), the CBR regulation.

The primary objectives of capital management are to ensure that the Group complies with externally imposed capital requirements and that the Group maintains strong credit ratings and healthy capital ratios in order to support its business and to maximize shareholders' value.

Capital and capital adequacy ratio under the CBR requirements. The CBR requires banks to maintain a capital adequacy ratio of 8% of risk-weighted assets, computed using amounts in statutory financial statements prepared in accordance with Russian banking legislation and regulation of the CBR.

Capital (own funds) under the requirements of the CBR regulation No. 646-P "Calculation of own funds (Basel III) by credit institutions" as at 31 December 2018 and 31 December 2017 was as follows:

	31 December 2018	31 December 2017
Core equity Tier I capital	175 108 291	166 498 541
Tier I capital	175 108 291	166 498 541
Additional capital	41 573 433	34 894 231
Total capital	**216 681 724**	**201 392 772**

Core equity Tier I and Tier I comprise share capital, share premium, reserve fund and retained earnings including current year profit. Additional capital includes subordinated debt, current year profit not included in the main capital and revaluation reserves.

The capital adequacy ratios, computed in accordance with the CBR Regulation No. 180-I "Obligatory banking ratios", as at 31 December 2018 and 31 December 2017 were as follows:

	31 December 2018	31 December 2017
Total capital adequacy ratio H1.0 (minimum 8%)	16.1%	18.2%
Core equity Tier I capital adequacy ratio H1.1 (minimum 4.5%)	13.1%	15.2%
Tier 1 capital adequacy ratio H1.2 (minimum 6%)	13.1%	15.2%

Capital and capital adequacy ratio under Basel III and Basel II requirements (unaudited). Starting from the reporting period 1 January 2009 the Group calculates risk weighted assets under Basel II requirements following UniCredit Group internal policies.

Starting from 2017, the Group calculates risk weighted assets in accordance with the requirements of CRD IV. Subordinated loans, received by the Group might be considered as loss absorbtion capacity of the Bank and as a result can be included in Tier II capital.

The capital and capital adequacy ratios computed in accordance with the Basel III and Basel II requirements as at 31 December 2018 and 31 December 2017 were as follows (unaudited):

	31 December 2018	31 December 2017
Core equity Tier 1 capital	173 649 762	176 427 360
Tier II capital	35 179 280	28 906 602
Total capital	**208 829 042**	**205 333 962**
Risk weighted assets	**1 106 293 154**	**1 027 062 779**
Core equity Tier 1 capital ratio	15.7%	17.2%
Total capital ratio	18.9%	20.0%

27. Risk management

Management of risk is fundamental to the banking business and is an essential element of the Group's operations. The Group has exposure to risks, which include credit, market, foreign exchange, liquidity and operational risks. The Group's aim is to maintain an appropriate balance between risks and return and to minimise potential adverse effect on the Group's financial performance.

Risk management structure. The Group's risk management policies aim to identify, analyse, measure and manage the risks taken by the Group, to establish appropriate risk limits and methods of monitoring, and to continuously monitor risk levels and compliance with the established limits. Risk management policies and procedures are reviewed regularly to reflect changes in market conditions, products and services offered and emerging best practice in risk management.

The operational risk management functions are aimed at developing and ensuring proper functioning of internal processes and procedures that minimise the Group's exposure to internal and external risk factors.

The Supervisory Board has the overall responsibility for the oversight of the risk management framework, supervising the management of key risks. It also approves internal documentation for strategic areas of activity, including those concerning management of capital and risk.

The Board of Management has the overall responsibility for monitoring and implementation of risk mitigation measures and making sure that the Group operates within the established risk parameters.

The Chief Risk Officer (hereinafter – "CRO") is responsible for the overall risk management function, ensuring the implementation of common principles and methods for identifying, underwriting, measuring, managing and risk reporting for both financial and non-financial risks. The CRO is a Member of the Board of Management.

The most important risk quantification systems are subject to internal validation by the dedicated independent function within Chief Risk Officer area.

Credit, market and liquidity risks, both at portfolio and transactional levels, are managed through a system of Credit Approval Authorities as well as the Asset and Liability Management Committee. In order to facilitate efficient decision-making, the Group has established a hierarchy of Credit Approval Authorities, which includes four credit committees, including Credit Committee, Small Credit Committee, Special Credit Committee and Retail Business Credit Committee as well as several levels of joint and single personal approval authority, depending on the amount of exposure, risk type and risk associated with a customer (internal ratings).

The main objective of the risk-committee is to analyze and discuss the current risk profile, its compliance with risk appetite and risk strategy approved by the Supervisory Board, also for making operational decisions aimed at achieving the targets set for the risk profile, as well as other issues of risk management quality improvement in the Bank within the framework defined by special rules and procedures.

Credit risk policies and underwriting guidelines are under the CRO's responsibility. Internal local policies, rules, guidelines and operational instructions for lending to individuals and to Small and Medium Enterprises (hereinafter – "SME") are in line with UniCredit Group Credit Policies, agreed with the CRO and approved by the Board of Management/Supervisory Board according to the rules of development, agreement and approval of internal documents of the Bank.

The four-eyes principle is applied for the credit decision-making process. Credit approval authority is exercised through the submission and approval of a credit application. For standardized products in the lending process to individuals decision-making is done by the Operations Function, to which the CRO Function delegates authority through respective underwriting guidelines and rules and/or implementation of credit scoring. For standardized products in the lending process to SMEs decision-making is done by the Business Function, to which the CRO Function delegates authority through respective guidelines, rules and decision matrix for applications. All deviations/exceptions from standardized products have to be approved by the CRO.

The Group's risk underwriting, assessment, reporting and control procedures vary by risk type, but share a common principle to be concentrated under the supervision of the CRO.

Credit risk. Credit risk is the risk of financial loss occurring as a result of default by a borrower or counterparty on their obligation to the Group and arises principally from the Group's loans to customers and credit institutions and other credit exposures.

For risk management purposes, credit risk arising from positions in debt securities held for trading is managed and reported on a daily basis.

Credit risk governance. Credit risk management policies, procedures and manuals are approved by the Board of Management/Supervisory Board according to the procedure of Group rules.

The following credit committees are responsible for approving corporate and retail credit risk exposures:

- The Credit Committee reviews and approves all loan/credit applications from customers and issuers above RUB 750 million or equivalent in other currencies depending on the rating of the borrower. It is chaired by the Chairman of the Board of Management or the CRO and meets on a weekly basis.
- The Small Credit Committee reviews and approves all loan/credit applications from corporate customers in the amount up to RUB 2 billion or equivalent in other currencies depending on the rating of the borrower. It is chaired by the Head of Credit Underwriting Department or Deputy Head/ Senior Manager of Credit Underwriting Department and meets on a weekly basis.
- The Retail Business Credit Committee is responsible for making decisions on loan applications of SME in the amount up to 73 million RUB (including) and also for making decisions on loan applications of Private Individual clients in the amount up to 100 million RUB (including) or equivalent in other currencies. The Retail Business Credit Committee meets in regular full-time sessions that are held in cases of necessity, but not less than twice a month in working order.
- The Special Credit Committee for Troubled Assets and Credit Restructuring takes decisions on issues related to work with problematic assets and restructuring of loans within the limits of delegated authority.

All corporate credit applications are considered by collegial bodies (credit committees) except low risk products (covered warranties). There is also a system of personal credit approval authorities with the four-eyes principle in place. For SME and private individuals lending process proposal is done by business function and approval is done by competent authority body according to decision matrix for applications.

In the process of analyzing private undividuals, the Bank uses various procedures, including an integrated approach to the assessment of the borrower. This approach establishes rules and checks, including those conducted automatically on the basis of internal and external information, including the assessment of client scoring. The analysis also takes into account the result of scoring obtained by the borrower from the National Credit Bureau.

All credit exposures above EUR 50 million or equivalent in other currencies as well as restructuring/refinancing applications above EUR 25 million have to be approved by authorized bodies of UniCredit Group.[1]

The Group limits concentrations of exposure to individual customers, counterparties and issuers (for securities), as well as groups of related customers. Exposure to credit risk is managed through regular analysis of the borrower's creditworthiness and by changing/adjusting lending limits where appropriate.

The Group's credit policies and product guidelines establish:

- Procedures and standards for approval and review of loan/credit applications;
- Methodology for the credit assessment of borrowers (corporate, retail);
- Methodology for the credit assessment of counterparties, issuers and insurance companies;
- Methodology for the evaluation of collateral;
- Credit documentation requirements;
- Procedures for the ongoing monitoring of loans and other credit exposures.

The relevant relationship managers and Corporate Lending Department or Financing Department originate corporate loan/credit applications jointly. The application could be solely prepared by relationship managers, depending on the respective authority granted to a given relationship manager.

The credit applications consist of a structured complex analysis focusing on the customer's business, financial performance and risks. The loan/credit applications are then independently reviewed by the Credit Underwriting Department and a second opinion in respect of risks is given accompanied by a check that credit policy requirements have been met. The relevant Approval Authority reviews the loan/credit application accompanied by the Credit Underwriting opinion.

In order to provide better assessment of customers' creditworthiness, separate units specialising on analysis of different industries were created within the Credit Underwriting Department. This business model allows the Group to quickly and thoroughly analyse changes in various industries, adjust strategies and take adequate decisions. Along with the industry divisioning there is also a set of regional risk managers that monitor the situation in the main regions of Group's operations.

1 The criteria are presented in accordance with the current "General credit policy of AO UniCredit Bank".

This allows the Group to manage its credit portfolio both on industry and regional levels.

Credit portfolio diversification by client types (large corporate clients, SME, individual clients) and industries allows to maintain high credit portfolio quality. In order to provide an adequate risk assessment, the Group uses various internal rating models which take into account specifics of different client segments, provides effective differentiation of clients by credit risk level and precise assessment of their probability of default in accordance with Basel II principles. Internal ratings are used in credit decision-making, pricing, capital allocation and risk management processes.

All existing credit deals/approved limits for corporate clients are subject to annual review procedures.

The Group continuously monitors the performance of individual credit exposures and regularly reassesses the creditworthiness of its customers. The review is based on the customer's most recent financial statements and other information submitted by the borrower, or otherwise obtained by the Group. As the result of the review, the borrower's internal credit rating may be changed. The Group monitors concentrations of credit risk by industry/sector and by the exposure to top borrowers.

Retail loan applications are approved according to internal local policies, rules, guidelines and operational instructions for lending to individuals and SME. Information is obtained on every customer. The extent of the information required and frequency of its update depend on the regulatory requirements, the customer category, creditworthiness of the customer and type of a transaction. The business unit obtains and analyzes the information from different sources (information from the customer, on-site visits, internal/external sources).

In order to reduce the risk of potential losses in the Group's credit transactions a Monitoring Unit was established which implements procedures for systematic identification and assessment of negative signals, analysis and situation monitoring as well as strategies and action plans for potentially troubled corporate borrowers.

Property risk. Due to the nature of leasing activity, in case of default events, the Group is exposed to property risk which is the risk that it will be impossible to sell property repossessed from defaulted clients or selling price won't cover credit exposure of the client.

The Group minimizes this risk by analyzing the leasing objects as well as lessees before entering into a leasing transaction, in case of increased risk additional collateral is demanded, other measures to handle credit risk are also used.

Settlement risk. The Group's activities may give rise to settlement risk at the time of settlement of transactions. Settlement risk is the risk of loss due to the failure of counterparty to honour its obligations to deliver cash, securities or other assets as contractually agreed.

For certain types of transactions the Group mitigates this risk by conducting settlements through settlement/clearing agents to ensure that a trade is settled only when both parties have fulfilled their contractual settlement obligations. Acceptance of settlement risk on free settlement transactions requires transaction specific and/or counterparty specific settlement limits that form part of the counterparty limit approval/monitoring process described above.

The table below shows the maximum exposure to credit risk for the components of the statement of financial position, including derivatives. The maximum exposure is shown gross, before the effect of mitigation through the use of master netting and collateral agreements.

	Notes	Maximum gross exposure as at 31 December 2018	Maximum gross exposure as at 31 December 2017
Cash and cash balances (excluding cash on hand)	5	3 447 490	18 430 977
Debt securities held for trading:	6		
- held by the Group		5 309 437	20 064 838
- pledged under repurchase agreements		-	804 699
Derivative financial assets	8	36 868 281	37 985 906
Derivative financial assets designated for hedging	8	6 788 150	7 860 608
Financial assets at amortized cost			
- Amounts due from credit institutions	7	359 588 990	292 420 614
- Loans to customers	9	863 150 705	668 523 180
Debt securities	10	-	29 937 423
Financial assets at fair value through other comprehensive income	10		
- held by the Group		46 135 064	76 092 300
- pledged under repurchase agreements		937 601	1 254 314
Total		**1 322 225 718**	**1 153 374 859**
Financial commitments and contingencies	22	838 901 187	663 681 249
Total credit risk exposure		**2 161 126 905**	**1 817 056 108**

27. Risk management (Continued)

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

The following tables provide the analysis of assets based on credit quality of respective counterparts as at 31 December 2018.

	Notes	Neither past due nor impaired		Past due or impaired	Total
		High grade	Standard		
Cash and cash balances (excluding cash on hand)	5	3 447 490	-	-	**3 447 490**
Debt securities held for trading:	6				
- held by the Group		5 309 437	-	-	**5 309 437**
Derivative financial assets	8	34 083 660	2 784 621	-	**36 868 281**
Derivative financial assets designated for hedging	8	6 719 682	68 468	-	**6 788 150**
Financial assets at amortized cost					
- Amounts due from credit institutions	7	335 610 096	23 978 894	-	**359 588 990**
- Loans to customers	9	460 209 582	380 442 209	22 498 914	**863 150 705**
Financial assets at fair value through other comprehensive income	10				
- held by the Group		44 823 742	1 311 322	-	**46 135 064**
- pledged under repurchase agreement		937 601	-	-	**937 601**
Total		**891 141 290**	**408 585 514**	**22 498 914**	**1 322 225 718**

The following tables provide the analysis of assets based on credit quality of respective counterparts as at 31 December 2017.

	Notes	Neither past due nor impaired		Past due or impaired	Total
		High grade	Standard		
Cash and cash balances (excluding cash on hand)	5	18 430 977	-	-	**18 430 977**
Debt securities held for trading:	6				
- held by the Group		20 034 271	30 567	-	**20 064 838**
- pledged under repurchase agreement		804 699	-	-	**804 699**
Derivative financial assets	8	34 814 818	3 171 088	-	**37 985 906**
Derivative financial assets designated for hedging	8	7 860 608	-	-	**7 860 608**
Financial assets at amortized cost					
- Amounts due from credit institutions	7	215 170 478	77 250 136	-	**292 420 614**
- Loans to customers	9	316 124 006	337 585 761	14 813 413	**668 523 180**
Debt securities	10	29 937 423	-	-	**29 937 423**
Financial assets at fair value through other comprehensive income	10				
- held by the Group		75 866 036	226 264	-	**76 092 300**
- pledged under repurchase agreement		1 254 314	-	-	**1 254 314**
Total		**720 297 630**	**418 263 816**	**14 813 413**	**1 153 374 859**

The Standard grade category includes exposures with probability of default from 0.5% to 99%. The High grade category includes exposures with probability of default up to 0.5% (so-called “Investment grade” in accordance with the UniCredit Group methodology).

As at 31 December 2018, 48% of exposures included in the tables above are rated as AAA/AA/A/BBB/BB/B by external rating agencies (Moody’s, S&P, Fitch) (31 December 2017: 46%). As at 31 December 2018, 52% of the exposures (31 December 2017: 54%) are not rated due to the fact that small entities and private inidviduals are not externally rated.

Geographical concentration. Asset and Liability Management Committee exercises control over the risk in the legislation and regulatory area and assesses its influence on the Group’s activity. This approach allows the Group to minimize potential losses from the investment climate fluctuations in the Russian Federation.

As at 31 December 2018 and 31 December 2017 assets and liabilities of the Group are concentrated mainly in the Russian Federation except for the amounts due from credit institutions and derivative financial assets and liabilities (including those designated for hedging) which are mainly concentrated in OECD countries.

Liquidity risk and funding management. Liquidity risk refers to the availability of sufficient funds to meet deposit withdrawals and other financial commitments associated with financial instruments as they actually fall due. Liquidity risk exists when the maturities of assets and liabilities do not match. The matching and/or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of financial institutions. It is unusual for financial institutions ever to be completely matched since a lot of business transactions are of uncertain term and different types. An unmatched position could potentially enhance profitability, but also could increase the risk of failure to meet obligations.

The approach to liquidity management is to ensure, as far as possible, that the Group always has sufficient liquidity to meet its obligations, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group reputation.

Assets and Liabilities Committee (hereinafter – "ALCO") is responsible for management of liquidity risk. ALCO delegates to the Finance Department and Markets Department the responsibility to monitor and maintain the liquidity profile within limits on a daily basis. At the same time Market Risk Unit controls compliance with liquidity limits and informs ALCO in case of limit breaches. Both Finance Department and Market Risk Unit report to local and to the UniCredit Group ALCO on a weekly basis.

According to the liquidity management policy:

1. The approach to funding and structural liquidity is described in the annual funding plan, which is based on the annual budget data. On a monthly basis, the funding plan is updated taking into account the current recognized and unrecognized positions, changes in the asset and liability mismatches of the Group, available funding sources and market analysis. The Group has adopted contingency funding plans, the UniCredit Group standard risk management instrument, which describes potential funding sources in case of crisis situation. The contingency funding plan is updated in the event of crisis, but at least once a year by ALCO, after annual funding plan approval. In addition to Contingency funding plans UniCredit Group develops Recovery and Resolution Plan which covers extreme stress scenario management.

2. Structural liquidity is analyzed by Finance Department and Market Risk Unit using Net Stable Funding Ratio (hereinafter – "NSFR") and NSFR-based liquidity gap approach and reported to local ALCO and to the UniCredit Group on weekly basis. Liquidity limits and requirements both established by the UniCredit Group and the CBR are taken into account.

3. Short-term liquidity is monitored on the basis of cash flow models in total and separately by major currencies according to UniCredit Group approach and local approach. Differences in the two approaches are explained by necessity to control liquidity taking into account the Group's strategy and features of the local market environment.
   - Regulatory approach for liquidity monitoring based on Liquidity Coverage Ratio is applied in the Bank following UniCredit Group and the CBR requirements.
   - Stress scenarios (combined – including market crisis, foreign exchange market crisis scenario, etc.) are assessed to stress forecast future cash flows and corresponding liquidity needs. Market crisis scenario includes "haircuts" to liquid security positions, failure of the Group's counterparties to meet their obligations with regard to money market deals, run on retail deposits, inability to make swaps at reasonable prices, etc. In attempt to reveal possible weaknesses reverse stress testing applied with further development of recovery plan.
   - UniCredit Group sets limits on cash flow positions that depend on available liquidity sources and level of liquid assets (portfolio of assets that can be quickly liquidated to meet obligations without significant price decline). Additionally local ALCO sets limits on liquidity gaps in accordance with local approach to cash flow model.
   - Liquidity control framework is not limited to strict metrics but includes liquidity early warning indicators, which allows ALCO to switch between going-concern and crisis phases.

4. Funding structure concentration is monitored and managed on a constant basis:
   - UniCredit Group sets separate triggers for:
     - structural funding concentration by time bucket;
     - overall funding concentration level by counterparties;
     - total amount for specific products;
     - total amount of structural funding in material foreign currencies;
   - ALCO sets an internal limit on the maximum volume of borrowings from a single group of clients;
   - Reports on customer funds concentration are presented to the management and analyzed on a weekly basis.

5. Liquidity ratios in line with regulatory requirements established by the CBR are to be monitored and met:
   - Instant liquidity Ratio (N2) is the ratio of liquid assets to sight and overnight liabilities;
   - Current liquidity ratio (N3) is the ratio of liquid assets to liabilities maturing within 30 calendar days;
   - Long-term liquidity ratio (N4) is the ratio of assets maturing after one year to the sum of capital and liabilities maturing after one year;
   - Liquidity coverage ratio (N26) is the ratio of high quality liquid assets and net short-term outflow. Calculated in compliance with actual CBR regulations, it implements "Basel III" standards;
   - Net stable funding ratio (N28) is ratio of stable funding and required stable funding. Calculated in compliance with actual CBR regulations, it implements "Basel III" standards.

Finance Department makes a forecast of N4 ratio for a one month horizon on a daily basis. Markets Department projects N2, N3 ratios for a one month horizon. Market risks performs daily N26 and N28 estimation.

As at 31 December 2018 and 31 December 2017, these ratios were as follows:

	2018,%	2017,%
N2 “Instant liquidity Ratio” (minimum 15%)	191.1	117.1
N3 “Current Liquidity Ratio” (minimum 50%)	221.7	224.9
N4 “Long-Term Liquidity Ratio” (maximum 120%)	52.4	64.5
N26 “”Liquidity Coverage Ratio”(minimum 90%)	100	139.4
N28 “Net Stable Funding Ratio” (minimum 100%)	126.3	116.9

The following tables shows the liquidity gap profile as at 31 December 2018 and 31 December 2017. This information is prepared using the internal Assets and Liabilities Management system according to the approved internal approach. The mapping approach is compliant with the requirements of the UniCredit Group liquidity policy. For example, debt securities are mapped according to the nearest put-date (if any) or to maturity date, loans to corporate customers are mapped based on facilities' types, for retail loans statistical model for prepayment simulation is implemented, sight items (both on assets and liabilities side) and term deposits with autoprolongation are mapped based on UniCredit Group statistical model according to historical pattern corresponding items' behavior, derivative instruments are recorded in other assets and other liabilities, amounts due to and due from banks are mapped based on maturity dates. This information is used internally for risk management purposes and differs from financial statement amounts.

The table below presents the liquidity gap profile according to the Group's approved internal approach as at 31 December 2018:

	Less than 1 month	1 month to 3 months	3 months to 6 months	6 months to 1 year	1 year to 3 years	More than 3 years	No stated maturity	Total
Assets								
Cash and cash balances	15 538 848	-	-	-	-	-	-	**15 538 848**
Debt securities held for trading	-	-	-	-	-	5 309 437	-	**5 309 437**
Amounts due from credit institutions	274 457 556	11 606 034	23 371 790	38 737 293	5 053 764	4 674 902	-	**357 901 339**
Loans to customers	85 605 485	62 121 658	91 373 442	148 629 982	280 522 960	183 846 604	-	**852 100 131**
Financial assets at fair value through other comprehensive income	-	-	3 628 116	-	1 902 603	40 887 100	-	**46 417 819**
Fixed assets	-	-	-	-	-	-	5 450 004	**5 450 004**
Other assets	-	-	-	-	-	-	66 381 205	**66 381 205**
Total assets	**375 601 889**	**73 727 692**	**118 373 348**	**187 367 275**	**287 479 327**	**234 718 043**	**71 831 209**	**1 349 098 783**
Liabilities								
Amounts due to credit institutions	32 676 000	16 020 800	554 579	2 417 170	2 495 839	36 348 831	-	**90 513 219**
Amounts due to customers:								
- current accounts	91 248 220	22 066 326	19 098 291	23 247 885	27 430 067	23 722 709	-	**206 813 498**
- time deposits	401 319 424	47 258 149	88 796 852	58 270 054	114 567 062	85 900 385	-	**796 111 926**
Debt securities issued	-	-	809	45 111	-	-	-	**45 920**
Other liabilities	3 427 071	-	-	-	-	-	56 424 845	**59 851 916**
Equity	-	-	-	-	-	-	195 762 304	**195 762 304**
Total liabilities and equity	**528 670 715**	**85 345 275**	**108 450 531**	**83 980 220**	**144 492 968**	**145 971 925**	**252 187 149**	**1 349 098 783**
Net position	**(153 068 826)**	**(11 617 583)**	**9 922 817**	**103 387 055**	**142 986 359**	**88 746 118**	**(180 355 940)**	**-**
Accumulated gap	**(153 068 826)**	**(164 686 409)**	**(154 763 592)**	**(51 376 537)**	**91 609 822**	**180 355 940**	**-**	

As shown in the table above, as at 31 December 2018 there is a negative accumulated liquidity gap in 1 month to 1 year periods. The maximum negative accumulated gap in 1 to 3 months period is explained by significant amount of short-term and demand deposits in liabilities.

The accumulated gap can be sufficiently covered by refinancing with the CBR (loans secured by assets available for collateral under CBR loans), repurchase agreements and sell of securities while reducing volume of the Group's participation in reverse repurchase agreements. The approximate amount of funds available from the mentioned sources is RUB 197 790 661 thousand.

The table below presents the liquidity gap profile according to the approved internal approach as at 31 December 2017:

	Less than 1 month	1 month to 3 months	3 months to 6 months	6 months to 1 year	1 year to 3 years	More than 3 years	No stated maturity	Total
Assets								
Cash and cash balances	30 202 650	-	-	-	-	-	-	**30 202 650**
Debt securities held for trading	-	-	-	-	-	20 869 537	-	**20 869 537**
Amounts due from credit institutions	141 768 552	7 880 010	84 298 814	23 957 970	31 799 234	52 351	-	**289 756 931**
Loans to customers	50 587 505	39 174 167	61 303 930	97 127 030	290 902 753	125 545 869	-	**664 641 254**
Debt securities held-to-maturity	-	-	-	-	-	29 937 423	-	**29 937 423**
Available-for-sale debt securities	33 554 704	307 488	434 664	-	9 802 905	33 366 505	-	**77 466 266**
Fixed assets	-	-	-	-	-	-	4 909 170	**4 909 170**
Other assets	-	-	-	-	-	-	61 812 783	**61 812 783**
Total assets	**256 113 411**	**47 361 665**	**146 037 408**	**121 085 000**	**332 504 892**	**209 771 685**	**66 721 953**	**1 179 596 014**
Liabilities								
Amounts due to credit institutions	43 494 479	6 252 670	1 162 705	710 333	3 458 632	28 722 418	-	**83 801 237**
Amounts due to customers:								
- current accounts	96 038 455	23 084 864	19 948 479	24 245 646	27 819 993	22 870 111	-	**214 007 548**
- time deposits	239 676 332	53 383 949	88 262 854	135 196 495	67 901 717	27 931 676	-	**612 353 023**
Debt securities issued	162 856	-	-	6 301 017	45 920	-	-	**6 509 793**
Other liabilities	26 399 813	-	-	-	-	-	36 291 191	**62 691 004**
Equity	-	-	-	-	-	-	200 233 409	**200 233 409**
Total liabilities and equity	**405 771 935**	**82 721 483**	**109 374 038**	**166 453 491**	**99 226 262**	**79 524 205**	**236 524 600**	**1 179 596 014**
Net position	**(149 658 524)**	**(35 359 818)**	**36 663 370**	**(45 368 491)**	**233 278 630**	**130 247 480**	**(169 802 647)**	**-**
Accumulated gap	**(149 658 524)**	**(185 018 342)**	**(148 354 972)**	**(193 723 463)**	**39 555 167**	**169 802 647**	**-**	

In the table above amounts of other assets and other liabilities are presented in accordance with liquidity risk-management approach in order to be comparable with 31 December 2018.

Notes to Consolidated Financial Statements (Continued)

27. Risk management (Continued)

Analysis of financial assets and liabilities by remaining contractual maturities. The tables below summarise the maturity profile of financial assets and liabilities as at 31 December 2018 and 31 December 2017 based on contractual undiscounted repayment obligations. Repayments which are subject to notice are treated as if notice were to be given immediately. However, the Group expects that many customers will not request repayment on the earliest date the Group could be required to pay. The tables do not reflect the expected cash flows indicated by the Group's deposit retention history.

	Less than 1 month	1 month to 3 months	3 months to 6 months	6 to 12 months	1 year to 3 years	More than 3 years	Total
Financial assets as at 31 December 2018							
Cash and cash balances	15 538 848	-	-	-	-	-	**15 538 848**
Debt securities held for trading:							
- held by the Group	5 309 437	-	-	-	-	-	**5 309 437**
Derivative financial assets:							
- Contractual amounts payable	(84 373 007)	(33 660 360)	(46 145 975)	(15 925 016)	(40 233 172)	(49 247 352)	**(269 584 882)**
- Contractual amounts receivable	87 649 741	32 590 008	65 873 615	17 884 121	45 927 812	55 303 504	**305 228 801**
Derivative financial assets designated for hedging:							
- Contractual amounts payable	(563 558)	(1 771 987)	(3 603 424)	(6 480 805)	(28 377 479)	(8 016 487)	**(48 813 740)**
- Contractual amounts receivable	703 781	2 718 626	3 130 293	7 073 844	32 258 933	10 007 858	**55 893 335**
Financial assets at amortized cost							
- Amounts due from credit institutions	297 923 785	7 001 894	16 776 404	37 977 783	2 020 362	582 806	**362 283 034**
- Loans to customers	95 729 973	64 224 887	90 837 519	136 726 829	318 286 676	409 377 046	**1 115 182 930**
Financial assets at fair value through other comprehensive income							
- held by the Group	383 634	517 309	841 194	1 512 149	7 508 631	70 312 001	**81 074 918**
- pledged under repurchase agreements	35 150	-	-	35 150	140 600	1 456 950	**1 667 850**
Total undiscounted financial assets	**418 337 784**	**71 620 377**	**127 709 626**	**178 804 055**	**337 532 363**	**489 776 326**	**1 623 780 531**
Financial liabilities as at 31 December 2018							
Amounts due to credit institutions	29 163 496	17 885 756	1 746 103	4 660 754	11 520 313	51 317 759	**116 294 181**
Financial iabilities held for trading	3 427 071	-	-	-	-	-	**3 427 071**
Derivative financial liabilities:							
- Contractual amounts payable	54 029 960	24 545 563	82 837 070	28 031 612	32 056 028	51 342 933	**272 843 166**
- Contractual amounts receivable	(50 030 364)	(26 239 326)	(74 170 748)	(25 428 488)	(27 162 551)	(45 246 961)	**(248 278 438)**
Derivative financial liabilities designated for hedging:							
- Contractual amounts payable	1 983 205	15 154 729	48 784 696	40 715 067	99 005 223	9 552 327	**215 195 247**
- Contractual amounts receivable	(1 952 476)	(12 923 139)	(44 700 863)	(37 435 217)	(89 184 353)	(7 543 358)	**(193 739 406)**
Amounts due to customers	603 343 153	57 689 611	109 134 160	85 622 083	129 905 508	50 451 620	**1 036 146 135**
Debt securities issued	-	2 030	846	47 140	-	-	**50 016**
Total undiscounted financial liabilities	**639 964 045**	**76 115 224**	**123 631 264**	**96 212 951**	**156 140 168**	**109 874 320**	**1 201 937 972**

The maturity profile of the financial assets and liabilities at 31 December 2017 was the following:

	Less than 1 month	1 month to 3 months	3 months to 6 months	6 to 12 months	1 year to 3 years	More than 3 years	Total
Financial assets as at 31 December 2017							
Cash and cash balances	30 202 650	-	-	-	-	-	**30 202 650**
Debt securities held for trading:							
- held by the Group	20 064 838	-	-	-	-	-	**20 064 838**
- pledged under repurchase agreements	804 699	-	-	-	-	-	**804 699**
Derivative financial assets:							
- Contractual amounts payable	(39 903 661)	(32 307 216)	(40 190 050)	(45 360 955)	(59 156 774)	(18 956 662)	**(235 875 318)**
- Contractual amounts receivable	40 627 423	33 927 951	53 563 476	51 179 967	75 720 664	18 870 027	**273 889 508**
Derivative financial assets designated for hedging:							
- Contractual amounts payable	(174 382)	(675 425)	(1 394 457)	(19 494 045)	(78 502 885)	(5 068 611)	**(105 309 805)**
- Contractual amounts receivable	112 658	1 543 045	1 406 391	21 809 566	86 594 083	5 826 280	**117 292 023**
Financial assets at amortized cost							
- Amounts due from credit institutions	144 236 606	9 323 875	83 953 064	27 619 233	32 259 568	98 711	**297 491 057**
- Loans to customers	51 832 653	36 301 780	54 064 890	80 759 859	281 816 610	319 310 064	**824 085 856**
Debt securities held-to-maturity	390 075	527 042	182 477	1 099 594	11 508 301	25 855 339	**39 562 828**
Available-for-sale debt securities:							
- held by the Group	34 258 954	449 534	1 017 673	1 181 493	6 686 686	54 815 421	**98 409 761**
- pledged under repurchase agreements	-	-	271 120	271 120	1 084 478	1 478 097	**3 104 815**
Total undiscounted financial assets	**282 452 513**	**49 090 586**	**152 874 584**	**119 065 832**	**358 010 731**	**402 228 666**	**1 363 722 912**
Financial liabilities as at 31 December 2017							
Amounts due to credit institutions	42 278 604	7 840 886	2 963 319	3 075 252	11 279 879	42 626 439	**110 064 379**
Financial iabilities held for trading	26 399 813	-	-	-	-	-	**26 399 813**
Derivative financial liabilities:							
- Contractual amounts payable	34 657 667	18 529 033	30 445 251	45 915 040	35 673 583	30 621 000	**195 841 574**
- Contractual amounts receivable	(34 034 728)	(17 120 855)	(27 894 562)	(42 383 763)	(30 051 414)	(27 605 866)	**(179 091 188)**
Derivative financial liabilities designated for hedging:							
- Contractual amounts payable	130 454	1 713 856	7 679 280	21 130 406	31 593 649	6 503 307	**68 750 952**
- Contractual amounts receivable	(1 054 893)	(1 832 749)	(6 147 692)	(17 223 520)	(26 853 429)	(4 953 530)	**(58 065 813)**
Amounts due to customers	421 899 578	60 191 738	106 166 191	161 389 585	82 094 375	9 129 092	**840 870 559**
Debt securities issued	-	249 030	105 883	6 655 930	50 016	-	**7 060 859**
Total undiscounted financial liabilities	**490 276 495**	**69 570 939**	**113 317 670**	**178 558 930**	**103 786 659**	**56 320 442**	**1 011 831 135**

The maturity analysis does not reflect the historical pattern of stable balances on current accounts. Withdrawals of current accounts historically are taking place over a longer period than indicated in the tables above. These balances are included in amounts due in less than one month in the tables above.

Included in due to customers are term deposits of individuals. In accordance with the Russian legislation, the Group is obliged to repay such deposits upon demand (please refer to Note 18).

The table below shows the contractual expiry by maturity of financial commitments and contingencies.

	Less than 1 month	1 to 3 months	3 to 6 months	6 to 12 months	1 to 3 years	More than 3 years	Total
2018	17 017 813	46 067 536	111 588 349	232 168 606	285 086 222	146 972 661	**838 901 187**
2017	28 700 133	29 204 652	65 043 684	113 495 049	278 998 870	148 238 861	**663 681 249**

The Group expects that not all of the contingent liabilities or commitments will be drawn before expiry of the commitments.

Market risk. Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchange rates and equity prices.

The Group distinguishes the following market risk categories:
1. Interest Rate Risk is the risk that changes in interest rates will affect future cash flows or fair values of financial instruments;
2. Currency Risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates;
3. Spread Risk is the risk that changes in credit spreads will affect bond prices;
4. Basis spread risk is the risk that changes in cross-currency basis spread or between different basises (for example, 3 months and overnight) will affect the value of financial instruments
5. Residual Risk is the risk that a price of a particular instrument will change due to its specific characteristics.

On a daily basis the Group assesses interest rate, currency and basis spread risks for both the trading portfolio and banking book. Moreover, spread and residual risks are calculated for fixed income positions.

The Group applies a Value-at-Risk (hereinafter – "VaR") methodology for the measuring of all risks mentioned above. VaR measure adopted by the Group estimates the potential negative change in the market value of a portfolio at a 99% confidence level over a 1-day horizon. In addition, the Group calculates SVaR, a measure of the potential negative change in the market value of a portfolio at a 99% confidence level over a 1-day horizon in a period of market stress. The Group distinguishes the following types of VaR:
1. Total VaR is calculated for all risk factors taken in aggregate;
2. Interest Rate VaR is originated from interest rate risk exposure of the portfolio;
3. Foreign exchange VaR is originated from currency risk exposure of the portfolio;
4. Spread VaR is originated from spread risk exposure of the bond portfolio;
5. Residual VaR is originated from other factors exposure of the bond portfolio.

The Group also calculates an Incremental Risk Charge (hereinafter – "IRC") that complements additional standards being applied to VaR modelling framework according to amendments to Basel II. IRC is an estimate of the default and migration risks of unsecured credit products over a one year capital horizon at 99.9% confidence level.

For interest rate risk management and control the Group also uses a Basis Point Value (hereinafter – "BPV") measure, which shows a change of present value of the Group's position if interest rate changes by one basis point. The measure is calculated for all currencies in which the Group has interest rate exposures. In addition, for bonds the Group calculates a Credit Point Value (hereinafter – "CPV") measure that reflects a change of the bond position present value in case of credit spread changes by one basis point.

Starting from 2014, the Group additionally calculates (and includes in VaR calculation as a component of interest rate risk) the change of present value of the Group's position if cross-currency basis swap rates change by one basis point.

Since monitoring of VaR, BPV and CPV is an integral part of the risk management procedures, VaR, CPV and BPV limits and warning levels have been established and exposures are reviewed daily against the limits and warning levels by Market Risk Unit (hereinafter – "MRU"). IRC exposure is reviewed weekly.

The Group has adopted the following limits:
- Total VaR limit for the trading portfolio, and a warning level for total VaR for the whole portfolio;
- Warning level for Total VaR for banking book;
- Total SVaR limit for the trading portfolio;
- IRC limit for total bond position;
- Total BPV limit for the whole portfolio;
- BPV limits split by currencies;
- Open foreign exchange position limits;
- CPV limit for total bond position.

In addition, local ALCO sets limits for BPV by timeband and business segments and VaR warning levels for subportfolios.

Usage of VaR enables management of a position taking into consideration complex relationships and interdependencies between different risk factors. Typically MRU analyses VaR figures and sets BPV limits which help traders and the Finance Department to optimize risk profiles in volatile market environment.

Verification of applied methodologies is carried out through back- and stress-testing. Bank estimates its own internal models of market risk regarding data quality and risk factor completeness on a regular basis.

In addition, MRU monitors on a daily basis the financial result of the trading operations and thoroughly investigates any significant variances.

The control of economic and regulatory open foreign currency position is performed by MRU on a daily basis against the established limits.

All limit violations are analyzed by MRU on a daily basis, and all limit breaches are escalated and reported to local ALCO and to the relevant UniCredit Group functions.

According to Basel III regulatory standards the Credit Valuation Adjustment (modification of derivatives market value taking into account counterparty credit risk) and corresponding impact on capital are calculated monthly by the Group. Additionally, the requirements of minimum mark-up of derivative transactions with corporate counterparties are applied.

In 2014 the Group implemented a new IT system for Market risk measurement, which has considerably increased MRU's capability to perform stress tests. The new system also enables to calculate sensitivities to basis spread movements. Interest rate risk model for non-performing loans has been implemented.

In an effort to control the Group's trading strategy the sensitivity analysis of statement of comprehensive income in terms of risk factors is performed monthly and presented to ALCO. In 2014, the analysis was expanded to include historical impact of the risk factors.

In 2018 Group continued to improve its VaR model by introduction of more detailed risk factors on interest rate curves distinguishing different curve types for every currency.

Interest rate risk management of the banking book. The Group uses the active interest rate risk management concept, which aims to minimize the net interest income volatility of the banking book.

In the banking book interest rate risk position there is a discrepancy between economic (behavioural) and contractual maturities of financial instruments. It concerns both instruments with fixed contractual maturities (loans and time deposits) and instruments without contractual maturities (current accounts, capital). Based on the historical observation, the Group developed models that allowed applying a behavioural approach to such kinds of banking book items for construction of interest rate risk position with the aim of better interest rate risk management by means of preventing over-hedging and encouraging self-hedging. The Group applies behavioural models to current accounts, short-term customer time deposits and time deposits with auto-rollover option as well as to capital. The Group has developed a prepayment model for retail loans and implemented it in interest rate risk position. For avoiding an accounting discrepancy between hedged items of the banking book calculated on an accrual basis and hedging instruments calculated on a mark-to-market basis and, as a result, to stabilize net interest income, the Group uses hedge accounting methodology. Currently, Macro Cash Flow Hedge and Portfolio Fair Value Hedge are used.

Objectives and limitation of VaR methodology (unaudited). The Group uses Basel II compliant VaR methodology based on historical simulations. Historical simulation is a method that allows to calculate VaR without making any assumptions about the statistical distribution of the portfolio value movements. This approach involves the construction of the hypothetical distribution of the yields (profit and losses) of a portfolio of financial instruments directly by means of the historical fluctuations of the market prices. Once the hypothetical distribution has been calculated, the VaR is given by the percentile evaluation with the 99% confidence interval.

VaR estimates are based on historical data and therefore have some limitations. The volatility of interest and exchange rates observed in the past might not match the current market conditions, which could lead to an underestimation of future losses. The VaR measure does not account for any losses that may occur beyond the 99% confidence level.

The adequacy of the models used by the Group is controlled using a back-testing method, which compares VaR measures with realized mark-to-market revaluation for traded instruments and mark-to-model revaluation for non-traded instruments. This analysis is provided by MRU on a monthly basis.

One single model is used to estimate VaR for all purposes (regulatory, market risk disclosures, etc.). Changes to VaR model/parameters (if any are required) are validated using the back-testing approach mentioned above. Regulatory requirements for approval, if any, are handled at the UniCredit Group level.

Computational results (unaudited). The following table shows an estimation of the potential losses that could occur on all risk positions as a result of movements in market rates and prices:

	2018	2017
Total VaR	700 958	720 566
Interest Rate VaR	625 839	152 347
Spread VaR	294 919	586 588
Foreign exchange VaR	16 926	550

The banking book includes corporate and retail loans and bonds from the investment portfolio on the asset side and deposits and debt securities issued on the liability side offset by interest rate swaps.

The following table shows estimation of the potential losses that could occur on the banking book risk positions as a result of movements in market rates and prices:

	2018	2017
Total VaR	733 111	526 141
Interest Rate VaR	654 432	189 690
Spread -VaR[1]	272 427	405 398

[1] Spread risk in the banking book arises from bonds comprising investment portfolio.

Notes to Consolidated Financial Statements (Continued)

27. Risk management (Continued)

The following table shows estimation of the potential losses that could occur on the trading book risk positions as a result of movements in market rates and prices:

	2018	2017
Total VaR	54 869	296 223
Interest Rate VaR	41 162	91 766
Spread VaR	30 857	264 289
Foreign exchange VaR	16 926	550

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

Strategic Risks Management Department together with Financial Markets Department controls currency risk by management of the open currency position in order to minimize the Group's losses from significant currency rates fluctuations toward its national currency, while also utilizing short-term profit opportunities. The Group does not keep long-term exposures to currency risk. The Group uses spots, swaps and forwards as main instruments of risk hedging.

The Group's exposure to foreign currency exchange rate risk as at 31 December 2018 is presented in the table below:

	RUB	USD	EUR	Other currencies	2018
Non-derivative financial assets					
Cash and cash equivalents	9 715 111	2 888 346	2 748 044	187 347	**15 538 848**
Debt securities held for trading: - held by the Group	3 752 528	1 556 909	-	-	**5 309 437**
Financial assets at amortized cost					
- Amounts due from credit institutions	72 014 640	248 317 194	33 488 322	5 768 834	**359 588 990**
- Loans to customers	512 694 504	305 578 064	44 878 137	-	**863 150 705**
Financial assets at fair value through other comprehensive income:					
- held by the Group	25 848 945	20 403 064	6 747	-	**46 258 756**
- pledged under repurchase agreements	937 601	-	-	-	**937 601**
Total non-derivative financial assets	**624 963 329**	**578 743 577**	**81 121 250**	**5 956 181**	**1 290 784 337**
Non-derivative financial liabilities					
Amounts due to credit institutions	43 526 139	36 703 050	7 701 872	39 018	**87 970 079**
Amounts due to customers	537 242 434	382 223 495	79 046 996	17 127 943	**1 015 640 868**
Debt securities issued	47 553	-	-	-	**47 553**
Financial liabilities held for trading	3 427 071	-	-	-	**3 427 071**
Total non-derivative financial liabilities	**584 243 197**	**418 926 545**	**86 748 868**	**17 166 961**	**1 107 085 571**
OPEN BALANCE SHEET POSITION	**40 720 132**	**159 817 032**	**(5 627 618)**	**(11 210 780)**	**183 698 766**
OPEN POSITION ON DERIVATIVE FINANCIAL INSTRUMENTS	**140 070 470**	**(159 344 939)**	**7 428 490**	**11 412 774**	**(433 205)**
OPEN POSITION	**180 790 602**	**472 093**	**1 800 872**	**201 994**	**183 265 561**

The Group's exposure to foreign currency exchange rate risk as at 31 December 2017 is presented in the table below:

	RUB	USD	EUR	Other currencies	2017
Non-derivative financial assets					
Cash and cash equivalents	24 767 391	2 296 990	2 904 073	234 196	**30 202 650**
Debt securities held for trading: - held by the Group	17 681 539	2 383 299	-	-	**20 064 838**
- pledged under repurchase agreements	804 699	-	-	-	**804 699**
Amounts due from credit institutions	103 067 611	163 536 414	22 247 348	3 569 241	**292 420 614**
Loans to customers	355 117 253	262 354 785	51 051 138	4	**668 523 180**
Debt securities held-to-maturity	15 814 468	14 122 955	-	-	**29 937 423**
Available-for-sale debt securities:					
- held by the Group	64 157 785	12 051 460	2 707	-	**76 211 952**
- pledged under repurchase agreements	1 254 314	-	-	-	**1 254 314**
Total non-derivative financial assets	**582 665 060**	**456 745 903**	**76 205 266**	**3 803 441**	**1 119 419 670**
Non-derivative financial liabilities					
Amounts due to credit institutions	46 220 436	30 969 501	8 159 781	77 278	**85 426 996**
Amounts due to customers	356 207 046	405 607 415	60 731 382	4 557 482	**827 103 325**
Debt securities issued	6 509 793	-	-	-	**6 509 793**
Financial iabilities held for trading	26 399 813	-	-	-	**26 399 813**
Total non-derivative financial liabilities	**435 337 088**	**436 576 916**	**68 891 163**	**4 634 760**	**945 439 927**
OPEN BALANCE SHEET POSITION	**147 327 972**	**20 168 987**	**7 314 103**	**(831 319)**	**173 979 743**
OPEN POSITION ON DERIVATIVE FINANCIAL INSTRUMENTS	**46 396 372**	**(22 408 473)**	**(5 267 227)**	**817 705**	**19 538 377**
OPEN POSITION	**193 724 344**	**(2 239 486)**	**2 046 876**	**(13 614)**	**193 518 120**

The following table presents sensitivities of profit and loss and equity to changes in exchange rates applied at the balance sheet date by 10%, with all other variables held constant:

	2018 impact	2017 impact
USD strengthening by 10%	47 209	(223 949)
USD weakening by 10%	(47 209)	223 949
EUR strengthening by 10%	180 087	204 688
EUR weakening by 10%	(180 087)	(204 688)

Management belives that sensitivity analysis does not necessarily reflect currency risk adherent to the Group due to the fact that amounts as of the end of reporting periods do not reflect the amounts throughout the year.

Operational risk

Operational risk definition and risk management principles. The Group defines as "operational" the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. The definition of Operational Risk includes legal risk but excludes strategic and reputation risk. Legal risk includes but is not limited to exposure to fines, penalties or punitive damages resulting from supervisory actions as well as private settlements.

The management of operational risk as defined above is based on the following fundamental principles:

- Involvement of corporate governing bodies in all the relevant decisions regarding the operational risk management framework;
- Independence of operational risk management function from the risk taking functions;
- Effective system of controls at different control levels (line, second level and third level);
- Clear separation between the operational risk management framework development and validation functions;
- Involvement of operational risk management function in the evaluation of the risks within new products, processes, systems and markets;
- Effective and efficient escalation and decision-making process;
- Adequate and periodical disclosure and reporting process.

Operational risk management framework. The Group is fully compliant with the UniCredit Group's operational risk management framework in its guiding standards and principles as well as with the legislation of the Russian Federation.

The implementation of the standards and principles is substantially supported by the exhaustive set of internally approved normative documents being constantly maintained and updated in accordance with both external and internal requirements.

The Board of Management holds the responsibility for the establishment, governance and continuous monitoring of the effective and efficient operational risk management system. The Board of Management establishes the general policies of the Group's operational risk management system and has control over its due implementation and its actual operations including but not limiting to:
- Approval of the operational risk framework and any essential changes to it as well as all internal normative documents of the Bank guiding the operational risk management system;
- Establishment of an operational risk management function being of appropriate independence of judgement and having the adequate personnel and other resources;
- Assurance that the tasks and responsibilities of the functions involved in the operational risk management system are assigned in a clear and appropriate manner with special regard to avoidance of conflicts of interest;
- Establishment of informing and reporting system providing accurate, complete and timely information on operational risk exposure and other significant operational risk management issues.

For further enforcement of the operational risk management system, Operational Risk Committee being a governing body primarily is responsible for making decisions on operational risk topics and ongoing monitoring of developments affecting the Group's business and promoting the exchange of information among the divisions and individual operating functions (Retail Banking, CIB, CFO, Legal, HR, Security) representing line controls.

The Operational Risk Management Unit (hereinafter – "ORM Unit") performing the second level controls is fully independent from risk taking functions performing the line level controls. The ORM Unit's main methodologies, tools and activities to identify, assess, monitor and mitigate operational risk are focused on but not limited to:
- loss data collection including general ledger analysis, accounts reconciliation, transitory and suspense accounts monitoring, data quality control;
- operational risk indicators;
- scenario analysis;
- ELOR monitoring;
- insurance coverage;
- capital at risk allocation according to the Basel II Standardized Approach;
- new products/processes analysis from the operational risk impact perspective;
- credit bureaus cooperation;
- reporting and escalating any of the essential Operational Risk issues to the Board of Management, Internal Audit Department and competent UniCredit Group functions;
- granting to the Operational Risk Committee information of the relevant operational risk events having significant effect on the Group's risk profile.

In order to assure and sustain the efficacy of the Operational Risk identification and mitigation processes, a Permanent Workgroup is operating which aims at identifying the source of Operational Risk taking measures for prevention of the operational risks and reduce the Operational Risk exposure, leveraging mainly on the expertise of the ORM Unit, Internal Audit Department and the invited experts from relevant divisions of the Bank.

The Internal Audit Department performing the third level controls cooperates with the ORM Unit in terms of setting, development, implementation and maintenance of the operational risk management system, operational risk identification and the inherent local internal validation process.

28. Fair values of financial instruments

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

UCBR follows methodology adopted by the UniCredit Group, which belongs to the income approach family – Discounted Cash Flow model. It is defined as the sum of the present value of expected future cash flow specific to the instrument, discounted using a rate that incorporates all risk factors, mainly leveraging on market inputs rather than on internal parameters. Main inputs for calculating fair value include:
- Cash flows
- Risk-free interest rates
- Credit spreads
- Risk neutral cumulative default probability
- Risk premium
- Correlations
- Internal cumulative probability of default
- Loss given default

In the case of the presence of liquid instruments in the market, an estimate of the credit spread can be derived from market quotes.

For fair value computation own credit spread is used, determined on the basis of the prices of Groups's unsecured senior bonds.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

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

Except as detailed in the following table, the Group consider that the carrying amounts of financial assets and financial liabilities recognised in the consolidated statement of financial position approximate their fair value.

	31 December 2018		31 December 2017	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets				
Amounts due from credit institutions	359 588 990	363 319 774	292 420 614	294 801 213
Loans to customers	863 150 705	863 028 445	668 523 180	686 343 008
Debt securities held-to-maturity	-	-	29 937 423	31 138 425
Financial liabilities				
Amounts due to credit institutions	87 970 079	90 949 659	85 426 996	100 971 366
Amounts due to customers	1 015 640 868	1 024 310 611	827 103 325	834 742 389
Debt securities issued	47 553	47 796	6 509 793	6 668 535

The following tables provide an analysis of financial instruments that are measured subsequent to initial recognition at amortized cost, grouped into Levels 1 to 3.

	31 December 2018			
	Level 1	Level 2	Level 3	Total
Financial assets				
Amounts due from credit institutions	-	-	363 319 774	363 319 774
Loans to customers	-	-	863 028 445	863 028 445
Financial liabilities				
Amounts due to credit institutions	-	-	90 949 659	90 949 659
Amounts due to customers	-	-	1 024 310 611	1 024 310 611
Debt securities issued	-	47 796	-	47 796

	31 December 2017			
	Level 1	Level 2	Level 3	Total
Financial assets				
Amounts due from credit institutions	-	-	294 801 213	294 801 213
Loans to customers	-	-	686 343 008	686 343 008
Debt securities held-to-maturity	14 535 750	16 602 675	-	31 138 425
Financial liabilities				
Amounts due to credit institutions	-	-	100 971 366	100 971 366
Amounts due to customers	-	-	834 742 389	834 742 389
Debt securities issued	-	6 668 535	-	6 668 535

28. Fair values of financial instruments (Continued)

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

	31 December 2018			
	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets at fair value				
Debt securities held for trading:				
- held by the Group	2 365 174	2 944 263	-	5 309 437
Derivative financial assets	-	36 868 281	-	36 868 281
Derivative financial assets designated for hedging	-	6 788 150	-	6 788 150
Financial assets at fair value through other comprehensive income:				
- held by the Group	37 325 950	8 809 114	-	46 135 064
- pledged under repurchase agreements	937 601	-	-	937 601
Total	**40 628 725**	**55 409 808**	**-**	**96 038 533**
Financial liabilities at fair value				
Financial liabilities held for trading	3 427 071	-	-	3 427 071
Derivative financial liabilities	-	23 652 339	-	23 652 339
Derivative financial liabilities designated for hedging	-	20 324 175	-	20 324 175
Total	**3 427 071**	**43 976 514**	**-**	**47 403 585**

	31 December 2017			
	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets at fair value				
Debt securities held for trading:				
- held by the Group	2 593 613	17 471 225	-	20 064 838
- pledged under repurchase agreements	804 699	-	-	804 699
Derivative financial assets	-	37 985 906	-	37 985 906
Derivative financial assets designated for hedging	-	7 860 608	-	7 860 608
Available-for-sale debt securities:				
- held by the Group	23 731 042	52 361 258	-	76 092 300
- pledged under repurchase agreements	1 254 314	-	-	1 254 314
Total	**28 383 668**	**115 678 997**	**-**	**144 062 665**
Financial liabilities at fair value				
Financial liabilities held for trading	12 627 926	13 771 887	-	26 399 813
Derivative financial liabilities	-	15 658 296	-	15 658 296
Derivative financial liabilities designated for hedging	-	10 649 841	-	10 649 841
Total	**12 627 926**	**40 080 024**	**-**	**52 707 950**

The table above does not include financial assets at fair value through other comprehensive income equity investments of RUB 123 692 thousand (31 December 2017: RUB 119 652 thousand) which do not have a quoted market price in an active market.

During the year ended 31 December 2018 transfers from level 2 to level 1 amounted to RUB 4 849 085 thousand for financial assets at fair value through other comprehensive income (31 December 2017: none). During the year ended 31 December 2018 there were no transfers between fair value levels for trading securities (December 2017: transfers from level 2 to level 1 amounted to RUB 995 235 thousand).

29. Related party disclosures

In accordance with IAS 24 Related Party Disclosures, parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form. Related parties may enter into transactions which unrelated parties might not, and transactions between related parties may not be conducted on the same terms, conditions and amounts as transactions between unrelated parties.

As at 1 March 2018, as a result of the transaction between the Group and its sole shareholder UniCredit S.p.A., the Group acquired 40% of capital in BARN B.V. (the Netherlands), that is the sole shareholder of AO "RN Bank" (Russian Federation) since 2013 (see Note 1 and 11 for details). Thus, the relevant transactions with AO "RN Bank" and BARN B.V. are disclosed as transactions with associate for the twelve-month period ended 31 December 2018.

Balances and transactions with UniCredit S.P.A were as follows:

	31 December 2018	Weighted average interest rate, %	31 December 2017	Weighted average interest rate, %
Amounts due from credit institutions				
- In EUR	571 226	0.0%	202 408	0.0%
- In USD	91 379 215	3.3%	142 410 984	3.5%
Derivative financial assets	4 358 968		7 541 866	
Derivative financial assets designated for hedging	4 853 841		6 158 452	
Other assets	162 569		249 000	
Amounts due to credit institutions				
- In Russian Roubles	145 886	0.0%	145 887	0.0%
- In EUR	539 270	1.7%	482 668	1.8%
- In USD	33 839 765	12.8%	27 718 054	11.8%
Derivative financial liabilities	14 160 452		2 893 942	
Derivative financial liabilities designated for hedging	16 573 195		3 952 680	
Other liabilities	530 001		463 601	
Commitments and guarantees issued	5 529 485		5 338 070	
Commitments and guarantees received	23 853 936		35 075 067	

	2018	2017
Interest income	22 702 089	18 962 823
Interest expense	(14 532 521)	(7 438 742)
Fee and commission income	39 691	33 708
Fee and commission expense	(307 399)	(676 145)
Losses on financial assets and liabilities held for trading	(28 365 172)	(1 385 496)
Fair value adjustments in portfolio hedge accounting	3 014 374	(456 655)
Recovery of personnel expenses	6 657	13 430
Other administrative costs	(87 787)	(52 760)

Notes to Consolidated Financial Statements (Continued)

29. Related party disclosures (Continued)

Balances and transactions with other companies controlled by the UniCredit Group or related with UniCredit Group are as follows:

	31 December 2018	Weighted average interest rate, %	31 December 2017	Weighted average interest rate, %
Amounts due from credit institutions				
- In Russian Roubles	47	0.0%	14 456 718	9.6%
- In EUR	16 422 965	0.0%	9 114 139	0.0%
- In USD	123 539	0.0%	3 513 219	0.0%
- In other currencies	2 569	0.0%	271	0.0%
Derivative financial assets	3 622 258		1 602 713	
Derivative financial assets designated for hedging	1 429 811		1 488 171	
Loans to customers				
- In Russian Roubles	1 010 205	5.8%	1 219 272	5.8%
Intangible assets	103 990		300 687	
Other assets	8 472		5 318	
Amounts due to credit institutions				
- In Russian Roubles	5 178 908	9.1%	9 634 419	5.4%
- In EUR	7 131 383	1.4%	6 734 240	1.5%
- In USD	1 484 764	3.4%	1 489 534	2.9%
-In other currencies	-		102	0.0%
Derivative financial liabilities	3 023 885		3 342 055	
Derivative financial liabilities designated for hedging	1 752 537		2 615 869	
Amounts due to customers				
- In Russian Roubles	842 935	5.6%	542 898	6.4%
- In EUR	-		6 416	0.0%
Other liabilities	203 497		271 403	
Commitments and guarantees issued	31 229 672		76 199 538	
Commitments and guarantees received	3 648 690		5 315 300	

	2018	2017
Interest income	(111 413)	3 000 647
Interest expense	(2 444 687)	(2 786 977)
Fee and commission income	144 968	206 595
Fee and commission expense	(275 776)	(200 545)
Gains on financial assets and liabilities held for trading	2 782 844	1 289 666
Fair value adjustments in portfolio hedge accounting	598 826	(71 181)
Gains on disposal of loans	-	1 628
Other income	485	6 132
Personnel expenses	(20 576)	(14 187)
Other administrative expenses	(240 671)	(192 730)

Balances and transactions with associate are as follows:

	2018	Weighted average interest rate, % (unaudited)
Amounts due from credit institutions		
- In Russian Roubles	22 614 567	9.0%
Derivative financial assets	113 405	
Amounts due to credit institutions		
- In Russian Roubles	24 173	0.0%
- In EUR	1 206	0.0%
- In USD	3 299	0.0%
Investments in associate	6 912 137	
Commitments and guarantees issued	296 620	

	31 December 2018
Interest income and similar revenues	2 041 001
Interest expense and similar charges	(305 579)
Fee and commission income	62 201
Losses on financial assets and liabilities held for trading	(117 091)
Share of gains of associate	954 589

Balances and transactions with key management personnel are as follows:

	31 December 2018	31 December 2017
Amounts due to customers	456 038	324 714
Other liabilities	74 119	55 106

	2018	2017
Interest expense	(12 109)	(13 659)
Personnel expenses, including:	(401 864)	(326 638)
short-term benefits	(222 690)	(211 207)
long-term benefits	(168 149)	(113 016)
post-employment benefits	(11 025)	(2 415)

Subordinated loans from the members of the UniCredit Group were as follows for 2018 and 2017:

	2018 UniCredit S.p.A	2017 UniCredit S.p.A
Subordinated loans at the beginning of the year	27 718 054	29 178 071
Accrual of interest, net of interest paid	90 628	9 950
Effect of exchange rates changes	5 708 475	(1 469 967)
Subordinated loans at the end of the year	**33 517 157**	**27 718 054**

30. Subsequent events

In January 2019, the state registration of the reorganisation of AO Lokat Leasing Russia was carried out by its conversion into LLC UniCredit Garant. Thus, AO Lokat Leasing Russia ceased its activities. All rights and obligations of the reorganized company are transferred to the newly emerged legal entity. The subject of activity of LLC UniCredit Garant is auxiliary activities in financial services and insurance.

Banking that matters. UniCredit Bank

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