BANK CENTER-INVEST

CENTER-INVEST BANK GROUP

International Financial Reporting Standards Condensed Consolidated Interim Financial Information (unaudited) and Report on Review 30 June 2019

CONTENTS

Report on Review of Condensed Consolidated Interim Financial Information

To the Shareholders and Board of Directors of Public Joint-stock company commercial Bank "Center-invest":

Introduction

We have reviewed the accompanying condensed consolidated interim statement of financial position of Public Joint-stock company commercial Bank "Center-invest" (hereinafter, "Center-invest Bank") and its subsidiaries (hereinafter jointly referred to as the "Group") as at 30 June 2019, and the related condensed consolidated interim statements of profit or loss and other comprehensive income for the three- and six-month periods then ended, condensed consolidated interim statements of changes in equity and cash flows for the six-month period then ended, and the related explanatory notes. Management is responsible for the preparation and presentation of this condensed consolidated interim financial information in accordance with International Accounting Standard (IAS) 34, "Interim Financial Reporting". Our responsibility is to express a conclusion on this condensed consolidated interim financial information based on our review.

Scope of Review

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

Basis for a Qualified Opinion

As presented in Note 21 to the condensed consolidated interim financial information, in April 2019 the Group received 88.28% of shares in Joint-Stock Company "Ptitsefabrika Belokalitvinskaya" in accordance with the Settlement Agreement. As a result of the business combination, the Group recognised a gain on the bargain purchase in the provisional amount of RR 337 938 thousand. We were provided with an independent appraiser's report supporting the provisional fair values of the identifiable assets acquired and liabilities assumed as at the acquisition date. We do not agree with the methodology and some assumptions used by the independent appraiser (such as those applied to future cash flows projection) and, consequently, with the provisional fair values of the identifiable assets acquired and liabilities assumed as at the acquisition date. Furthermore, recognition of the gain on the bargain purchase based on provisional amounts contradicts IFRS 3 "Business Combinations", which requires that the acquirer shall reassess whether it has correctly identified all of the assets acquired and all of the liabilities assumed, and review the procedures used to measure the amounts to be recognised under IFRS 3, prior to recognising any gain on a bargain purchase. In the absence of reconsideration and review of the measurement procedures used as defined by the standard, recognition of the gain on the bargain purchase during the measurement period would be premature. Therefore, the Group's financial result recognised in the condensed consolidated interim statement of profit or loss and other comprehensive income for three and six months ended 30 June 2019 has been overstated by the gain on the bargain purchase of RR 337 938 thousand, which the Group should not have recognised due to incomplete measurement procedures related to the business combination.

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Qualified Opinion

Based on our review, except for the matters described in the previous section, nothing has come to our attention that causes us to believe that the accompanying condensed consolidated interim financial information is not prepared, in all material respects, in accordance with International Accounting Standard (IAS) 34, "Interim Financial Reporting".

AO PricewaterhouseCoopers Audit

29 August 2019

Moscow, Russian Federation

E. I. Kopanyova, Engagement Partner, certified auditor (qualification certificate No. 01-000398), AO PricewaterhouseCoopers Audit

Audited entity: Public Joint-stock company commercial Bank "Center-invest"

Record made in the Unified State Register of Legal Entities on 26 August 2002 under State Registration Number 1026100001949

344000, Russian Federation, Rostov-on-Don, Sokolov Avenue 62

Independent auditor: AO PricewaterhouseCoopers Audit

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

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

Member of Self-Regulated Organization of Auditors "Russian Union of Auditors" (Association)

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

BANK CENTER-INVEST

CENTER-INVEST BANK GROUP

Condensed Consolidated Interim Statement of Financial Position

(in thousands of Russian Roubles)	Note	30 June 2019 (unaudited)	31 December 2018
ASSETS			
Cash and cash equivalents		9 318 252	8 712 015
Mandatory cash balances with the Central Bank of Russian Federation		694 027	740 650
Balances with the Central Bank of the Russian Federation		3 600 000	9 708 809
Loans to customers and finance lease receivables	6	89 893 877	88 022 690
Investment in associate		317 761	293 363
Investment properties		538 871	510 371
Premises and equipment and intangible assets		3 718 076	2 804 609
Right-of-use assets	3.4	155 978	-
Other financial assets		782 902	750 328
Other assets	7	974 157	386 828
Current income tax prepayment		4 098	236 390
TOTAL ASSETS		**109 997 999**	**112 166 053**
LIABILITIES			
Due to the Central Bank of the Russian Federation		203 849	-
Due to other banks	8	1 145 416	-
Customer accounts	9	89 589 465	95 238 192
Debt securities in issue	10	1 879 176	1 325 096
Borrowings from international financial institutions	11	2 235 778	1 720 816
Other financial liabilities		238 834	190 881
Other liabilities		402 098	267 404
Lease liabilities	3,4	159 036	-
Dividends payable	14	621 740	-
Deferred income tax liability		278 171	296 018
TOTAL LIABILITIES		**96 753 563**	**99 038 407**
EQUITY			
Share capital		1 326 277	1 326 277
Share premium		2 078 860	2 078 860
Revaluation reserve for land and premises		1 262 206	1 262 206
Retained earnings		8 638 849	8 460 303
Net assets attributable to the Bank's shareholders		**13 306 192**	**13 127 646**
Non-controlling interest		**(61 756)**	**-**
TOTAL EQUITY		**13 244 436**	**13 127 646**
TOTAL LIABILITIES AND EQUITY		**109 997 999**	**112 166 053**

29 August 2019

Публичное акционерное общество коммерческий банк "Центр-инвест" * Рег. №2225 * г.Ростов-на-Дону

S. Yu. Smirnov
Management Board Chairman

T.I. Ivanova
Chief Accountant

		Six months ended 30 June		Three months ended 30 June	
(in thousands of Russian Roubles)	**Note**	**2019**	**2018**	**2019**	**2018**
Interest income calculated using the effective interest method	12	5 350 045	5 393 621	2 631 790	2 608 936
Interest and other similar expense	12	(2 509 455)	(2 563 077)	(1 299 007)	(1 284 237)
Net margin on interest and similar income		**2 840 590**	**2 830 544**	**1 332 783**	**1 324 699**
Credit loss allowance	6	(934 861)	(819 052)	(671 327)	(226 978)
Provision/ (recovery of provision) for credit related commitments		(12 363)	17 308	(35 650)	9 854
Net margin on interest and similar income after credit loss allowance		**1 893 366**	**2 028 800**	**625 806**	**1 107 575**
Fee and commission income		810 747	665 259	420 681	348 642
Fee and commission expense		(260 710)	(222 542)	(132 542)	(140 018)
Gains less losses from trading in foreign currencies		25 853	28 043	12 141	13 913
Foreign exchange translation (Losses less gains)/ Gains less losses		(43 251)	51 983	(7 161)	57 718
Gains less losses / (Losses less gains) from spot currency transactions and other conversion operations on the interbank market		40 012	(19 544)	7 995	(33 872)
Other provisions and expenses		(57 200)	(8 831)	(34 097)	24 829
Other operating income		92 930	20 717	86 172	9 133
Contributions to the state deposit insurance scheme		(255 584)	(224 719)	(125 876)	(113 496)
Administrative and other operating expenses	13	(1 608 526)	(1 374 654)	(895 588)	(750 933)
Financial result from business combinations	21	337 990	-	337 990	-
Share of result of associate		24 398	3 514	(3 234)	(17 012)
Profit before tax		**1 000 025**	**948 026**	**292 287**	**506 479**
Income tax expense		(206 600)	(206 347)	(43 868)	(104 259)
Profit for the period		**793 425**	**741 679**	**248 419**	**402 220**
Other comprehensive income for the period		**-**	**-**	**-**	**-**
Total comprehensive income for the period		**793 425**	**741 679**	**248 419**	**402 220**
Profit attributable to:					
Bank's shareholders		800 286	741 679	255 280	402 220
Non-controlling interest		(6 861)	-	(6 861)	-
Total comprehensive income attributable to the Bank's shareholders and non-controlling interest		**793 425**	**741 679**	**248 419**	**402 220**

(in thousands of Russian Roubles)	**Six months ended 30 June 2019**	**Six months ended 30 June 2018**
Cash flows from operating activities		
Interest received	5 071 923	5 482 808
Interest paid	(2 427 789)	(2 484 265)
Contributions to the state deposit insurance scheme	(249 722)	(199 710)
Fees and commissions received	808 169	664 405
Fees and commissions paid	(258 944)	(218 618)
Gains less losses from trading in foreign currencies	25 853	28 043
Gains less losses / (Losses less gains) from spot currency transactions and other conversion operations on the interbank market	43 493	(22 851)
Receipts from assignment of rights of claim	211 857	80 083
Repayment of debt previously written off	21 588	18 999
Other operating income received	11 550	20 320
Staff costs paid	(704 412)	(818 719)
Operating expenses paid	(652 467)	(362 850)
Income tax paid	(73)	(346 284)
Cash flows from operating activities before changes in operating assets and liabilities	**1 901 026**	**1 841 361**
Change in operating assets and liabilities		
Net change in mandatory cash balances with the Central Bank of the Russian Federation	46 623	(25 678)
Net change in due from other banks	6 100 000	3 601 000
Net change in loans to customers and finance lease receivables	(4 170 512)	(7 927 549)
Net change in other financial and other assets	77 625	96 156
Net change in due to other banks	1 359 887	-
Net change in customer accounts	(5 414 020)	1 910 098
Net change in promissory notes issued	539 636	(70 500)
Net change in other financial and other liabilities	(44 443)	(97 239)
Net cash from/(used in) operating activities	**395 822**	**(672 351)**
Cash flows from investing activities		
Acquisition of premises and equipment	(88 890)	(47 276)
Proceeds from disposal of premises and equipment	1 005	4 456
Acquisition of intangible assets	(61 485)	(31 673)
Investments in investment properties	(1 249)	(26 242)
Net cash used in investing activities	**(150 619)**	**(100 735)**
Cash flows from financing activities		
Issue of bonds	314 137	212 567
Repurchase and repayment of bonds	(294 169)	(26 897)
Proceeds from borrowings from international financial institutions	1 111 000	400 000
Repayment of borrowings from international financial institutions	(600 000)	(200 000)
Net cash from financing activities	**530 968**	**385 670**
Effect of exchange rate changes on cash and cash equivalents	**(169 934)**	**104 650**
Net increase/(decrease) in cash and cash equivalents	**606 237**	**(282 766)**
Cash and cash equivalents at the beginning of the period	8 712 015	8 369 737
Cash and cash equivalents at the end of the period	**9 318 252**	**8 086 971**

(in thousands of Russian Roubles)	Note	Share capital	Share premium	Fund of land and premises revaluation	Retained earnings	Non-controlling interest	Total equity
Balance at 31 December 2017		**1 326 277**	**2 078 860**	**1 306 152**	**7 929 231**	**-**	**12 640 520**
Effect of initial application of IFRS 9 – revaluation of ECL		-	-	-	(423 718)	-	(423 718)
Restated balance at 1 January 2018		**1 326 277**	**2 078 860**	**1 306 152**	**7 505 513**	**-**	**12 216 802**
Profit for the period		-	-	-	741 679	-	741 679
Total comprehensive income for six months of 2018		**-**	**-**	**-**	**741 679**	**-**	**741 679**
Dividends declared:							
- ordinary shares	14	-	-	-	(603 641)	-	(603 641)
- preference shares	14	-	-	-	(18 099)	-	(18 099)
Transfer of revaluation surplus on land and premises to retained earnings		-	-	(3 409)	3 409	-	-
Balance at 30 June 2018 (unaudited)		**1 326 277**	**2 078 860**	**1 302 743**	**7 628 861**	**-**	**12 336 741**
Balance at 31 December 2018		**1 326 277**	**2 078 860**	**1 262 206**	**8 460 303**	**-**	**13 127 646**
Profit for the period		-	-	-	800 286	(6 861)	793 425
Total comprehensive income for six months of 2019		**-**	**-**	**-**	**800 286**	**(6 861)**	**793 425**
Dividends declared:							
- ordinary shares	14	-	-	-	(603 641)	-	(603 641)
- preference shares	14	-	-	-	(18 099)	-	(18 099)
Business combinations	21	-	-	-	-	(54 895)	(54 895)
Balance at 30 June 2019 (unaudited)		**1 326 277**	**2 078 860**	**1 262 206**	**8 638 849**	**(61 756)**	**13 244 436**

1. Introduction

This condensed consolidated interim financial information of Public Joint-stock company commercial Bank "Center-invest" (hereinafter, the "Bank") and its subsidiaries (hereinafter referred to as the "Group") has been prepared for six months ended 30 June 2019 in accordance with International Accounting Standard 34 "Interim Financial Reporting" (hereinafter, "IAS 34").

The Bank was incorporated and is domiciled in the Russian Federation. The Bank is a joint stock company limited by shares.

Principal activity. The Group's principal business activities are corporate and retail banking and leasing operations within the Russian Federation. The Bank has operated under a full banking licence issued by the Central Bank of the Russian Federation ("CBRF") since 1992. The Bank participates in the state deposit insurance scheme, which was introduced by Federal Law No. 177-FZ, *Deposits of Individuals Insurance in Russian Federation*, dated 23 December 2003. The State Deposit Insurance Agency guarantees repayment of 100% of individual deposits up to RR 1 400 thousand per individual in the case of the withdrawal of a licence of a bank or a CBRF imposed moratorium on payments.

There are no beneficial owners, as there are no individuals who ultimately have the ability to control the Bank.

At 30 June 2019, the Bank had four branches (31 December 2018: four) in the Russian Federation. Additionally, the Bank has a representative office in Moscow and 111 (31 December 2018: 113) sub-branches in the Rostov and Volgograd Regions, Moscow, Nizhny Novgorod, Stavropol and Krasnodar Regions.

Under the Settlement Agreement, in April 2019, the Bank acquired 88.28% of shares in the share capital of Joint-Stock Company "Ptitsefabrika Belokalitvinskaya". The principal activity of Joint-Stock Company "Ptitsefabrika Belokalitvinskaya" is poultry breeding: raising oviparous poultry, production and sale of eggs, poultry meat, production of fodder and crop products. Information on the subsidiary's acquisition is disclosed Note 21.

Interest in subsidiaries at 30 June 2019 and 31 December 2018 is as follows:

(%)	**30 June 2019**	**31 December 2018**
OOO Centre-Leasing	100.00	100.00
Joint-Stock Company "Ptitsefabrika Belokalitvinskaya"	88.28	-

Registered address and place of business. The Bank's registered address is: 62 Sokolov Avenue, Rostov-on-Don, Russian Federation, 344000.

The average number of the Group's employees during six months ended 30 June 2019 was 1 761 people (2018: 1 487 people; six months ended 30 June 2018: 1 486 people).

Presentation currency. This condensed consolidated interim financial information is presented in thousands of Russian roubles ("RR thousand"), unless otherwise stated.

2. Operating Environment of the Group

Russian Federation. The Russian Federation displays certain characteristics of an emerging market. Its economy is particularly sensitive to oil and gas prices. The legal, tax and regulatory frameworks continue to develop and are subject to frequent changes and varying interpretations. The Russian economy continues to be negatively impacted by ongoing political tension in the region and international sanctions against certain Russian companies and individuals. Stable oil prices, low unemployment and rising wages supported a modest growth of the economy in 2019. The 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 differ from actual results.

2. Operating Environment of the Group (Continued)

The Bank operates primarily in the South of Russia. For a whole number of indicators, like in the previous years, the South of Russia exceeds average growth rates, namely for industrial production index; positive dynamics of development are demonstrated in the consumer market, and support structure for small and medium businesses is improving. The major industry of the region is agriculture; as part of implementing the Rostov Region government programme “Agribusiness Development and Regulation of Agricultural Products, Commodities and Food Market” for 2019-2030, events are conducted to ensure sustainable development of the Rostov Region agribusiness complex and rural areas. The management believes that these developments improve competitive advantages of the South of Russia.

For the purpose of measuring expected credit losses (“ECL”), the Group uses supportable forward-looking information, including forecasts of macroeconomic variables. As with any economic forecast, however, the projections and likelihoods of their occurrence are subject to a high degree of inherent uncertainty and therefore the actual outcomes may be significantly different from those projected. Note 5 provides more information of how the Group incorporated forward-looking information in the ECL models.

3. Summary of Significant Accounting Policies

Basis of preparation. This condensed consolidated interim financial information has been prepared in accordance with IAS 34 and should be read in conjunction with the Group’s annual consolidated financial statements for the year ended 31 December 2018, which have been prepared in accordance with International Financial Reporting Standards (IFRS).

This condensed consolidated interim financial information does not contain all notes that are required for the full set of consolidated financial statements.

Except as described below, the same accounting policies and methods of computation were followed in the preparation of this condensed consolidated interim financial information as compared with the Group’s annual consolidated financial statements for the year ended 31 December 2018.

IFRS 16 “Leases”. The Group introduced the following changes to its accounting policies resulting from the adoption of IFRS 16 at 1 January 2019.

The Group adopted IFRS 16 “Leases” using modified retrospective method and a number of practical expedients (Note 4). From 1 January 2019, the date of transition to the new standard, lease agreements are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group. Each lease payment is allocated between liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period and is recorded within “Interest and Other Similar Expenses” of the statement of profit or loss and other comprehensive income. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. In the condensed consolidated interim statement of profit or loss and other comprehensive income, depreciation of a right-of-use asset is recorded within “Other Provisions and Expenses”.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives payable;
- variable lease payments that depend on an index or a rate.
- The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee’s incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

3. Summary of Significant Accounting Policies (Continued)

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs; and
- restoration costs.

As an exception, the Group keeps records of short-term leases and leases of low-value property, reflecting lease payments as an expense on a straight-line basis. Short-term lease includes lease of an asset for a term of less than 12 months.

In determining the lease term, management of the Group considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated).

This measurement is subject to review upon the occurrence of a significant event or a significant change in circumstances that affects the initial measurement and is under the lessee's control.

Inventories. Inventories are carried at the lower of cost or net realisable value. The cost of inventories released to production or otherwise disposed of is determined on a FIFO basis. The cost of finished goods and work in progress includes raw materials and supplies, direct labour, other direct costs and related production overheads (based on normal operating capacity) and does not include borrowing expenses. Net realisable value is the estimated selling price in the course of normal business less estimated completion cost and costs to sell.

Interim period tax estimate. Interim period income tax expense is accrued using the effective tax rate that would be applicable to expected total annual earnings, i.e. the estimated weighted average annual effective income tax rate is applied to the pre-tax income for the interim period.

Consolidated financial statements. The Group measures non-controlling interest that represents present ownership interest and entitles the holder to a proportionate share of net assets in the event of liquidation on a transaction by transaction basis, either at: (a) fair value, or (b) the non-controlling interest's proportionate share of net assets of the acquiree.

Non-controlling interests that are not present ownership interests are measured at fair value.

Goodwill is measured by deducting the net assets of the acquiree from the aggregate of the consideration transferred for the acquiree, the amount of non-controlling interest in the acquiree and fair value of an interest in the acquiree held immediately before the acquisition date. Any negative amount ("negative goodwill") is recognised in profit or loss, after management reassesses whether it identified all the assets acquired and all liabilities and contingent liabilities assumed, and reviews appropriateness of their measurement.
The consideration transferred for the acquiree is measured at the fair value of the assets given up, equity instruments issued, and liabilities incurred or assumed, including fair value of assets or liabilities from contingent consideration arrangements, but excludes acquisition related costs such as advisory, legal, valuation and similar professional services. Transaction costs incurred for issuing equity instruments are deducted from equity; transaction costs incurred for issuing debt are deducted from it's carrying amount and all other transaction costs associated with the acquisition are expensed.

Non-controlling interest is that part of the net results and of the equity of a subsidiary attributable to interests which are not owned, directly or indirectly, by the Bank. Non-controlling interest forms a separate component of the Group's equity.

3. Summary of Significant Accounting Policies (Continued)

Goodwill. Goodwill is carried at cost less accumulated impairment losses, if any. The Group tests goodwill for impairment at least annually and whenever there are indications that goodwill may be impaired. Goodwill is allocated to the cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the business combination. Such units or group of units represent the lowest level at which the Group monitors goodwill, and are not larger than an operating segment. Gains or losses on disposal of an operation within a cash generating unit to which goodwill has been allocated include the carrying amount of goodwill associated with the disposed operation, generally measured on the basis of the relative values of the disposed operation and the portion of the cash-generating unit which is retained.

4. Adoption of New or Revised Standards and Interpretations

IFRS 16 "Leases". The Group has adopted IFRS 16 retrospectively from 1 January 2019 with certain simplifications and has not restated comparatives for the 2018 reporting period, as permitted under the transitional provisions of IFRS 16. The reclassifications and the adjustments arising from the new leasing requirements are therefore recognised as of 1 January 2019.

On adoption of IFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as operating leases under the principles of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments discounted using the lessee's incremental borrowing rates at 1 January 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 10%.

For leases previously classified as finance leases the Group recognised the carrying amount of the leased asset and lease liability as the carrying amount of the right-of-use asset and the lease liability at the date of initial application, respectively. The measurement principles of IFRS 16 are only applied after 1 January 2019.

The following table represents reconciliation of operating lease commitments reported as of 31 December 2018 and lease liability recognised at 1 January 2019:

(in thousands of Russian Roubles)	**1 January 2019**
Lease commitments at 31 December 2018	**331 106**
Adjustment of lease commitments:	
- short-term leases recognised on a straight-line basis as expense;	(2 909)
- low-value leases recognised on a straight-line basis as expense as a result of different treatment of extension and termination options;	(94 797)
Effect of discounting	(50 880)
Lease liability recognised at 1 January 2019	**182 520**
Right-of-use assets at 1 January 2019	**182 520**

The associated right-of use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the balance sheet as at 31 December 2018. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application.

In applying IFRS 16 for the first time, the Group has used the following practical expedients:

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics;
- reliance on previous assessments on whether leases are onerous in assessing whether the right-of-use asset is impaired);
- the accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases;
- the use of hindsight in determing the lease term where the contract contains options to extend or terminate the lease.

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

The Group has elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the group relied on its assessment made applying IAS 17 and IFRIC 4 “Determining whether an Arrangement contains a Lease”.

Other new standards and interpretations. The following amended standards and interpretations became effective for the Group from 1 January 2019, but did not have any material impact on the Group:

- IFRIC 23 “Uncertainty over Income Tax Treatments” (issued on 7 June 2017 and effective for annual periods beginning on or after 1 January 2019).
- Amendments to IAS 28 “Long-term Interests in Associates and Joint Ventures” (issued on 12 October 2017 and effective for annual periods beginning on or after 1 January 2019).
- Amendments to IAS 19 “Plan Amendment, Curtailment or Settlement” (issued on 7 February 2018 and effective for annual periods beginning on or after 1 January 2019).
- Annual Improvements to IFRSs 2015-2017 cycle – Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23 (issued on 12 December 2017 and effective for annual periods beginning on or after 1 January 2019).

There were no new standards or interpretations issued and not yet effective, information about which is not included in the last annual financial statements of the Group for the year ended 31 December 2018. The Group continues assessing the effects of new standards and interpretations that are not yet effective and will disclose their known or reasonably estimable effects as soon as they become available.

5. Critical Accounting Estimates and Judgements in Applying Accounting Policies

Estimates and judgements were consistent with those made in the annual financial statements for the year ended 31 December 2018:

ECL measurement. Measurement of ECLs is a significant estimate that involves determination of the same methodology, models and data inputs as at 31 December 2018. The following components have a significant impact on credit loss allowance: definition of default, SICR, probability of default (“PD”), exposure at default (“EAD”), and loss given default (“LGD”), as well as models of macro-economic scenarios. The Group regularly reviews and validates the models and inputs to the models to reduce any differences between expected credit loss estimates and actual credit loss experience.

The impact of forward-looking information on the PD, EAD and LGD vary by financial instrument. Forecasts of these economic variables (the "base economic scenario") are provided annually, except for any emerging significant external events which require adjustment of the assessment, and provide the best estimate of the economy over the next year. The impact of the relevant economic variables on the PD, EAD and LGD has been determined by performing statistical regression analysis to understand the impact that the changes in these variables historically had on the default rates and on the components of LGD and EAD.

In addition to the base economic scenario, the Group also provides other possible scenarios. Only reasonably probable rather than any possible scenarios are considered. The number of scenarios used is set based on the analysis of each major product type to ensure non-linearities are captured. For each scenario, an expectation coefficient is determined that reflects deviation of the expected level of defaults from that statistically calculated. The Group determines one of the scenarios as a basis and uses the expectation coefficient for this scenario to adjust PD which will be used in calculations. If different impacts of expected macroeconomic changes are identified with regard to different industries and, therefore, different portfolios, an individual expectation coefficient is set for each individual industry.

A 10% increase or decrease in PD estimates at 30 June 2019 would result in an increase or decrease in total expected credit loss allowances of RR 86 527 thousand. (31 December 2018: by RR 49 251 thousand).

A 10% increase or decrease in LGD estimates at 30 June 2019 would result in an increase or decrease in total expected credit loss allowances of RR 386 434 thousand (at 31 December 2018: RR 409 728 thousand).

6. Loans to Customers and Finance Lease Receivables

Gross carrying amount and credit loss allowance amount for loans to customers and finance lease receivables at AC by classes at 30 June 2019 and 31 December 2018 are disclosed in the table below:

(in thousands of Russian Roubles)	**30 June 2019**	**31 December 2018**
Loans to legal entities and finance lease receivables	40 275 987	39 288 845
Loans to individuals – mortgage loans	35 984 223	34 597 317
Loans to individuals – consumer loans and car loans	19 922 452	21 070 344
Total loans to customers and finance lease receivables before estimated allowance for credit losses	**96 182 662**	**94 956 506**
Expected credit loss allowance	(6 288 785)	(6 933 816)
Total loans to customers and finance lease receivables	**89 893 877**	**88 022 690**

The following tables disclose changes in credit loss allowance and gross carrying amount for loans to customers and finance lease receivables between the beginning and the end of the reporting period:

6. Loans to Customers and Finance Lease Receivables (Continued)

(in thousands of Russian Roubles)	Credit loss allowance Stage 1 (12-month ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit impaired)	Total	Gross carrying amount Stage 1 (12-month ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit impaired)	Total
Loans to legal entities and finance lease receivables								
At 1 January 2019	**303 925**	**354 854**	**3 283 501**	**3 942 280**	**30 152 764**	**2 448 493**	**6 687 588**	**39 288 845**
Movements with impact on credit loss allowance charge for the period:								
Issued during the period	109 260	57	26 102	**135 419**	12 861 061	10 981	56 148	**12 928 190**
Transfers:								
- to lifetime (from Stage 1 and Stage 3 to Stage 2)	(2 560)	2 560	-	**-**	(315 152)	315 152	-	**-**
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	(4 721)	(196 488)	201 209	**-**	(408 019)	(1 336 205)	1 744 224	**-**
- to 12-month ECL (from Stage 2 and Stage 3 to Stage 1)	4 723	(4 723)	-	**-**	122 397	(122 397)	-	**-**
Repaid during the period	(61 248)	(17 075)	(131 090)	**(209 413)**	(8 986 112)	(68 397)	(269 120)	**(9 323 629)**
Changes to ECL measurement model assumptions	(85 219)	66 962	714 948	**696 691**	-	-	-	**-**
Changes in accrued interest, exchange differences and other movements	-	(13 371)	224 268	**210 897**	-	(55 880)	8 571	**(47 309)**
Total movements with impact on credit loss allowance charge for the period	**(39 765)**	**(162 078)**	**1 035 437**	**833 594**	**3 274 175**	**(1 256 746)**	**(72 690)**	**1 944 739**
Movements without impact on credit loss allowance charge for the period:								
Write-offs	-	-	(538 202)	**(538 202)**	-	-	(538 202)	**(538 202)**
Assignment	-	-	(230 309)	**(230 309)**	-	-	(419 395)	**(419 395)**
Business combinations	-	-	(708 355)	**(708 355)**	-	-	(1 612 513)	**(1 612 513)**
At 30 June 2019	**264 160**	**192 776**	**2 842 072**	**3 299 008**	**33 426 939**	**1 191 747**	**5 657 301**	**40 275 987**
Recovery of loans previously written off	-	-	5 704	**5 704**				

6. Loans to Customers and Finance Lease Receivables (Continued)

	Credit loss allowance				Gross carrying amount			
(in thousands of Russian Roubles)	**Stage 1 (12-month ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit impaired)**	**Total**	**Stage 1 (12-month ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit impaired)**	**Total**
Mortgage loans								
At 1 January 2019	**244 938**	**35 137**	**755 668**	**1 035 743**	**32 720 186**	**661 960**	**1 215 171**	**34 597 317**
Movements with impact on credit loss allowance charge for the period:								
Issued during the period	33 399	-	-	**33 399**	4 461 654	-	-	**4 461 654**
Transfers:								
- to lifetime (from Stage 1 and Stage 3 to Stage 2)	(2 942)	23 873	(20 931)	**-**	(393 026)	427 804	(34 778)	**-**
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	(744)	(6 159)	6 903	**-**	(99 391)	(116 450)	215 841	**-**
- to 12-month ECL (from Stage 2 and Stage 3 to Stage 1)	14 870	(7 740)	(7 130)	**-**	148 003	(136 157)	(11 846)	**-**
Repaid during the period	(22 036)	(1 528)	(56 140)	**(79 704)**	(2 950 960)	(44 969)	(88 092)	**(3 084 021)**
Changes to ECL measurement model assumptions	23 243	5 953	126 293	**155 489**	-	-	-	**-**
Changes in accrued interest, exchange differences and other movements	-	214	11 043	**11 257**	-	3 863	18 080	**21 943**
Total movements with impact on credit loss allowance charge for the period	**45 790**	**14 613**	**60 038**	**120 441**	**1 166 280**	**134 091**	**99 205**	**1 399 576**
Movements without impact on credit loss allowance charge for the period:								
Write-offs	-	-	(2 559)	**(2 559)**	-	-	(2 559)	**(2 559)**
Assignment	-	-	(2 437)	**(2 437)**	-	-	(10 111)	**(10 111)**
At 30 June 2019	**290 728**	**49 750**	**810 710**	**1 151 188**	**33 886 466**	**796 051**	**1 301 706**	**35 984 223**
Recovery of loans previously written off	-	-	357	**357**				

6. Loans to Customers and Finance Lease Receivables (Continued)

	Credit loss allowance				Gross carrying amount			
(in thousands of Russian Roubles)	**Stage 1 (12-month ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit impaired)**	**Total**	**Stage 1 (12-month ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit impaired)**	**Total**
Consumer loans and car loans								
At 1 January 2019	**297 161**	**22 133**	**1 636 499**	**1 955 793**	**18 642 817**	**505 183**	**1 922 344**	**21 070 344**
Movements with impact on credit loss allowance charge for the period:								
Issued during the period	61 159	-	-	**61 159**	3 761 019	-	-	**3 761 019**
Transfers:								
- to lifetime (from Stage 1 and Stage 3 to Stage 2)	(6 252)	25 725	(19 473)	**-**	(366 923)	391 800	(24 877)	**-**
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	(1 376)	(7 393)	8 769	**-**	(77 760)	(113 482)	191 242	**-**
- to 12-month ECL (from Stage 2 and Stage 3 to Stage 1)	12 028	(5 048)	(6 980)	**-**	129 689	(121 050)	(8 639)	**-**
Repaid during the period	(70 001)	(2 169)	(144 747)	**(216 917)**	(4 484 104)	(132 440)	(184 368)	**(4 800 912)**
Changes to ECL measurement model assumptions	(32 981)	(12 498)	184 432	**138 953**				**-**
Changes in accrued interest, exchange differences and other movements	-	161	19 058	**19 219**	-	3 973	22 893	**26 866**
Total movements with impact on credit loss allowance charge for the period	**(37 423)**	**(1 222)**	**41 059**	**2 414**	**(1 038 079)**	**28 801**	**(3 749)**	**(1 013 027)**
Movements without impact on credit loss allowance charge for the period:								
Write-offs	-	-	(113 938)	**(113 938)**	-	-	(114 431)	**(114 431)**
Assignment	-	-	(5 680)	**(5 680)**	-	-	(20 434)	**(20 434)**
At 30 June 2019	**259 738**	**20 911**	**1 557 940**	**1 838 589**	**17 604 738**	**533 984**	**1 783 730**	**19 922 452**
Recovery of loans previously written off	-	-	15 527	**15 527**				

6. Loans to Customers and Finance Lease Receivables (Continued)

The tables below show changes in credit loss allowance and gross carrying amount for loans to customers and finance lease receivables during six months of 2018:

	Credit loss allowance				**Gross carrying amount**			
(in thousands of Russian Roubles)	**Stage 1 (12-month ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit impaired)**	**Total**	**Stage 1 (12-month ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit impaired)**	**Total**
Loans to legal entities and finance lease receivables								
At 1 January 2018	**792 550**	**170 150**	**2 013 188**	**2 975 888**	**31 538 841**	**1 404 080**	**3 242 813**	**36 185 734**
Movements with impact on credit loss allowance charge for the period:					-	-	-	**-**
Issued during the period	229 726	72 557	444 359	**746 642**	22 391 288	465 494	1 294 467	**24 151 249**
Transfers:	-	-	-	**-**	-	-	-	**-**
- to lifetime (from Stage 1 and Stage 3 to Stage 2)	(280 571)	284 618	(4 047)	**-**	(2 115 384)	2 123 230	(7 846)	**-**
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	(15 124)	(170 001)	185 125	**-**	(1 469 913)	(1 388 855)	2 858 768	**-**
- to 12-month ECL (from Stage 2 and Stage 3 to Stage 1)	451	-	(451)	**-**	854	-	(854)	**-**
Repaid during the period	(330 546)	(149)	(50 929)	**(381 624)**	(20 148 597)	(265 960)	(387 534)	**(20 802 091)**
Changes to ECL measurement model assumptions	(92 561)	(21 779)	1 167 742	**1 053 402**	-	-	-	**-**
Changes in accrued interest, exchange differences and other movements	-	19 458	181 454	**200 912**	-	110 504	378 911	**489 415**
Total movements with impact on credit loss allowance charge for the period	**(488 625)**	**184 704**	**1 923 253**	**1 619 332**	**(1 341 752)**	**1 044 413**	**4 135 912**	**3 838 573**
Movements without impact on credit loss allowance charge for the period:								
Write-offs	-	-	(670 649)	**(670 649)**	-	-	(670 649)	**(670 649)**
Assignment	-	-	(111 634)	**(111 634)**	(44 325)	-	(149 831)	**(194 156)**
Unwinding of discount (for Stage 3)	-	-	129 343	**129 343**	-	-	129 343	**129 343**
At 30 June 2018	**303 925**	**354 854**	**3 283 501**	**3 942 280**	**30 152 764**	**2 448 493**	**6 687 588**	**39 288 845**
Recovery of loans previously written off	**-**	**-**	**2 615**	**2 615**				

6. Loans to Customers and Finance Lease Receivables (Continued)

(in thousands of Russian Roubles)	Credit loss allowance Stage 1 (12-month ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit impaired)	Total	Gross carrying amount Stage 1 (12-month ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit impaired)	Total
Mortgage loans								
At 1 January 2018	**286 699**	**17 005**	**808 075**	**1 111 779**	**25 696 586**	**157 958**	**1 181 099**	**27 035 643**
Movements with impact on credit loss allowance charge for the period:								
Issued during the period	72 186	-	-	72 186	**6 469 975**	-	-	**6 469 975**
Transfers:								
- to lifetime (from Stage 1 and Stage 3 to Stage 2)	(7 854)	23 067	(15 213)	-	**(703 983)**	726 708	(22 725)	**-**
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	(1 002)	(7 963)	8 965	-	**(89 792)**	(69 332)	159 124	**-**
- to 12-month ECL (from Stage 2 and Stage 3 to Stage 1)	29 859	(1 409)	(28 450)	-	**58 115**	(15 616)	(42 499)	**-**
Repaid during the period	(30 529)	(528)	(55 536)	(86 593)	**(2 744 753)**	(27 442)	(94 117)	**(2 866 312)**
Changes to ECL measurement model assumptions	(104 664)	19 878	30 458	(54 328)	**-**	-	-	**-**
Changes in accrued interest, exchange differences and other movements	284	248	13 746	14 278	**12 561**	2 231	(7 440)	**7 352**
Total movements with impact on credit loss allowance charge for the period	**(41 720)**	**33 293**	**(46 030)**	**(54 457)**	**3 002 123**	**616 549**	**(7 657)**	**3 611 015**
Movements without impact on credit loss allowance charge for the period:								
Write-offs	-	-	(40 845)	(40 845)	-	-	(40 845)	(40 845)
Assignment	-	-	(766)	(766)	(673)	-	(8 358)	(9 031)
Unwinding of discount (for Stage 3)	-	-	27 634	27 634	-	-	27 634	27 634
At 30 June 2018	**244 979**	**50 298**	**748 068**	**1 043 345**	**28 698 036**	**774 507**	**1 151 873**	**30 624 416**
Recovery of loans previously written off	-	-	271	**271**				

6. Loans to Customers and Finance Lease Receivables (Continued)

	Credit loss allowance				Gross carrying amount			
(in thousands of Russian Roubles)	**Stage 1 (12-month ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit impaired)**	**Total**	**Stage 1 (12-month ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit impaired)**	**Total**
Consumer loans and car loans								
At 1 January 2018	**434 127**	**15 441**	**1 768 231**	**2 217 799**	**20 515 244**	**169 340**	**2 144 130**	**22 828 714**
Movements with impact on credit loss allowance charge for the period:								
Issued during the period	110 929	-	-	**110 929**	5 173 981	-	-	**5 173 981**
Transfers:								
- to lifetime (from Stage 1 and Stage 3 to Stage 2)	(13 988)	35 764	(21 776)	**-**	(635 926)	663 693	(27 767)	**-**
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	(4 004)	(8 465)	12 469	**-**	(175 885)	(87 936)	263 821	**-**
- to 12-month ECL (from Stage 2 and Stage 3 to Stage 1)	16 071	(1 629)	(14 442)	**-**	32 884	(14 816)	(18 068)	**-**
Repaid during the period	(110 743)	(2 260)	(118 892)	**(231 895)**	(5 268 196)	(121 519)	(173 623)	**(5 563 338)**
Changes to ECL measurement model assumptions	(71 996)	(11 482)	165 963	**82 485**	-	-	-	**-**
Changes in accrued interest, exchange differences and other movements	(284)	314	30 391	**30 421**	(12 561)	4 002	(16 889)	**(25 448)**
Total movements with impact on credit loss allowance charge for the period	**(74 015)**	**12 242**	**53 713**	**(8 060)**	**(885 703)**	**443 424**	**27 474**	**(414 805)**
Movements without impact on credit loss allowance charge for the period:								
Write-offs	-	-	(164 799)	**(164 799)**	-	-	(167 998)	**(167 998)**
Assignment	-	-	(231)	**(231)**	(2 796)	-	(2 031)	**(4 827)**
Unwinding of discount (for Stage 3)	-	-	56 609	**56 609**	-	-	56 609	**56 609**
At 30 June 2018	**360 112**	**27 683**	**1 713 523**	**2 101 318**	**19 626 745**	**612 764**	**2 058 184**	**22 297 693**
Recovery of loans previously written off	-	-	17 167	**17 167**				

6. Loans to Customers and Finance Lease Receivables (Continued)

The estimated credit loss allowance differs from the amount presented in the condensed consolidated interim statement of profit or loss and other comprehensive income, due to recovery of amounts previously written off as uncollectible. The amount of the recovery was credited directly to the provisions line in profit or loss for the reporting period.

Main movements disclosed above:

- Transfers between Stage 1, 2 and 3 due to balances experiencing significant increases (or decreases) of credit risk or becoming credit-impaired in the period, and the consequent "step up" (or "step down") between 12-month and Lifetime ECL;
- Additional allowances for new financial instruments recognised during the period, as well as releases for financial instruments derecognised in the period;
- Impact on the measurement of ECL due to changes to model assumptions, including changes in PDs, EADs and LGDs in the period, arising from update of inputs to ECL models;
- Foreign exchange translations of assets denominated in foreign currencies and other movements;
- Write-offs of allowances related to assets that were written off during the period.

The credit quality of the loans carried at amortised cost is as follows at 30 June 2019:

(in thousands of Russian Roubles)	**Stage 1 (12-month ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit impaired)**	**Total**
Corporate loans				
- Excellent	15 624 573	-	-	**15 624 573**
- Good	17 643 072	255 338	-	**17 898 410**
- Satisfactory	-	936 409	-	**936 409**
- Special monitoring	-	-	2 064 998	**2 064 998**
- Default	-	-	3 589 798	**3 589 798**
Gross carrying amount	**33 267 645**	**1 191 747**	**5 654 796**	**40 114 188**
Credit loss allowance	(262 861)	(192 776)	(2 840 952)	**(3 296 589)**
Carrying amount	**33 004 784**	**998 971**	**2 813 844**	**36 817 599**

(in thousands of Russian Roubles)	**Stage 1 (12-month ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit impaired)**	**Total**
Mortgage loans				
- Excellent	593 798	-	-	**593 798**
- Good	33 292 668	553 415	-	**33 846 083**
- Satisfactory	-	242 636	-	**242 636**
- Special monitoring	-	-	252 791	**252 791**
- Default	-	-	1 048 915	**1 048 915**
Gross carrying amount	**33 886 466**	**796 051**	**1 301 706**	**35 984 223**
Credit loss allowance	(290 728)	(49 750)	(810 710)	**(1 151 188)**
Carrying amount	**33 595 738**	**746 301**	**490 996**	**34 833 035**

6. Loans to Customers and Finance Lease Receivables (Continued)

(in thousands of Russian Roubles)	Stage 1 (12-month ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit impaired)	Total
Consumer loans and car loans				
- Excellent	282 655	-	-	**282 655**
- Good	17 322 083	200 447	-	**17 522 530**
- Satisfactory	-	333 537	-	**333 537**
- Special monitoring	-	-	128 285	**128 285**
- Default	-	-	1 655 445	**1 655 445**
Gross carrying amount	**17 604 738**	**533 984**	**1 783 730**	**19 922 452**
Credit loss allowance	(259 738)	(20 911)	(1 557 940)	**(1 838 589)**
Carrying amount	**17 345 000**	**513 073**	**225 790**	**18 083 863**

The credit quality of the loans carried at amortised cost is as follows at 31 December 2018:

(in thousands of Russian Roubles)	Stage 1 (12-month ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit impaired)	Total
Corporate loans				
- Excellent	11 937 191	-	-	**11 937 191**
- Good	18 044 757	258 437	-	**18 303 194**
- Satisfactory	-	2 190 054	-	**2 190 054**
- Special monitoring	-	-	3 581 336	**3 581 336**
- Default	-	-	3 104 751	**3 104 751**
Gross carrying amount	**29 981 948**	**2 448 491**	**6 686 087**	**39 116 526**
Credit loss allowance	(302 497)	(354 854)	(3 282 829)	**(3 940 180)**
Carrying amount	**29 679 451**	**2 093 637**	**3 403 258**	**35 176 346**

(in thousands of Russian Roubles)	Stage 1 (12-month ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit impaired)	Total
Mortgage loans				
- Excellent	675 353	-	-	675 353
- Good	32 044 832	398 003	-	32 442 835
- Satisfactory	-	263 957	-	263 957
- Special monitoring	-	-	182 945	182 945
- Default	-	-	1 032 227	1 032 227
Gross carrying amount	**32 720 185**	**661 960**	**1 215 172**	**34 597 317**
Credit loss allowance	(244 938)	(35 137)	(755 668)	**(1 035 743)**
Carrying amount	**32 475 247**	**626 823**	**459 504**	**33 561 574**

6. Loans to Customers and Finance Lease Receivables (Continued)

(in thousands of Russian Roubles)	Stage 1 (12-month ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit impaired)	Total
Consumer loans and car loans				
- Excellent	335 972	-	-	335 972
- Good	18 306 845	236 896	-	18 543 741
- Satisfactory	-	268 286	-	268 286
- Special monitoring	-	-	174 011	174 011
- Default	-	-	1 748 334	1 748 334
Gross carrying amount	**18 642 817**	**505 182**	**1 922 345**	**21 070 344**
Credit loss allowance	(297 161)	(22 133)	(1 636 499)	**(1 955 793)**
Carrying amount	**18 345 656**	**483 049**	**285 846**	**19 114 551**

The credit risk classification by classes used in the tables above is based on the borrowers' credit quality scale developed by the Group.

Information about the assigned rights of claim on loans and financial leases is presented below:

(in thousands of Russian Roubles)	Six months ended 30 June 2019	Six months ended 30 June 2018
Assigned balance rights of claim for loans to customers and finance leases	448 672	185 512
Provision for impairment of assigned claims	(238 426)	(110 737)
Sales price	210 246	74 775
Net result from assignment of balance rights of claim	**-**	**-**
Assigned rights of claim previously written off as uncollectable	1 268	-
Sales price	400	-
Net result of assignment of the right of claim previously written off as uncollectible	**400**	**-**

Net result from assignment of the right of claim on loans previously written off as uncollectible was recognised in the condensed consolidated interim statement of profit or loss and other comprehensive income within other operating income. No right of recourse is provided in the assignment agreements.

Economic sector risk concentrations within the loan and lease portfolio are as follows:

	30 June 2019		31 December 2018	
(in thousands of Russian Roubles)	Amount	%	Amount	%
Individuals (total), incl.	55 906 675	58.1	55 667 661	58.6
- mortgage loans	*35 984 223*	*37.4*	34 597 317	36.4
- consumer loans	*18 699 624*	*19.4*	19 631 471	20.7
- car loans	*1 222 828*	*1.3*	1 438 873	1.5
Agriculture	15 321 100	15.9	13 469 586	14.2
Trade	9 327 666	9.7	9 755 316	10.3
Manufacturing	6 408 044	6.7	6 717 206	7.1
Transport	3 936 329	4.1	4 300 520	4.5
Construction	1 958 249	2.0	1 658 873	1.7
Other	3 324 599	3.5	3 387 344	3.6
Total loans to customers and finance lease receivables before provision for impairment	**96 182 662**	**100.0**	**94 956 506**	**100.0**

6. Loans to Customers and Finance Lease Receivables (Continued)

At 30 June 2019, the Group had 10 major borrowers with aggregate loan balance amounting to RR3 7 863 652 thousand, or 8.2% of the loan portfolio and finance lease receivables (31 December 2018: RR 8 987 138 thousand, or 9.5%).

The carrying amount of loans and advances to customers approximates their fair value at 30 June 2019 and December 2018. (Note 19). Information on related party balances is disclosed in Note 20.

7. Other Assets

(in thousands of Russian Roubles)	30 June 2019	31 December 2018
Inventories	537 904	42 247
Repossessed collateral	228 320	217 582
Prepaid taxes and recoverable taxes (other than income tax)	55 155	56 260
Deferred prepaid expenses	25 355	29 290
Prepayments to suppliers of equipment for leasing purposes	22 834	13 364
Equipment purchased for leasing purposes	6 080	4 173
Other	98 509	23 912
Total other assets	**974 157**	**386 828**

Inventories include, but are not limited to property received from a business combination merger with Joint-Stock Company “Ptitsefabrika Belokalitvinskaya”. Business combinations are disclosed in Note 21.

Repossessed collateral represents real estate and other assets acquired by the Group in the course settlement of overdue loans. The Group expects to dispose of the assets in the foreseeable future. The assets do not meet the definition of non-current assets held for sale, and are classified as inventories in accordance with IAS 2 “Inventories”. The assets were initially recognised at fair value when acquired.

8. Due to Other Banks

The principal conditions of these loans are as follows:

(in thousands of Russian Roubles)	Currency	Rate of borrowing	Original issue date	Repayable in tranches by:	Balance at 30 June 2019	Balance at 31 December 2018
Erste Group Bank	US dollars	4.89%	April 2019	April 2020	1 145 416	-
Total due to other banks	**-**		**-**	**-**	**1 145 416**	**-**

The carrying amount of due to other banks approximates their fair value at 30 June 2019 (Note 19). Information on related party balances is disclosed in Note 20.

9. Customer Accounts

(in thousands of Russian Roubles)	30 June 2019	31 December 2018
State and public organisations		
- Current/settlement accounts	386 966	200 960
- Term deposits	26 967	112 698
Other legal entities		
- Current/settlement accounts	11 925 321	16 338 748
- Term deposits	2 405 415	2 591 920
Individuals		
- Current/demand accounts	8 134 517	9 337 418
- Term deposits	66 710 279	66 656 448
Total customer accounts	**89 589 465**	**95 238 192**

As of 30 June 2019, total aggregate balance of 10 largest clients of the Group was RR 2 161 810 thousand, or 2.4% of customer accounts (31 December 2018: RR 2 311 721 thousand, or 2.4% of customer accounts).

The carrying value of each class of customer accounts approximates their fair value at 30 June 2019, 30 June 2018 and 31 December 2018 (Note 19). Information on related party balances is disclosed in Note 20.

10. Debt Securities in Issue

(in thousands of Russian Roubles)	30 June 2019	31 December 2018
Bonds	1 026 047	1 012 092
Promissory notes	853 129	313 004
Total debt securities in issue	**1 879 176**	**1 325 096**

Each bond has a par value of RR 1,000 and an embedded put option at par value of the bond exercisable at the moment of coupon income change.

Issue	CIN-01P03	CIN-01P04	CIN-01P05	CINBO-BO10
Par value, RR	1 000	1 000	1 000	1 000
Number	226 633	750 000	600 000	3 000 000
Initial placement date	October 2017	April 2018	September 2018	May 2014
Maturity date	January 2019	October 2021	March 2022	May 2019
Next offer date	-	October 2019	September 2019	-
at 30 June 2019				
Number of bonds in issue	-	689 579	412 075	-
- including purchased by the subsidiary	-	868	116	-
Coupon rate, %	-	8.50	8.25	-
at 31 December 2018				
Number of bonds in issue	223 688	599 406	206 511	57 976
- including purchased by the subsidiary	-	410	-	5 960
Coupon rate, %	9.80	8.25	8.25	8.25

As of 30 June 2019, the Group issued Russian Roubles denominated promissory notes with a par value of RR 840 100 thousand, at an interest rate of 6.8%-7.8% and contractual maturity date in July 2019 - January 2020.

10. Debt Securities in Issue (Continued)

At 31 December 2018, the Group issued Russian Roubles denominated promissory notes with a par value of RR 245 200 thousand, at an interest rate of 6.7%-7.1% and contractual maturity date in January 2019 - November 2020, and an interest-free, US dollars denominated promissory note with a par value of USD 867 thousand and contractual maturity date in March 2019.

The carrying amount of debt securities in issue approximates their fair value at 30 June 2019 and 31 December 2018 (Note 19). Information on related party transactions is disclosed in Note 20.

11. Borrowings from International Financial Institutions

The principal conditions of these loans are as follows:

(in thousands of Russian Roubles)	Currency	Rate of borrowing	Original issue date	Repayable in tranches by:	Balance at 30 June 2019	Balance at 31 December 2018
Black Sea Trade and Development Bank (Greece)	Russian Roubles	10.15%-10.56%	June 2017	March 2022	1 394 957	1 090 301
Eurasian Development Bank (EDB)	Russian Roubles	9.1%	May 2018	July 2019	217 552	630 515
Micro Small & Medium Enteprises	Russian Roubles	10.0%	April 2019	March 2022	285 446	-
Symbiotics	Russian Roubles	9.5%	February 2019	May 2021	337 823	-
Total borrowings from international financial institutions	-		-	-	**2 235 778**	**1 720 816**

The carrying amount of borrowings from international financial institutions approximates their fair value at 30 June 2019 and 31 December 2018 (Note 19).

12. Interest Income and Expense

(in thousands of Russian Roubles)	Six months ended 30 June 2019	Six months ended 30 June 2018
Interest income		
Loans to individuals	3 108 630	3 071 302
Corporate loans	2 083 051	2 048 228
Short-term deposits with the Central Bank of the Russian Federation, amounts due from and accounts with other banks	143 828	253 801
Finance income arising from leasing	14 536	20 290
Total interest income calculated using the effective interest method	**5 350 045**	**5 393 621**
Interest expense		
Term deposits and accounts of individuals	(2 192 475)	(2 343 367)
Term deposits and accounts of legal entities	(119 061)	(113 243)
Borrowing from international financial institutions, subordinated debt and term placements of other banks	(121 245)	(56 087)
Bonds in issue	(41 499)	(34 950)
Promissory notes issued	(17 263)	(15 430)
Lease liabilities	(9 126)	-
Due to the Central Bank of the Russian Federation	(8 786)	-
Total interest expense	**(2 509 455)**	**(2 563 077)**
Net interest income	**2 840 590**	**2 830 544**

12. Interest Income and Expense (Continued)

(in thousands of Russian Roubles)	Three months ended 30 June 2019	Three months ended 30 June 2018
Interest income		
Loans to individuals	1 555 926	1 519 195
Corporate loans	1 026 216	979 345
Short-term deposits with the Central Bank of the Russian Federation, amounts due from and accounts with other banks	42 246	102 014
Finance income arising from leasing	7 402	8 382
Total interest income calculated using the effective interest method	**2 631 790**	**2 608 936**
Interest expense		
Term deposits and accounts of individuals	(1 116 892)	(1 167 373)
Term deposits and accounts of legal entities	(61 083)	(60 450)
Borrowing from international financial institutions, subordinated debt and term placements of other banks	(76 668)	(29 888)
Bonds in issue	(22 560)	(18 652)
Promissory notes issued	(11 406)	(7 874)
Lease liabilities	(5 433)	-
Due to the Central Bank of the Russian Federation	(4 965)	-
Total interest expense	**(1 299 007)**	**(1 284 237)**
Net interest income	**1 332 783**	**1 324 699**

13. Administrative and Other Operating Expenses

(in thousands of Russian Roubles)	Six months ended 30 June 2019	Six months ended 30 June 2018
Salary	782 295	755 883
Maintenance and lease of premises and equipment	138 357	144 005
Consulting and information services	108 495	88 606
Taxes other than on income	72 652	58 536
Depreciation of premises and equipment	60 445	62 741
Telecommunications and postal charges	59 490	47 073
Benefits paid to the Board of Directors	57 687	58 133
Repair of premises and equipment	49 911	23 334
Amortisation of intangible assets	35 472	18 161
Advertising and marketing services	19 683	12 096
Other staff costs	18 418	15 134
Security	16 123	14 819
Insurance	13 328	13 982
Stationary	11 683	10 702
Business trip and entertaining costs	8 151	7 859
Maintenance and repair of motor vehicles	6 232	7 881
Other	150 104	35 709
Total administrative and other operating expenses	**1 608 526**	**1 374 654**

13. Administrative and Other Operating Expenses (Continued)

(in thousands of Russian Roubles)	**Three months ended 30 June 2019**	**Three months ended 30 June 2018**
Salary	399 126	379 346
Maintenance and lease of premises and equipment	78 028	72 224
Consulting and information services	38 801	50 843
Taxes other than on income	40 076	30 950
Depreciation of premises and equipment	33 118	34 232
Telecommunications and postal charges	37 758	26 682
Benefits paid to the Board of Directors	55 600	56 828
Repair of premises and equipment	28 208	16 785
Amortisation of intangible assets	17 884	8 744
Advertising and marketing services	11 918	6 971
Other staff costs	8 707	7 933
Security	7 619	7 679
Insurance	3 901	6 736
Stationary	5 119	4 941
Business trip and entertaining costs	4 399	4 072
Maintenance and repair of motor vehicles	3 275	4 327
Other	122 051	31 640
Total administrative and other operating expenses	**895 588**	**750 933**

14. Dividends Payable

	30 June 2019		**30 June 2018**	
(in thousands of Russian Roubles)	**Ordinary shares**	**Preference shares**	**Ordinary shares**	**Preference shares**
Dividends declared during the period	603 641	18 099	603 641	18 099
Dividends paid during the period	-	-	-	-
Other movements	-	-	-	-
Dividends payable	**603 641**	**18 099**	**603 641**	**18 099**

In June 2019, the Bank declared dividends on preference shares for 2018 with a par value of RR 1 000 – RR 200 per share, on preference shares with a par value of RR 4 – RR 0.8 per share and on ordinary shares – RR 7.16 per share. Most of the dividends for 2018 were paid in August 2019.

In June 2018, the Bank declared dividends for 2017 on preference shares with a par value of RR 1 000 – RR 200 per share, on preference shares with a par value of RR 4 – RR 0.8 per share and on ordinary shares – RR 7.16 per share. Most of the dividends for 2017 were paid in July 2018.

Dividends were declared for payment in Russian Roubles. A part of declared dividends was not claimed by shareholders. Dividends not claimed within three years are returned to retained earnings.

15. Financial Risk Management

The Group manages the whole range of risks it faces in the course of its operations. The focus is placed on the following risks: credit, market (including currency, equity and interest rate risks), liquidity, operational, strategic, legal, reputational, macroeconomic and political risks.

The risk management purpose, policies and procedures and assessment methods applied by the Group during the six months ended 30 June 2019 correspond to the purposes, policies and procedures applied in 2018.

15. Financial Risk Management (Continued)

Currency risk. The Group is exposed to currency risk associated with losses resulting from fluctuations of market values of open positions in different currencies. Exposure to currency risk is evaluated on the basis of VaR. The size of the currency position is regulated through matching assets and liabilities balances in foreign currencies. The Group seeks to decrease the open currency position, thereby decreasing its exposure to currency risk. The Bank manages its currency position by using currency swaps and forwards in the interbank market and other transactions. The Group is not exposed to the risks associated with changes in precious metals' prices due to the absence of such transactions.

The table below summarises the Group's exposure to currency risk at 30 June 2019 and 31 December 2018:

	At 30 June 2019				**At 31 December 2018**			
In thousands of Russian Roubles	**Monetary financial assets**	**Monetary financial liabilities**	**Foreign exchange spot contracts**	**Net position**	**Monetary financial assets**	**Monetary financial liabilities**	**Foreign exchange spot contracts**	**Net position**
Russian Roubles	99 994 053	(91 204 439)	-	**8 789 614**	103 719 579	(94 814 679)	438 774	**9 343 674**
US Dollars	3 233 577	(3 164 640)	-	**68 937**	2 937 653	(2 400 087)	(459 316)	**78 250**
Euros	1 014 925	(907 130)	-	**107 795**	1 226 277	(1 240 901)	21 460	**6 836**
Other	46 503	(16 309)	-	**30 194**	47 503	(19 318)	2 562	**30 747**
Total	**104 289 058**	**(95 292 518)**	**-**	**8 996 540**	**107 931 012**	**(98 474 985)**	**3 480**	**9 459 507**

The above analysis includes only monetary assets and liabilities. The Group's management believes that investments in equities and non-monetary assets will not give rise to any material currency risk.

15. Financial Risk Management (Continued)

Liquidity risk. The maturity analysis of assets and liabilities at 30 June 2019 is as follows:

(in thousands of Russian Roubles)	Demand and less than 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	From 12 months to 5 years	Over 5 years	No defined maturity	Total
Assets								
Cash and cash equivalents	9 318 252	-	-	-	-	-	-	**9 318 252**
Mandatory cash balances with the Central Bank of Russian Federation	694 027	-	-	-	-	-	-	**694 027**
Balances with the Central Bank of the Russian Federation	3 600 000	-	-	-	-	-	-	**3 600 000**
Loans to customers and finance lease receivables	1 982 246	4 401 892	9 032 001	13 089 953	35 319 262	26 068 523	-	**89 893 877**
Investment in associate	-	-	-	-	-	-	317 761	**317 761**
Investment properties	-	-	-	-	382 246	-	156 625	**538 871**
Premises and equipment and intangible assets	-	-	-	-	-	-	3 718 076	**3 718 076**
Right-of-use assets	1 409	-	-	45 240	101 405	7 924	-	**155 978**
Other financial assets	592 709	82 481	2 757	-	98 939	-	6 016	**782 902**
Other assets	43 907	38 820	596 522	63 615	231 293	-	-	**974 157**
Current income tax prepayment	-	4 098	-	-	-	-	-	**4 098**
Total assets	**16 232 550**	**4 527 291**	**9 631 280**	**13 198 808**	**36 133 145**	**26 076 447**	**4 198 478**	**109 997 999**
Liabilities								
Due to the Central Bank of the Russian Federation	351	13 000	26 000	111 535	52 963	-	-	**203 849**
Due to other banks	-	-	11 407	1 134 009	-	-	-	**1 145 416**
Customer accounts	1 660 836	1 823 488	1 768 304	8 081 933	76 254 904	-	-	**89 589 465**
Debt securities in issue	135 496	244 301	1 232 094	267 285	-	-	-	**1 879 176**
Borrowings from international financial institutions	217 552	22 539	401 466	391 817	1 202 404	-	-	**2 235 778**
Other financial liabilities	116 183	26 277	9 237	64 594	22 543	-	-	**238 834**
Other liabilities	145 065	187 821	109	19 444	49 659	-	-	**402 098**
Lease liability	1 435	-	-	46 112	103 417	8 072	-	**159 036**
Dividends payable	621 740	-	-	-	-	-	-	**621 740**
Deferred income tax liability	-	-	-	-	-	-	278 171	**278 171**
Total liabilities	**2 898 658**	**2 317 426**	**3 448 617**	**10 116 729**	**77 685 890**	**8 072**	**278 171**	**96 753 563**
Net liquidity gap at 30 June 2019	**13 333 892**	**2 209 865**	**6 182 663**	**3 082 079**	**(41 552 745)**	**26 068 375**	**3 920 307**	**13 244 436**
Cumulative liquidity gap at 30 June 2019	**13 333 892**	**15 543 757**	**21 726 420**	**24 808 499**	**(16 744 246)**	**9 324 129**	**13 244 436**	**-**

15. Financial Risk Management (Continued)

The above and below analyses are based on expected maturities. Therefore, a part of customer accounts was categorised as later maturities because diversification of customer accounts by size and type of balances and constant inflow of new balances shows that customer accounts represent a long-term and stable source of finance. The expected negative liquidity gap in the table above is planned to be covered by continuous attracting of customer accounts. The Bank also has open credit lines with the Bank of Russia that can be used in case of the need.

The maturity analysis at 31 December 2018 is as follows:

(in thousands of Russian Roubles)	**Demand and less than 1 month**	**From 1 to 3 months**	**From 3 to 6 months**	**From 6 to 12 months**	**From 12 months to 5 years**	**Over 5 years**	**No defined maturity**	**Total**
Assets								
Cash and cash equivalents	8 712 015	-	-	-	-	-	-	**8 712 015**
Mandatory cash balances with the Central Bank of Russian Federation	740 650	-	-	-	-	-	-	**740 650**
Balances with the Central Bank of the Russian Federation	9 708 809	-	-	-	-	-	-	**9 708 809**
Loans to customers and finance lease receivables	1 747 595	4 324 415	4 766 415	14 368 776	38 022 587	24 792 902		**88 022 690**
Investment in associate	-	-	-	-	-	-	293 363	**293 363**
Investment properties	-	-	-	-	353 745	-	156 626	**510 371**
Premises and equipment and intangible assets					-		2 804 609	**2 804 609**
Other financial assets	495 509	217 482	3 244	-	28 096	-	5 997	**750 328**
Other assets	42 116	337 960	7 414	15 201	220 527	-	-	**623 218**
Total assets	**21 446 694**	**4 879 857**	**4 777 073**	**14 383 977**	**38 624 955**	**24 792 902**	**3 260 595**	**112 166 053**
Liabilities								
Customer accounts	269 277	9 436 100	17 573 620	6 108 631	61 850 564	**-**	**-**	**95 238 192**
Debt securities in issue	250 009	297 451	767 510	10 126	-	-	-	**1 325 096**
Borrowings from international financial institutions	-	2 640	624 356	508 528	585 292	-	-	**1 720 816**
Other financial liabilities	56 120	15 059	5 359	76 622	37 721	-	-	**190 881**
Deferred income tax liability	-	-	-	-	-	-	296 018	**296 018**
Other liabilities	31 480	161 569	84	33 243	41 028	-	-	**267 404**
Total liabilities	**606 886**	**9 912 819**	**18 970 929**	**6 737 150**	**62 514 605**	**-**	**296 018**	**99 038 407**
Net liquidity gap at 31 December 2018	**20 839 808**	**(5 032 962)**	**(14 193 856)**	**7 646 827**	**(23 889 650)**	**24 792 902**	**2 964 577**	**13 127 646**
Cumulative liquidity gap at 31 December 2018	**20 839 808**	**15 806 846**	**1 612 990**	**9 259 817**	**(14 629 833)**	**10 163 069**	**13 127 646**	**-**

16. Segment Analysis

Operating segments are components that engage in business activities that may earn revenues or incur expenses, whose operating results are regularly reviewed by the chief operating decision maker (CODM), and for which discrete financial information is available. The CODM is the person - or group of persons - who allocates resources and assesses the performance for the entity. The functions of the chief operating decision maker (CODM) are performed by the Executive Board of the Bank.

(a) Description of products and services from which each reportable segment derives its revenue

The Group is organised on the basis of the following main business segments:

- Lending – representing retail and corporate lending services, leasing, factoring and bank guarantees issued.
- Treasury – representing financial instruments trading, borrowings on domestic and international markets, management of liquidity and foreign currency position of the Group, settlement and current accounts, corporate deposits.
- Retail banking – representing private banking services to individuals, settlement accounts, deposits, investment savings products, custody, credit and debit cards, municipal payments. This segment does not include loans to individuals other than lending through plastic cards.

(b) Factors that management used to identify the reportable segments

The Group's segments are strategic business units that focus on different customers. They are managed separately because each business unit requires different marketing strategies and service level.

The Group has identified the following operating segments: lending activities, leasing, retail banking, securities, treasury, correspondent and current accounts, and plastic cards. Lending and leasing have been aggregated into one reportable segment – lending. Correspondent and current accounts, securities, and treasury have been aggregated into one reportable segment - treasury. Retail banking and plastic cards have been aggregated into one segment - retail banking.

In addition, the Bank's Management Board reviews the major categories of general and administrative expenses, however, these expenses are not allocated to the above segments and they are not taken into consideration in allocating resources to segments and assessing their performance.

(c) Measurement of operating segment profit or loss, assets and liabilities

The Executive Board reviews financial information prepared based on Russian Accounting Standards adjusted to meet the requirements of internal reporting. Such financial information differs in certain aspects from International Financial Reporting Standards:

- for operating decisions, the latest non-consolidated statements not adjusted for subsequent events is used;
- income taxes are not allocated to segments;
- loan provisions are recognised based on management judgement and availability of information, rather than based on the ECL model prescribed in IFRS 9;
- commission income related to lending and commission expenses on borrowings are recognised immediately rather than deferred using the effective interest method;
- finance income arising from leasing is recognised as services provided, advances from lessees are recognised as income pro rata during the period of the leasing agreement;
- funds are generally reallocated between segments ignoring internal interest rates.

The Executive Board evaluates performance of each segment based on profit before tax.

16. Segment Analysis (Continued)

(d) Information about reportable segment profit or loss, assets and liabilities

Segment information for the reportable segments for six months ended 30 June 2019 is set out below:

(in thousands of Russian Roubles)	Lending and leasing	Treasury	Retail banking	Total
Six months ended 30 June 2019				
External revenues:				
Interest income	5 047 704	156 651	40 724	**5 245 079**
Fee and commission income and other operating income	184 862	734 705	418 461	**1 338 028**
Total income	**5 232 566**	**891 356**	**459 185**	**6 583 107**
Interest expense	-	(309 937)	(2 249 812)	**(2 559 749)**
Impairment provision	441 675	5 664	(27 294)	**420 045**
Fee and commission expenses and other expenses	(513 224)	(50 484)	(161 489)	**(725 197)**
Segment result	**5 161 017**	**536 599**	**(1 979 410)**	**3 718 206**
Total segment assets	**91 742 520**	**3 754 897**	**-**	**95 497 417**
Total segment liabilities	**-**	**(15 671 368)**	**(79 510 660)**	**(95 182 028)**

Segment information for the reportable segments for six months ended 30 June 2018 is set out below:

(in thousands of Russian Roubles)	Lending and leasing	Treasury	Retail banking	Total
Six months ended 30 June 2018				
External revenues:				
Interest income	5 082 193	253 801	44 617	**5 380 611**
Fee and commission income and other operating income	220 117	348 013	373 306	**941 436**
Total income	**5 302 310**	**601 814**	**417 923**	**6 322 047**
Interest expense	-	(219 736)	(2 381 589)	**(2 601 325)**
Impairment provision	(614 494)	8 342	(674)	**(606 826)**
Fee and commission expenses and other expenses	(121 715)	(41 904)	(141 256)	**(304 875)**
Segment result	**4 566 101**	**348 516**	**(2 105 596)**	**2 809 021**
Total segment assets	**85 622 880**	**5 229 753**	**-**	**90 852 633**
Total segment liabilities	**-**	**(14 363 541)**	**(76 977 087)**	**(91 340 628)**

16. Segment Analysis (Continued)

(e) Reconciliation of reportable segment profit or loss, assets and liabilities

(in thousands of Russian Roubles)	**Six months ended 30 June 2019**	**Six months ended 30 June 2018**
Total reportable segment income	**6 583 107**	**6 322 047**
Effective interest method application	-	(6 923)
Fair value remeasurement of financial assets	(15 125)	7 514
Recognition of additional interest income on impaired loans	(1 190)	(143 787)
Foreign exchange translation (losses less gains)/ Gains less losses	43 251	(51 983)
Gains less losses / (Losses less gains) from conversion operations on the interbank market	(43 493)	22 851
Consolidation effect	27 183	7 080
Joint-Stock Company “Ptitsefabrika Belokalitvinskaya”	47 374	-
Other	(5 769)	(49 159)
Total consolidated revenues	**6 635 338**	**6 107 640**

Total consolidated revenues comprise interest income, fee and commission income and other income.

(in thousands of Russian Roubles)	**Six months ended 30 June 2019**	**Six months ended 30 June 2018**
Total reportable segment result	**3 718 206**	**2 809 021**
Administrative expenses	(1 719 082)	(1 517 621)
Effective interest method application	-	(35 062)
Fair value remeasurement of financial assets and liabilities	(3 391)	10 821
Recognition of additional interest income on impaired loans	(1 129)	(125 747)
Remeasurement of provision for impairment	(1 204 857)	(71 555)
Consolidation effect	25 104	(761)
Joint-Stock Company “Ptitsefabrika Belokalitvinskaya”	329 193	-
Events after the end of the reporting period	(171 582)	(128 401)
Amortisation remeasurement	14 534	22 925
Other	13 029	(15 594)
Profit before tax	**1 000 025**	**948 026**

(in thousands of Russian Roubles)	**Three months ended 30 June 2019**	**Three months ended 30 June 2018**
Total reportable segment income	**3 147 315**	**3 174 207**
Effective interest method application	-	(5 185)
Fair value remeasurement of financial assets	19	5 179
Recognition of additional interest income on impaired loans	3 386	(141 261)
Foreign exchange translation gains less losses / (Losses less gains)	7 161	(57 718)
(Losses less gains) / Gains less losses from conversion operations on interbank market	(10 465)	36 805
Consolidation effect	(1 678)	(16 292)
Joint-Stock Company “Ptitsefabrika Belokalitvinskaya”	47 374	-
Other	21 519	(15 111)
Total consolidated revenues	**3 214 631**	**2 980 624**

16. Segment Analysis (Continued)

(in thousands of Russian Roubles)	**Three months ended 30 June 2019**	**Three months ended 30 June 2018**
Total reportable segment result	**1 638 822**	**1 283 851**
Administrative expenses	(911 767)	(880 129)
Effective interest method application	-	442
Fair value remeasurement of financial assets and liabilities	(2 451)	8 112
Recognition of additional interest income on impaired loans	2 977	(131 251)
Remeasurement of provision for impairment	(704 047)	277 487
Consolidation effect	(3 647)	(22 180)
Joint-Stock Company “Ptitsefabrika Belokalitvinskaya”	329 193	-
Events after the end of the reporting period	(11 135)	(12 183)
Amortisation remeasurement	6 761	11 630
Other	(52 419)	(29 300)
Profit before tax	**292 287**	**506 479**

(in thousands of Russian Roubles)	**30 June 2019**	**31 December 2018**
Total reportable segment assets	**95 497 417**	**96 357 948**
Unallocated assets	15 936 929	14 182 933
Remeasurement of provision for impairment	(447 709)	635 625
Attributing interest income on impaired loans	-	1 146 165
Application of effective interest rate method to fee and commission income	(51 073)	(246 777)
Finance lease adjustment	(11 664)	(23 344)
Consolidation effect	254 602	241 337
Joint-Stock Company “Ptitsefabrika Belokalitvinskaya”	(1 192 725)	-
Other	12 222	(127 834)
Total consolidated assets	**109 997 999**	**112 166 053**

(in thousands of Russian Roubles)	**30 June 2019**	**31 December 2018**
Total reportable segment liabilities	**95 182 028**	**97 727 646**
Unallocated liabilities	1 757 801	1 482 233
Application of effective interest rate method to fee and commission expenses	(18 197)	(15 215)
Consolidation effect	(159 326)	(156 257)
Joint-Stock Company “Ptitsefabrika Belokalitvinskaya”	(8 743)	-
Total consolidated liabilities	**96 753 563**	**99 038 407**

Major customers

The Group does not have customers, revenues from which exceed 10% of the total revenues.

17. Management of Capital

The Group’s objectives when managing capital are: (i) to comply with the capital requirements set by the Central Bank of the Russian Federation, (ii) to safeguard the Group’s ability to continue as a going concern and (iii) to maintain a sufficient capital base to achieve a capital adequacy ratio based on the Basel Accord of at least 8%. Compliance with capital adequacy ratios set by the Central Bank of the Russian Federation is monitored monthly, with reports outlining their calculation reviewed and signed by the Bank’s Chairman of the Management Board and Chief Accountant. Other objectives of capital management are evaluated annually.

17. Management of Capital (Continued)

The Group and the Bank are also subject to minimum capital requirements established by covenants stated in loan agreements, including capital adequacy levels calculated in accordance with the requirements of the Basel Accord, as defined in the International Convergence of Capital Measurement and Capital Standards (updated April 1998) and the Amendment to the Capital Accord to incorporate market risks (updated November 2005), commonly known as Basel I. The composition of the Group's capital calculated in accordance with Basel I is as follows:

(in thousands of Russian Roubles)	**30 June 2019**	**31 December 2018**
Tier 1 capital		
Share capital	1 326 277	1 326 277
Share premium	2 078 860	2 078 860
Retained earnings	8 638 849	8 460 303
Business combinations	(61 756)	-
Total tier 1 capital	**11 982 230**	**11 865 440**
Tier 2 capital		
Revaluation reserve for premises and equipment	1 262 206	1 262 206
Total tier 2 capital	**1 262 206**	**1 262 206**
Total equity	**13 244 436**	**13 127 646**
Risk weighted assets	**80 818 176**	**78 831 574**
Capital adequacy	16.4%	16.7%

18. Contingent Liabilities

Legal proceedings. From time to time and in the normal course of business, claims against the Group may be received. At 30 June 2019, the Group was engaged in litigation proceedings in relation to claims from borrowers and lessees. Provision for losses related to such proceedings was made in the amount of RR 5 102 thousand (31 December 2018: RR 929 thousand), as professional advice has indicated that it is likely that loss in the said amount will be incurred.

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

The Russian transfer pricing legislation is generally aligned with the international transfer pricing principles developed by the Organisation for Economic Cooperation and Development (OECD), although it has specific features. This legislation provides for the possibility of additional tax liability assessment for controlled transactions (transactions between related parties and certain transactions between unrelated parties) if such transactions are not on an arm's-length basis. Management has implemented internal controls to be in compliance with this transfer pricing legislation.

Tax liabilities arising from controlled transactions are determined based on their actual transaction prices. It is possible, with the evolution of the practical application of the transfer pricing rules, that such prices could be challenged. The impact of such developments cannot be reliably estimated, however it may be significant to the financial position and/or the overall operations of the Group.

18. Contingent Liabilities (Continued)

In addition to the above matters, management estimates that the Group has other possible obligations from exposure to other than remote tax risks of RR 27 487 thousand (31 December 2018: RR 13 144 thousand). These tax risks primarily relate to potential additional calculation of income tax on income of foreign entities, which the Bank should have charged as a tax agent when making interest payments to non-resident banks under interest-bearing loans received in previous periods (Note 11).

These exposures are estimates that result from uncertainties in interpretation of applicable legislation and related documentation requirements. Management will vigorously defend the Group's positions and interpretations that were applied in determining taxes recognised in this condensed consolidated interim financial information if these are challenged by the authorities.

Included in the above disclosed amount of possible obligations for uncertain tax positions are RR 27 487 thousand (31 December 2018: RR 13 144 thousand) for which the inspection rights of tax authorities have expired, but which may be challenged by regulatory bodies under certain circumstances. In management's estimate, no losses are anticipated from these contingent liabilities.

Credit related commitments. The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees which represent irrevocable assurances that the Group will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans or borrowings.

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Group is potentially exposed to loss in an amount equal to the total unused commitments, if the unused amounts were to be drawn down. However, the likely amount of loss is less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards.

The Group monitors the term to maturity of credit related commitments, because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

An analysis of credit related commitments by credit quality based on credit risk grades at 30 June 2019 is as follows.

(in thousands of Russian Roubles)	**Stage 1 (12-month ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit impaired)**	**Total**
Commitments to extend credit or loan facilities that are revocable only in response to a material adverse change:				
- legal entities	4 021 340	4 088	10 469	**4 035 897**
- individuals	1 624 757	-	279	**1 625 036**
Financial guarantees issued	1 309 858	-	-	**1 309 858**
Unrecognised gross amount	**6 955 955**	**4 088**	**10 748**	**6 970 791**
Provision for credit related commitments	(94 418)	(30)	(1 828)	**(96 276)**

18. Contingencies and Commitments (Continued)

An analysis of credit related commitments by credit quality based on credit risk grades at 31 December 2018 is as follows.

(in thousands of Russian Roubles)	Stage 1 (12-month ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit impaired)	Total
Commitments to extend credit or loan facilities that are revocable only in response to a material adverse change:				
- legal entities	5 315 591	36 773	23 619	**5 375 983**
- individuals	1 748 289	-	-	**1 748 289**
Financial guarantees issued	1 742 096	-	-	**1 742 096**
Unrecognised gross amount	**8 805 976**	**36 773**	**23 619**	**8 866 368**
Provision for credit related commitments	**(103 195)**	**(2 770)**	**(6 889)**	**(112 854)**

The total outstanding contractual amount of undrawn guarantees does not necessarily represent future cash requirements, as these financial instruments may expire or terminate without being funded. At 30 June 2019, fair value of credit related commitments was RR 20 378 thousand (31 December 2018: RR 19 113 thousand).

All undrawn credit facilities can be automatically closed upon failure by the borrower to meet the requirements of the loan agreement. The fair value of such commitments is equal to zero.

Assets pledged and restricted. At 30 June 2019, due from other banks balances and overnight deposits with other banks of RR 108 490 thousand (31 December 2018: RR 119 489 thousand) are placed as a cover for international payment cards transactions. In addition, mandatory cash balances with the CBRF of RR 694 027 thousand (31 December 2018: RR 740 650 thousand) represent mandatory reserve deposits which are not available to finance the Bank’s day-to-day operations.

Compliance with covenants. The Group is subject to certain covenants primarily relating to its borrowings. Non-compliance with such covenants may result in negative consequences for the Group including growth in the cost of borrowings and a claim on early repayment of the loan. The Group was in compliance with covenants at 30 June 2019 and 31 December 2018.

19. Fair Value

Fair value measurements are analysed by level in the fair value hierarchy as follows: (1) Level one are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities, (2) Level two measurements are valuation techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly, and (3) Level three measurements are valuations not based on observable market data (that is, unobservable inputs). Management applies professional judgement in categorising financial instruments using the fair value hierarchy. If a fair value measurement uses observable inputs that require significant adjustment, that measurement is a Level 3 measurement. The significance of a valuation input is assessed against the fair value measurement in its entirety.

19. Fair Value (Continued)

(a) Recurring fair value measurements

Recurring fair value measurements are those that the other IFRS require or permit in the condensed consolidated interim statement of financial position at the end of each reporting period. The levels in the fair value hierarchy into which the recurring fair value measurements are categorised are as follows:

(in thousands of Russian Roubles)	30 June 2019				31 December 2018			
	Level 1	**Level 2**	**Level 3**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets at fair value								
Financial assets								
Other financial assets								
- Other securities at FVTPL	-	-	6 016	**6 016**	-	-	5 997	**5 997**
- Spot transactions	-	-	-	**-**	-	3 481	-	**3 481**
Non-financial assets								
- Investment properties	-	-	538 871	**538 871**	-	-	510 371	**510 371**
- Premises and land	-	-	2 791 291	2 791 291	-	-	2 293 874	**2 293 874**
Total assets recurring fair value measurements	**-**	**-**	**3 336 178**	**3 336 178**	**-**	**3 481**	**2 810 242**	**2 813 723**

(b) Assets and liabilities not measured at fair value but for which fair value is disclosed

Fair values analysed by level in the fair value hierarchy and carrying value of assets not measured at fair value are as follows:

(in thousands of Russian Roubles)	30 June 2019			
	Level 1	**Level 2**	**Level 3**	**Carrying amount**
FINANCIAL ASSETS				
Cash and cash equivalents	9 318 252	-	-	**9 318 252**
Mandatory cash balances with the Central Bank of Russian Federation	-	694 027	-	**694 027**
Balances with the Central Bank of the Russian Federation	-	3 600 000	-	**3 600 000**
Loans and advances to customers	-	-	90 219 037	**89 893 877**
- Loans to legal entities and finance lease receivables	-	-	36 865 252	**36 976 978**
- Loans to individuals – consumer and car loans	-	-	*18 247 328*	***18 083 864***
- Mortgage loans	-	-	*35 106 457*	***34 833 035***
Other financial assets	-	-	*776 860*	**776 860**
NON-FINANCIAL ASSETS				
- Investment in associate	-	-	317 761	***317 761***
TOTAL	**9 318 252**	**4 294 027**	**91 313 658**	**104 600 777**

(in thousands of Russian Roubles)	31 December 2018			
	Level 1	**Level 2**	**Level 3**	**Carrying amount**
FINANCIAL ASSETS				
Cash and cash equivalents	8 712 015	-	-	**8 712 015**
Mandatory cash balances with the Central Bank of the Russian Federation	-	740 650	-	**740 650**
Balances with the Central Bank of the Russian Federation	-	9 708 809	-	**9 708 809**
Loans and advances to customers	-	-	88 381 262	**88 022 690**
- Loans to legal entities and finance lease receivables	-	-	35 187 828	**35 346 565**
- Loans to individuals – consumer and car loans	-	-	19 347 494	**19 114 551**
- Mortgage loans	-	-	33 845 940	**33 561 574**
Other financial assets	-	-	740 850	**740 850**
NON-FINANCIAL ASSETS				
- Investment in associate	-	-	293 363	**293 363**
TOTAL	**8 712 015**	**10 449 459**	**89 415 475**	**108 218 377**

19. Fair Value (Continued)

Fair values analysed by level in the fair value hierarchy and carrying value of liabilities not measured at fair value are as follows:

(in thousands of Russian Roubles)	30 June 2019 Level 1	Level 2	Level 3	Carrying amount
FINANCIAL LIABILITIES				
Due to the Central Bank of the Russian Federation	-	203 849	-	**203 849**
Due to other banks	-	1 145 416	-	**1 145 416**
Customer accounts	-	89 589 465	-	**89 589 465**
Debt securities in issue	-	-	1 879 176	**1 879 176**
- Promissory notes	-	-	*853 129*	***853 129***
- Bonds issued on domestic market	-	-	*1 026 047*	***1 026 047***
Borrowings from international financial institutions	-	*2 235 778*	-	***2 235 778***
Other financial liabilities	-	-	*238 834*	***238 834***
TOTAL	**-**	**93 174 508**	**2 118 010**	**95 292 518**

(in thousands of Russian Roubles)	31 December 2018 Level 1	Level 2	Level 3	Carrying amount
FINANCIAL LIABILITIES				
Due to the Central Bank of the Russian Federation	-	-	-	-
Due to other banks	-	-	-	**-**
Customer accounts	-	95 238 192	-	**95 238 192**
Debt securities in issue	-	-	1 325 096	**1 325 096**
- Promissory notes	-	-	313 004	**313 004**
- Bonds issued on domestic market	-	-	1 012 092	**1 012 092**
Borrowings from international financial institutions	-	1 720 816	-	**1 720 816**
Other financial liabilities	-	-	190 881	**190 881**
TOTAL	**-**	**96 959 008**	**1 515 977**	**98 474 985**

The Group's liabilities to its customers are subject to state deposit insurance scheme as described in Note 1. The fair value of these liabilities reflects these credit enhancements.

20. Related Party Transactions

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

The Group's internal policy is to lend funds to related parties if they have an appropriate credit history and provide sufficient guarantees from third parties or pledge collateral valued in excess of the committed credit lines.

20. Related Party Transactions (Continued)

The condensed consolidated interim financial information of the Group includes the following transactions and balances with related parties:

	30 June 2019		
(in thousands of Russian Roubles)	**Major shareholders**	**Associate**	**Executive Board and Board of Directors**
Correspondent accounts with banks	225 873	-	-
Gross amount of loans and advances to customers (contractual interest rate: 10.0-10.5%)	-	9 774	4 198
Due to other banks (contractual interest rate: 4.89%)	1 145 416	-	-
Customer accounts (contractual interest rate: 0.01% − 7.5%)	-	30 286	51 787
Bonds issued (coupon rate: 8.25%-9.8%)	-	-	31 187

	31 December 2018		
(in thousands of Russian Roubles)	**Major shareholders**	**Associate**	**Executive Board and Board of Directors**
Correspondent accounts with banks	191 989	-	-
Gross amount of loans and advances to customers (contractual interest rate: 9.5% − 13.5%)	-	24 153	4 000
Due to other banks	-	-	-
Customer accounts (contractual interest rate: 0.01% − 8.3%)	-	7 616	65 209
Bonds issued (coupon rate: 8.25% − 9.8%)	-	-	29 325

	Six months ended 30 June 2019		
(in thousands of Russian Roubles)	**Major shareholders**	**Associate**	**Executive Board and Board of Directors**
Interest income	-	405	242
Interest expense	(11 608)	(502)	(2 184)
Fee and commission income	-	746	16
Administrative expenses excluding management remuneration	-	-	(242)

	Six months ended 30 June 2018		
(in thousands of Russian Roubles)	**Major shareholders**	**Associate**	**Executive Board and Board of Directors**
Interest income	-	3 628	309
Interest expense	-	-	(2 497)
Fee and commission income	-	631	15
Administrative expenses excluding management remuneration	-	-	(739)

	Three months ended 30 June 2019		
(in thousands of Russian Roubles)	**Major shareholders**	**Associate**	**Executive Board and Board of Directors**
Interest income	-	34	115
Interest expense	(11 608)	(467)	(1 030)
Fee and commission income	-	423	11
Administrative expenses excluding management remuneration	-	-	-

20. Related Party Transactions (Continued)

(in thousands of Russian Roubles)	Three months ended 30 June 2018 Major shareholders	Associate	Executive Board and Board of Directors
Interest income	-	1 370	157
Interest expense	-	-	(1 447)
Fee and commission income	-	342	8
Administrative expenses excluding management remuneration	-	-	-

Major shareholders mean shareholders holding over five percent of the Bank's voting shares. The major shareholders of the Bank are:

	30 June 2019		31 December 2018	
Shareholder	Equity share, %	Voting rights, %	Equity share, %	Voting rights, %
European Bank for Reconstruction and Development	17.82	19.74	17.82	19.74
DEG (Deutsche Investitions und Entwicklungsgesellschaft GmbH)	14.57	16.14	14.57	16.14
Vasiliy Vasilievich Vysokov	11.10	12.30	11.10	12.30
Tatiana Nikolaevna Vysokova	10.96	12.13	10.96	12.13
ResponsAbility Participations AG, ResponsAbility SICAV (Lux) Micro and SME Finance Leaders	9.05	10.03	9.05	10.03
Erste Bank	9.09	9.01	9.09	9.01
Firebird Funds	8.22	9.11	8.22	9.11
Rekha Holdings Limited	6.77	7.49	6.77	7.49

Compensation paid to members of the Executive Board and Board of Directors is presented below:

	Six months ended 30 June 2019		Six months ended 30 June 2018	
(in thousands of Russian Roubles)	Compensation	Accrued liability	Compensation	Accrued liability
Short-term benefits:				
- Salaries	12 673	-	11 629	-
- Short-term and other bonuses	56 461	-	55 836	-
Long-term bonus scheme	-	37 565	1 349	29 223
Total	**69 134**	**37 565**	**68 814**	**29 223**

	Three months ended 30 June 2019		Three months ended 30 June 2018	
(in thousands of Russian Roubles)	Compensation	Accrued liability	Compensation	Accrued liability
Short-term benefits:				
- Salaries	5 708	-	6 196	-
- Short-term and other bonuses	55 778	-	55 664	-
Long-term bonus scheme	-	-	686	686
Total	**61 486**	**-**	**62 546**	**686**

Short-term bonuses fall due wholly within twelve months after the end of the period in which management rendered the related services.

At 30 June 2019 and 31 December 2018, the Group's Board of Directors consisted of seven persons and its Executive Board included five persons.

21. Business Combinations

On 9 April 2019, under the Settlement Agreement, the Bank received against its loan repayment shares in Joint-Stock Company “Ptitsefabrika Belokalitvinskaya” for a total of RR 378 thousand. As a result of the transaction, the Group’s share in the new subsidiary was 88.28%.

The fair value of the buyer’s newly issued shares was determined based on an independent appraiser’s professional judgement using the discounted cash flows model at the end of the business day as of the acquisition date.

At the approval date of this condensed consolidated interim financial information, the Group did not complete the fair value measurement of assets in the acquired entity. The below table summarises the assets acquired and all of the liabilities assumed of Joint-Stock Company “Ptitsefabrika Belokalitvinskaya” as of the acquisition date.

(unaudited) *(in thousands of Russian Roubles)*	**Attributed fair value**
Cash and cash equivalents	170
Premises and equipment	833 599
Other financial assets	33 907
Other assets	577 835
Deferred income tax liability	(10 004)
Other liabilities	(10 531)
Total net identifiable assets	**1 424 976**
The Bank’s loans less provision	1 141 881
Less: non-controlling interest	(54 895)
Gain on a bargain purchase	**337 990**

The acquired subsidiary contributed revenue of RR 78 252 thousand and profit of RR 61 438 thousand to the Group for the period from the date of acquisition to 30 June 2019. If the acquisition had taken place on 1 January 2019, then the Group’s gain for six months ended 30 June 2019 would have been RR 117 444 thousand and its loss for six months ended 30 June 2019 would have totalled RR 118 375 thousand.

The non-controlling interest represents share in net assets of the acquiree attributable to owners of non-controlling interest.