



ANNUAL REPORT

2018

CONTENTS

1. VTB at a glance	
1.1. Mission and values	3
1.2. VTB Group today	4
1.3. Financial highlights	9
2. Statement of the Chairman of the Supervisory Council	11
3. Statement of the President and Chairman of the Management Board	12
4. Management report	
4.1. Russian economy and banking sector	14
4.2. Key events	17
4.3. Strategy	21
4.4. Results overview	26
4.4.1. Corporate-investment business	29
4.4.2. Medium and Small business	41
4.4.3. Retail business	45
4.4.4. Financial review	60
4.5. Risk management	68
4.6. Technological transformation	81
5. Corporate governance	
5.1. Overview of the corporate governance system	90
5.2. General meeting of shareholders	94
5.3. Supervisory council	97
5.4. Management board	117
5.5. Compensation of the members of the Supervisory council and the Management board	124
5.6. Control and audit	126
5.7. Investor relations	133
5.8. Disclosure policy	143
6. Sustainable development	
6.1. Personnel	145
6.2. Responsible resource management	148
6.3. Social programmes	149
7. Financial statements	
7.1. Responsibility statement	152
7.2. Consolidated financial statements	153
8. Annexes	
8.1. Share capital	159
8.2. Dividends	160
8.3. Report on compliance with the principles and recommendations of the corporate governance code	164
8.4. Bank details and contacts	183

1. VTB AT A GLANCE

Mission and values

Our mission

To provide world-class financial products and services that help to create a prosperous and sustainable future for our customers, stakeholders and society

Our values

- Trust** Gaining and retaining the trust of our customers is VTB Group's most important value
- Reliability** VTB Group's long-term strength is reinforced by leading positions in the financial markets where we operate and our ability to provide local expertise on a global scale
- Transparency** Our business is open and transparent, and all of our key stakeholders cooperate closely in order to deliver maximum value and visibility
- Versatility** Our wealth of expertise across a broad range of financial products and services ensures that we offer all of our customers the most comprehensive, flexible and sophisticated solutions that suit their individual needs
- Team** Our dedicated team of professionals benefits from the synergy of knowledge afforded by our diverse line of businesses, and our Group's spirit is enhanced by the energy, creative insight and potential of each member of our team

Our identity

VTB Group is the leading Russian financial institution with a strong presence in key international markets

Our vision

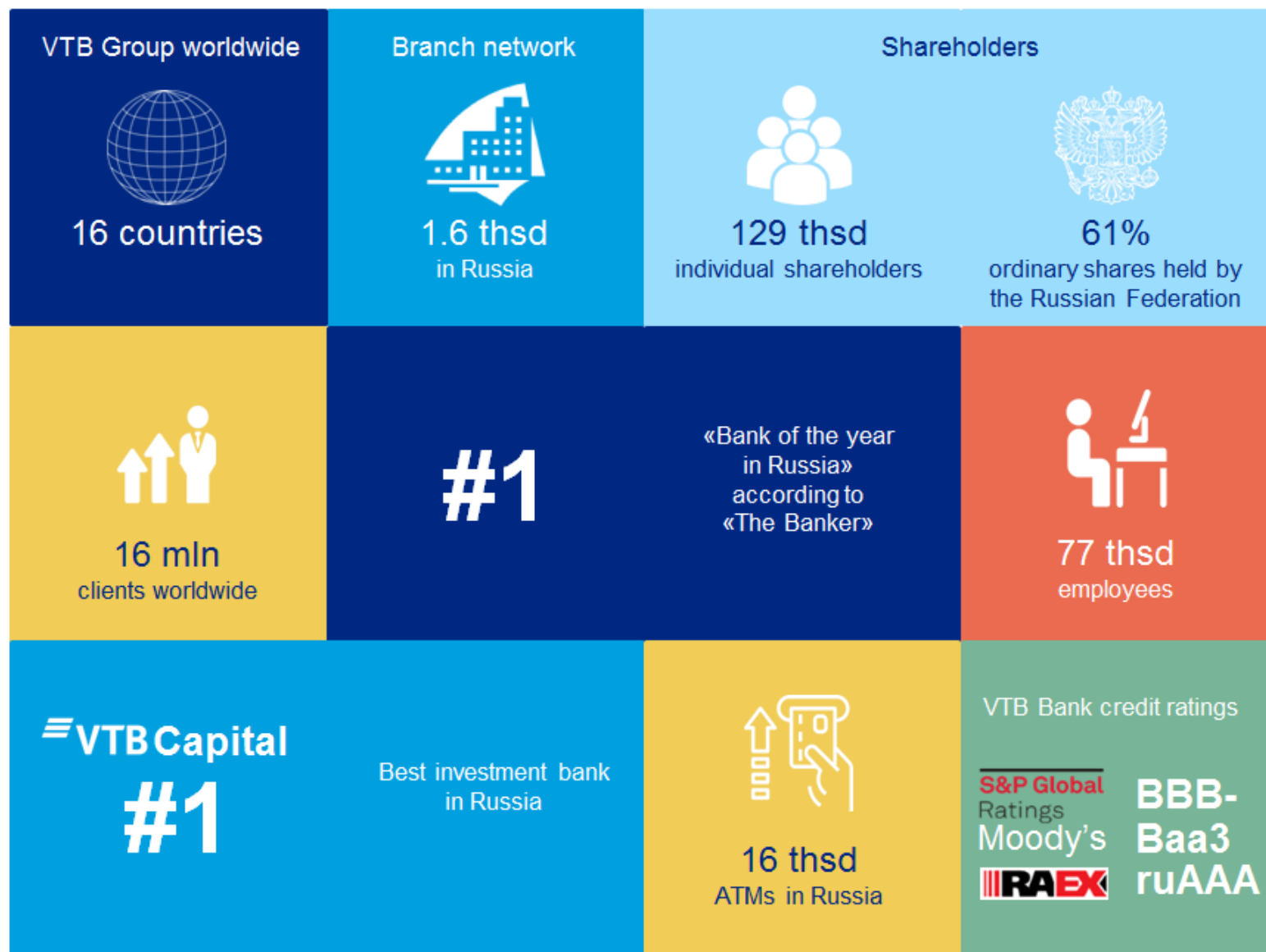
VTB Group's goal is to become a premier player in all of its priority markets

ADVANCED

DIGITAL

WIDE-SCALE

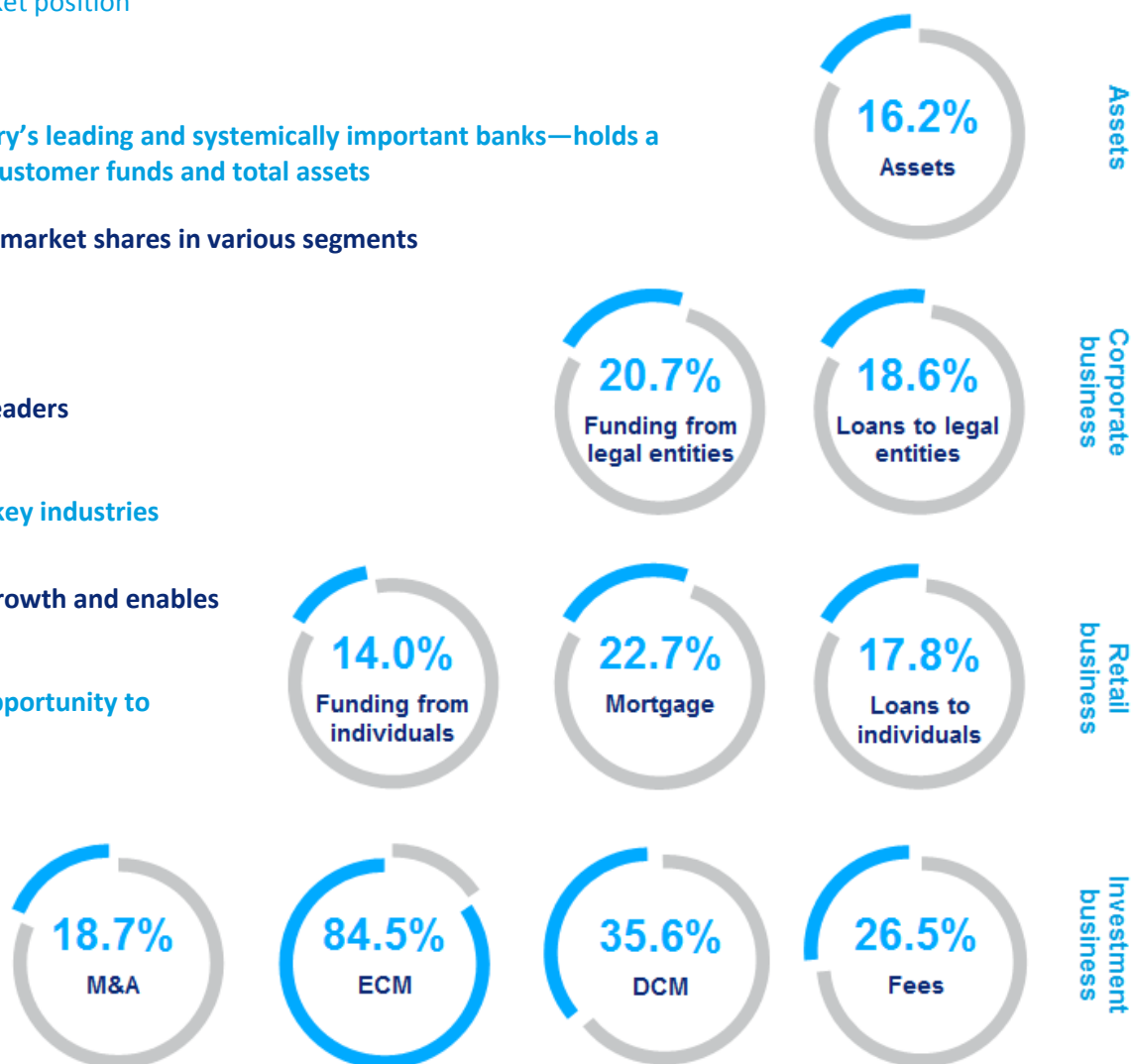
VTB GROUP TODAY



Competitive advantages

that enable VTB Group to maintain and strengthen its market position

- 1 Strong competitive positions in Russia: one of the country's leading and systemically important banks—holds a significant share of the Russian financial system's total customer funds and total assets
- 2 A diversified universal banking business with significant market shares in various segments of the Russian market
- 3 A large branch network and a significant customer base
- 4 Leading positions in retail banking services, one of the leaders in the mortgage lending market in Russia
- 5 Strong relationships with leading Russian companies in key industries
- 6 Sizeable capital creates potential for sustainable asset growth and enables the Bank to finance large companies
- 7 Wide international network gives the Group a unique opportunity to serve Russian customers across the globe
- 8 VTB Capital's investment banking division provides a full range of services in international financial markets
- 9 Brand awareness and state interest ensure financial strength and increased customer confidence
- 10 Professional team with a client-oriented approach



VTB Bank and its subsidiaries and affiliates (hereinafter “VTB Group”) includes Russian and foreign commercial banks and other companies controlled by the Group.

VTB Group is structured as a holding company, which envisages a unified strategy for the development of Group companies, a single brand, centralised financial management and risk management and unified control systems.

In Russia, the Group performs banking operations through a parent company (VTB Bank) and a number of subsidiary banks—Vozrozhdenie Bank, Zapsibkombank, Sarovbiznesbank—as well as through the Post Bank joint venture.

VTB Group’s global network is unique to the Russian banking industry. Group companies provide services in the CIS, Europe and Asia, enabling the Group to facilitate international partnerships and promote Russian companies aiming to engage with global markets. The Group’s international operations enable diversification and increased profitability from its transactions in high-margin markets.

As of the end of 2018, the Group’s banking and investment banking business was active in 16 countries around the world. Outside Russia, the Group operates through eight subsidiary banks located in Germany, the United Kingdom, Armenia, Belarus, Kazakhstan, Azerbaijan, Georgia and Angola and through two representative offices located in Italy and China, as well as two VTB branches in China and India, a branch of VTB Capital in Singapore and a branch of VTB Bank (Europe) in Austria. The Group’s investment banking division conducts operations with securities and provides financial advisory services in Hong Kong and investment banking services in Bulgaria. The Group also has an associated bank in Cyprus. In addition, VRB Bank, a joint venture between VTB and a Vietnamese bank, conducts banking activities in Vietnam.

VTB Group presence



The Group operates in all major segments of the financial market. Corporate-Investment Banking, Medium and Small Banking and Retail Business represent the Group’s global business lines, which specialise in servicing various client segments.

Client base in Russia

9.5 thousand Corporate-Investment Banking clients¹

577 thousand Medium and Small Banking clients



12.3 million individual clients

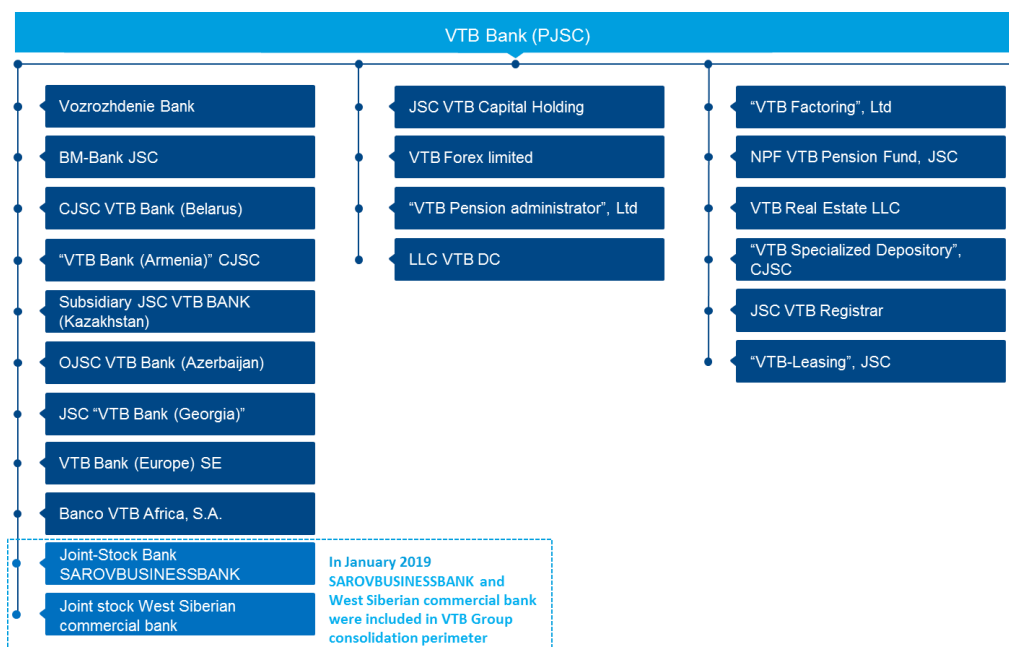
6.5 million payroll clients

6.5 million clients using remote channels²

¹ Calculated based on data for existing corporate clients. An existing corporate client is a corporate client that has a contractual relationship with VTB Group for the provision of banking services and/or uses the services of the Group.

² The client’s use of mobile or online banking in the preceding 90 days is taken into account (if the client uses both tools, it is counted only once).

VTB Group Structure (consolidation perimeter as of 31 December 2018)



Key changes in the structure of the VTB Group

- On 1 January 2018, VTB Bank successfully completed the legal procedures for its merger with VTB24, the largest merger ever to take place in the Russian banking market. The transition to a more efficient model as a universal bank enabled us to create a unified organisation capable of responding more efficiently to market changes, consolidating best practices across all business lines and improving the quality of customer service. The merger with VTB24 created synergies within VTB Group, reducing costs and increasing the efficiency of the merged bank. In addition, the merger provides a number of advantages in terms of improving the management structure and interaction among business lines, which also has an indirect positive impact on financial results.

- In September 2018, VTB Group and subsidiary company of Russian Post signed amendment to the shareholder agreement regarding Post Bank, which resulted in Post Bank becoming a joint venture for the Group. The Group changed its accounting treatment of Post Bank in the Group's consolidated financial reporting from the principle of line-by-line consolidation to single-line consolidation as a joint venture with Russian Post.

- In October 2018, VTB completed the acquisition of Vozrozhdenie Bank, which enabled VTB to increase retail customer deposits and its retail loan portfolio, as well as improve the Group's expertise in terms of working with small and medium-sized enterprises (SMEs).

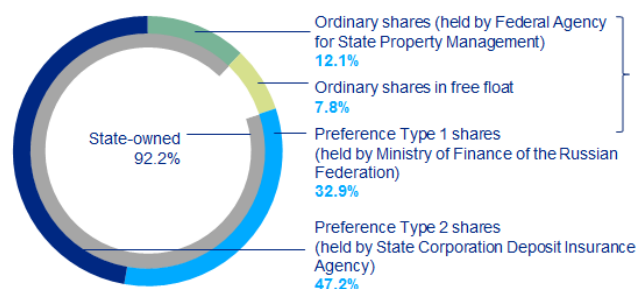
- On 31 October 2018, VTB Group and Sogaz Insurance Group closed a deal on the sale of 100% of VTB Insurance. All the companies in VTB Insurance Group, including VTB Life Insurance and VTB Medical Insurance, were included in the transaction. The new company became the largest universal insurance franchise in Russia.

- In November 2018, the National Bank of Ukraine declared VTB Bank (Ukraine) insolvent. In December 2018, the National Bank of Ukraine revoked banking license of VTB Bank (Ukraine). As a result, the bank was removed from the Group's financial reporting.

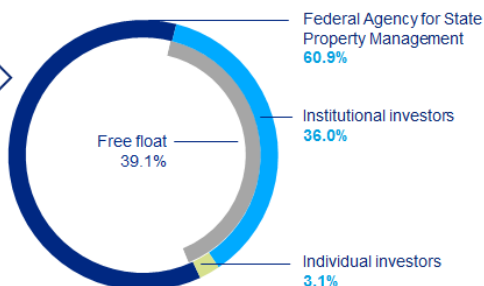
- In December 2018, VTB's Supervisory Council approved the acquisition of 81.1% of shares of Sarovbiznesbank and 71.8% of Zapsibkombank. These acquisitions did not have a significant impact on the Group's balance sheet, but they helped increase market share in certain regions, primarily in the retail segment.

Ownership structure

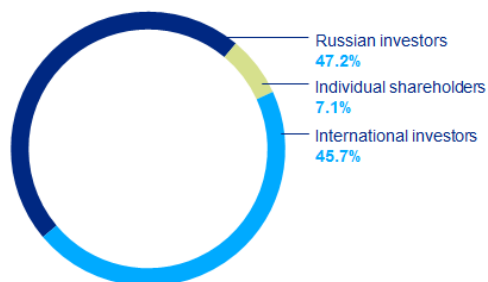
Equity capital



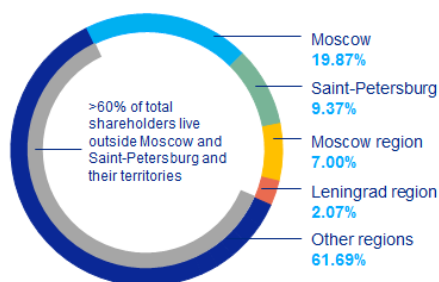
Voting rights



Geographical distribution of institutional investors (% of free float)



Regional distribution of individual investors (% of individual shareholder base)



129.6 thousand shareholders of VTB Bank, including
128.6 thousand individual shareholders

Stock Exchange Listings



Moscow
Exchange

ISIN RU000A0JP5V6
 LEI 253400V1H6ART1UQ0N98



London Stock
Exchange

Global depositary receipts
(GDRs)

LEI 253400V1H6ART1UQ0N98

ISIN
US46630Q1031

144A programme

RegS programmes

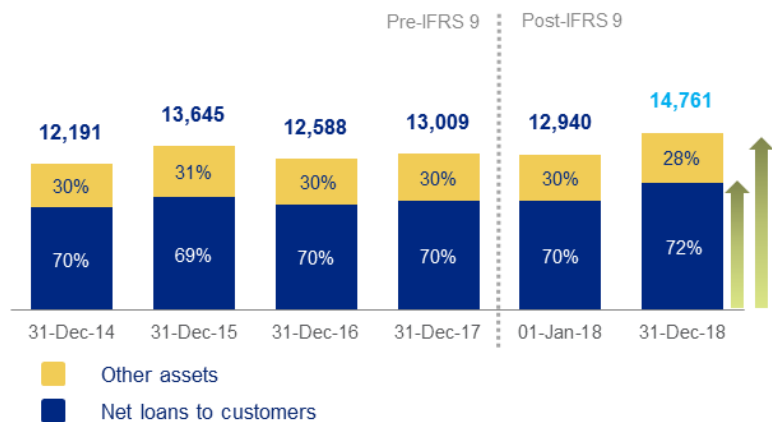
ISIN
US46630Q2021

VTB Bank is one of the largest companies by market capitalisation listed on the Moscow Exchange. The Bank's ordinary shares are constituents of the major indices on the Moscow Exchange, including the MOEX Russia Index, the RTS Index, the MOEX 10 Index, the MOEX Blue Chip Index, the Broad Market Index and the MOEX Financials Index. One lot is 10,000 shares. The shares are also included in the MSCI Russia Index, MSCI EM Index and FTSE All-World Index.

Each VTB GDR is equivalent to 2,000 VTB ordinary shares. The Bank's GDRs are included in the MSCI Russian Depositary Index, the MVIS Russia index and the RDX Index.

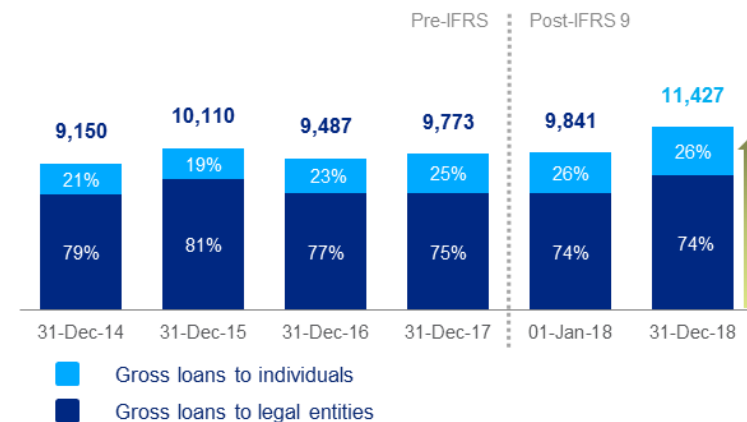
FINANCIAL HIGHLIGHTS

Total assets ^{RUB bn}

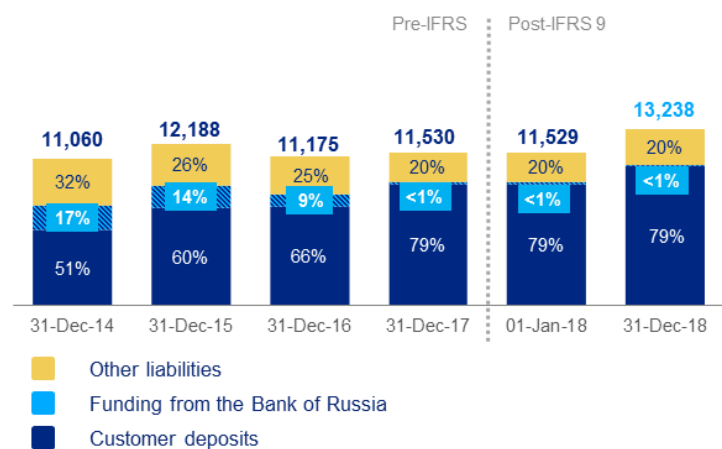


Balanced asset growth with focus on retail lending

Customer loans ^{RUB bn}

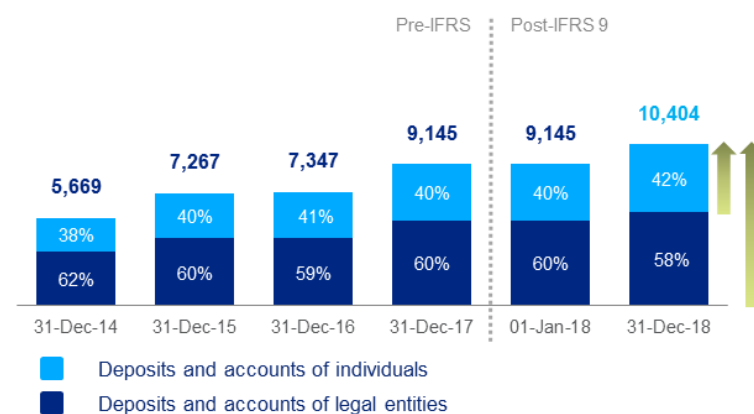


Total liabilities ^{RUB bn}

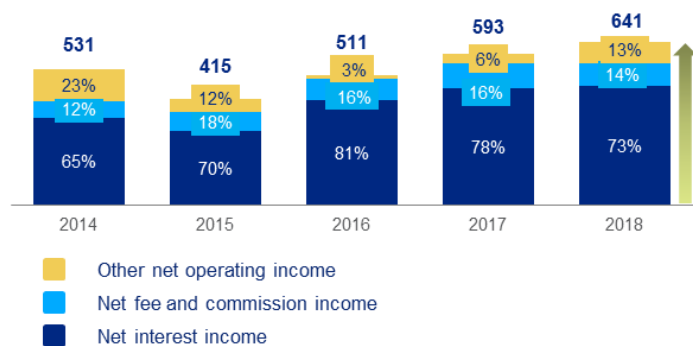


Increasing share of customer funds, focus on retail segment

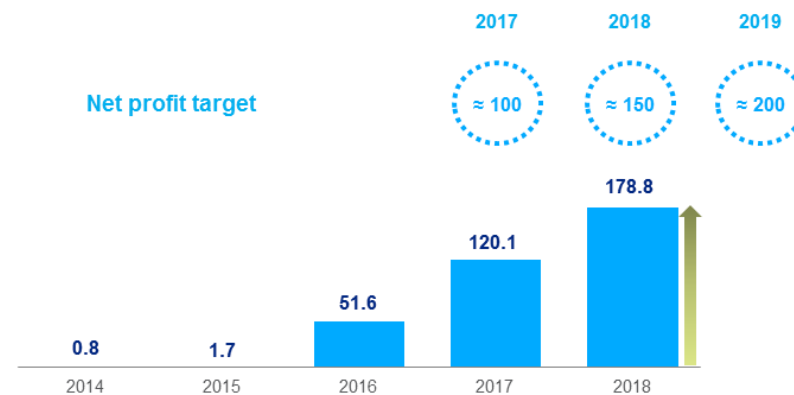
Customer deposits ^{RUB bn}



Operating income before provisions ^{RUB bn}



Net profit ^{RUB bn}



Key metrics, %

	2014	2015	2016	2017	2018
Net interest margin (NIM)	4.0	2.6	3.7	4.1	3.9 ▼
Net commission margin (NCM)	0.6	0.6	0.6	0.8	0.7 ▼
Cost / income ratio (CIR)	41.9	53.5	45.8	44.0	40.5 ▼
Cost of risk (CoR)	3.4	1.8	1.5	1.6	1.6
Return on equity (ROE)	0.1	0.4	3.6	8.3	12.3 ▲
Return on assets (ROA)	0.0	0.0	0.4	0.9	1.3 ▲

2. STATEMENT OF THE CHAIRMAN OF THE SUPERVISORY COUNCIL

Dear shareholders, clients and partners,



VTB is a Russian leading universal financial institution providing its services to private individuals, businesses and public bodies. The scope of Bank's activities makes it a financial institution of key systemic importance offering credit and investment solutions to corporate and retail customers.

In 2018, VTB Group made significant progress in achieving its primary objectives: profitability exceeded target levels and the restructuring of the Group was completed successfully. VTB Group's IFRS net profit for 2018 amounted to RUB 179 billion, 19% above the target. This was the result of an increase in core banking revenues, efficient cost management and strengthening of market positions in principal business segments.

VTB's loan portfolio growth outperformed the industry dynamics, which allowed the Bank to deliver on its strategic goals in retail and corporate lending. The Group's market share in loans to corporates increased in 2018 by 190 bp to 19%, while the market share in retail loans grew by 70 bp to 18%. At the same time, the Group significantly strengthened its position in attracting retail deposits: during the reporting year, our market share in Russia increased by 200 bp to 14% significantly outstripping the strategic benchmark.

In a world of rapidly developing technologies and customer expectations it is paramount to ensure the reliability and adaptability of banking systems and the development of competitive advantages through the introduction of innovative financial products and service technologies. Among the Bank's key achievements in 2018 were the harmonisation of the Group's IT infrastructure, improvement of the reliability of IT systems and the introduction of new digital services for corporate and retail clients based on an agile development methodology.

The Supervisory Council pays a great deal of attention to maintaining high standards of corporate governance, which are an essential element of sustainable growth. In order to achieve this, together with the Bank's management we maintain the advanced system to monitor procedures and practices aimed at ensuring that shareholder rights are fully observed, including continuous feedback from minority shareholders.

As of January 2019, the Bank had a total of 129.6 thousand shareholders, 128.6 thousand of whom were private individuals. Our shareholder base grew 37% last year, which is evidence of market confidence in VTB and confirmation of our high level of corporate governance.

Today, VTB Group has set ambitious new goals for itself; achieving them will require changing the way that the Group organises its work and improvements in our corporate culture. The Group's current strategy will enable VTB to become more flexible and more competitive, and further improve its performance.

I would like to thank VTB's shareholders, clients and partners for their trust and cooperation. I am confident that the concerted efforts of the Group's entire team will bring us to further advancements and new achievements.

Sincerely,

*Anton Siluanov
Chairman of the Supervisory Council*

3. STATEMENT OF THE PRESIDENT AND CHAIRMAN OF THE MANAGEMENT BOARD

Dear shareholders, clients and partners,



For the second year in a row, VTB Group has outperformed the objectives set out in our current three-year strategy for 2017–2019. In 2018, net profit grew by almost 50% to RUB 179 billion, easily exceeding our target of RUB 150 billion and securing a return on equity of 12.3%. This result is based on year-on-year improvements in operating income and cost-efficiency. It also lays the groundwork for a good year in 2019, and I am confident that we will meet our profit targets this year as well. We saw significant growth in the volume of our business last year, and we increased our market shares in key segments. VTB outpaced the industry average in terms of growth in corporate and retail lending, as well as in retail

deposits.

The stable macroeconomic situation in the Russian economy in 2018 provided a positive impetus for the development of the retail banking market, which enabled VTB to offer its customers better conditions for a variety of Group products and services.

Retail lending increased by 29% in 2018 to RUB 3.0 trillion. Mortgage lending was the driving force behind growth in the Group's retail loan portfolio: the Bank issued nearly 300 thousand new mortgage loans in 2018, totalling RUB 0.7 trillion, the most in VTB Group's history. VTB issued one out of every five mortgage loans in Russia; about 1.4 million families were able to purchase housing with our help. As of 31 December 2018, VTB Group's mortgage portfolio amounted to RUB 1.4 trillion.

Retail customer deposits increased by 28% to RUB 4.4 trillion as of the end of the year. VTB accounted for a third of the increase in individual deposits across the entire Russian banking sector. Moving VTB's retail business to the universal platform of the merged bank played a significant role in driving and maintaining this growth.

Our corporate business also enjoyed positive results in 2018.

VTB Group remains one of the leading lenders to the real sector of the economy. In 2018, corporate lending increased by 15%—outpacing the market average—and reached RUB 8.4 trillion. Corporate deposits and accounts also increased to RUB 6.0 trillion by the end of the year.

Throughout 2018, we continued our efforts to solidify our position in mid-corporate business. In recent years, this important area of the country's economy has remained a focus of attention on the part of the Bank's management. Taking into account market trends and customer needs, VTB Group created a single Medium and Small Banking global business line. As part of the merger with VTB24, we made large-scale changes in the process of serving small and medium-size businesses, developing remote banking channels and services that allow customers to save a great deal of time while managing their business effectively and efficiently.

VTB remains an unwavering leader in corporate-investment business. In 2018, we continued to finance regional and federal projects in the areas of social assets, road construction and railway infrastructure, as well as innovative and high-tech projects in the real sector of the Russian economy. VTB Capital remains the leading investment bank in all segments of the investment banking market in Russia.

Along with ensuring business growth, VTB Group continued its systematic work to improve operational efficiency and risk management systems.

In 2018, we managed to achieve a significant reduction in the share of non-performing loans, which decreased by 120 bp to 5.7%. The coverage ratio of non-performing loans continued to increase, amounting to 112.0% at the end of the year. Against a backdrop of accelerated growth in the Bank's loan portfolio and significant dividend payments for 2017, increased profitability helped maintain capital adequacy: as of 31 December 2018, VTB's total and Tier 1 capital adequacy ratios were 13.5% and 12.0%, respectively.

From an operational standpoint, 2018 was our first year as a unified bank following the successful merger with VTB24. The process of transforming VTB Group into a single universal bank is now complete. In 2019, we will have to definitively complete the adaptation of our internal processes for the merged banking platform.

Thanks to the transformation of our organisational structure and the simplification of the management system, VTB was able to achieve significant cost reductions, while also establishing business synergies. As a result, we have become a more efficient and competitive business that can quickly adapt to a rapidly changing external environment.

While preparations were made throughout 2018, the merger of the Bank's retail and corporate networks was successfully completed in January 2019. This was the largest merger of networks in the history of the Russian banking system. Now, VTB clients can receive a full range of services at any branch of our universal bank in every region where we operate from the Baltic Sea to Kamchatka.

In 2018, the Group continued to implement plans to solidify its presence in the most interesting regions for business development.

In October 2018, we acquired Vozrozhdenie Bank, a strong player in the retail and mid-corporate segments in the Moscow region. In January 2019, the acquisitions of Sarovbiznesbank and Zapsibkombank were completed, which will give VTB a more meaningful presence in the Nizhny Novgorod and Tyumen regions.

I am confident that the ongoing transformation of our business and our new strategic initiatives will help us achieve positive results, implement our plans and accomplish our goals in 2019.

Our priority strategic initiative for the near future remains the further technological transformation of our operations. The digital revolution that has taken place in recent years in all spheres of life continues to gain momentum, and we are responding to customer demand both in terms of the products and services offered by VTB Group and in the way they are provided. Therefore, we are continuing to introduce cutting-edge technologies that make our systems more reliable and secure, while also expanding the range of possibilities available to our customers. In addition, new data analysis technologies are helping us better understand the needs and demands of our customers, while making it possible to individualise products and services and help customers achieve their goals in the best possible way.

I would like to thank all my colleagues for their teamwork and contribution to our shared success. Together, we will continue to improve our results and build a world-class high-tech bank for the benefit of society, our customers and our shareholders.

Sincerely,

*Andrey Kostin
President and Chairman of the Management Board*

4. MANAGEMENT REPORT

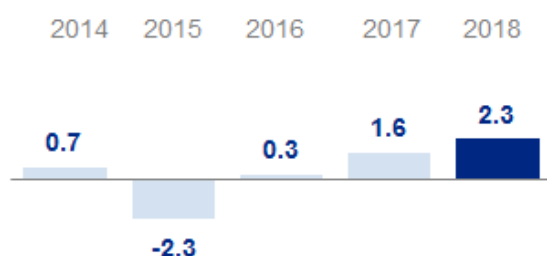
4.1. RUSSIAN ECONOMY AND BANKING SECTOR

Russian Economy in 2018

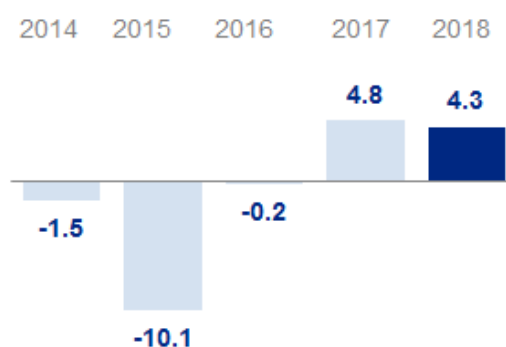
In 2018, Russian economic growth accelerated to 2.3% year-on-year from of 1.6% in 2017. The structure of growth from the demand perspective was shaped by the MinFin's fiscal rule³, that prevented the increase in oil prices to spill over to the appreciation of the real effective exchange rate (REER): in 2018 the REER declined by 7.7%. As a result, import growth totaled just 3.8%, while exports expanded 6.3% in 2018. In addition, economic growth was supported by household demand expanding 2.2% and gross fixed capital formation, which increased 2.3%.

Russian macroeconomic indicators, % change year-on-year

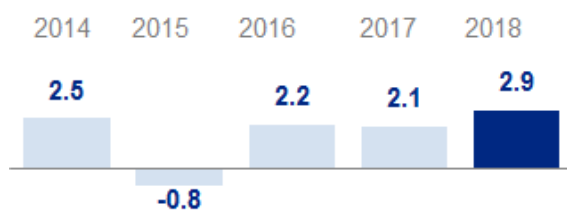
Gross domestic product



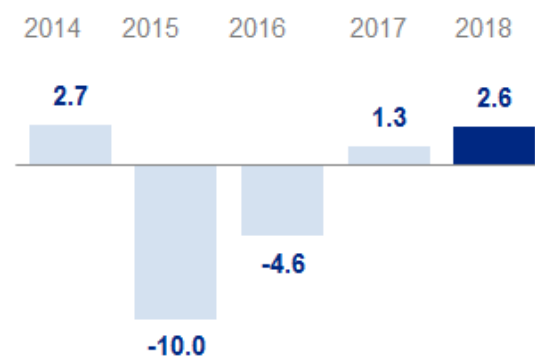
Investments in fixed assets



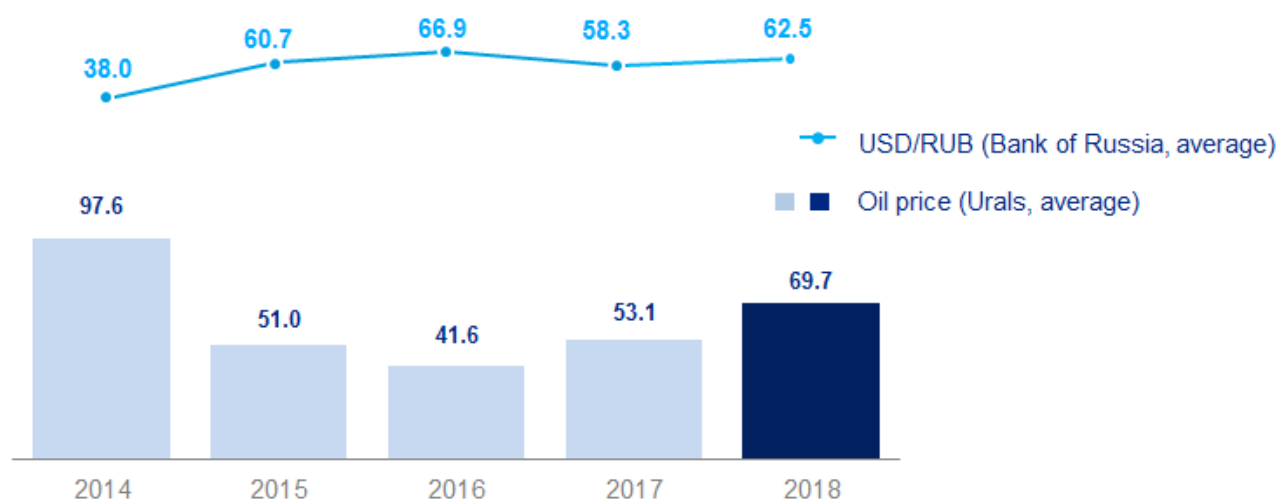
Industrial production



Retail turnover



³ According to the new fiscal rule that came into effect in the Russian Federation in 2018, all oil and gas revenues generated by oil prices above the budget benchmark level are used by MinFin for currency purchase and its allocation in the National Wealth Fund (NWF). The 2018 budget was based on a Urals oil price of USD 40 per barrel with 2% indexation annually going forward.



Household demand continued to enjoy the support of robust real wage growth and the expansion of retail lending. Real wages were up 7.0% (vs. 3.5% in 2017); however, their growth was not even throughout the year: it peaked at 11% in January on the back of low inflation and material acceleration of nominal wage growth, but has decelerated to 2.9% by year end of 2018.

Consumer confidence path matched that of the real wages: elevated in the first half of 2018, but dropped again in the second half of 2018 with gradual pick up in inflation and deceleration of the growth. In 2018, retail sales growth expanded 2.6%, with more visible growth in the non-food segment, while food turnover grew 1.7%.

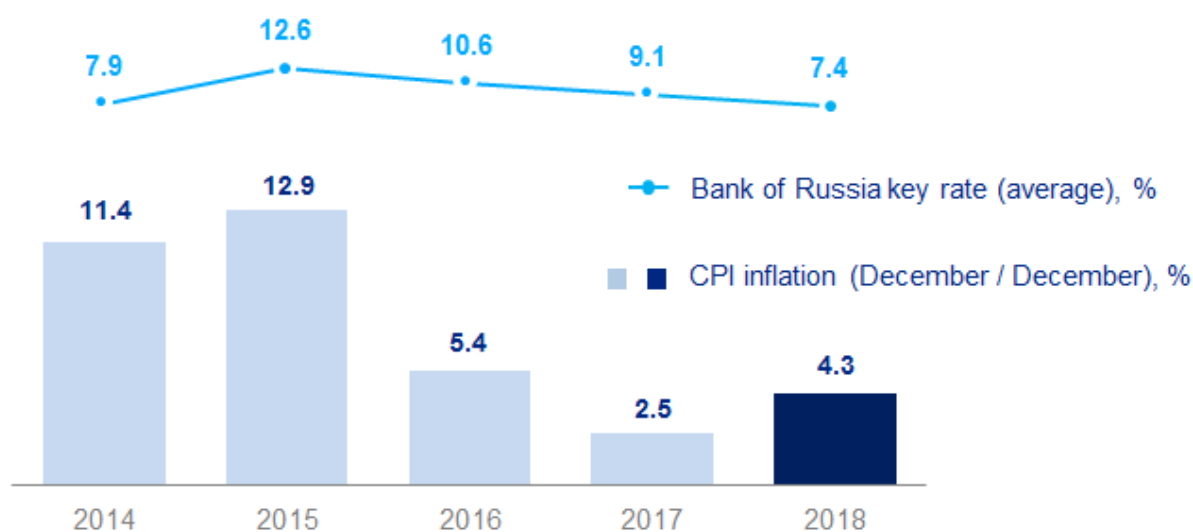
According to a survey by the Bank of Russia, lending conditions for borrowers also eased in the first half of 2018, but tightened towards the year end of 2018.

From the production perspective, biggest contribution to headline GDP growth rate of 2.3% came from the mining sector (+0.44 pp), retail and wholesale trade (+0.28 pp), while increase in construction added around 0.25 pp. In terms of growth rates, not corrected by the relative sizes of the sectors, then the largest expansion was seen in the financial sector (+6.3%) as lending to households and corporates increased. The HoReCa sector was a close second (+6.1%), due to the 2018 World Cup being held in Russia, while construction (+4.7%) trailed in third place.

Consumer price growth has gradually picked up from 2.5% in December 2017 to 4.3% in December 2018. The turnaround in the price growth trends was to a large extent a function of the local and global harvest, FX pass-through and changes in the tax system. In particular, food category contributed 1.4 pp of the overall 1.8 pp price growth acceleration, while the remainder has been due to higher inflation in core goods and services.

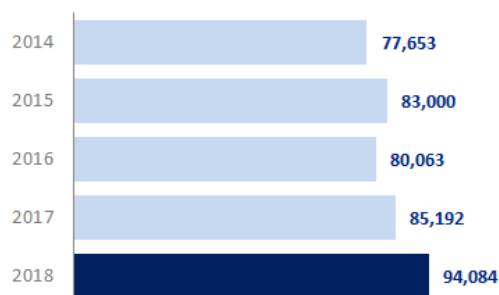
In 2018, the Bank of Russia twice cut its key rate by 0.25 pp and then raised it twice by the same amount, leaving it at 7.75% by the year-end. Currently, the Bank of Russia is focused on containing short-term inflation risks stemming from external shocks and change in the VAT base rate.

Inflation and Bank of Russia key rate

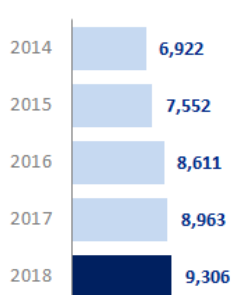


Russian banking sector in 2018

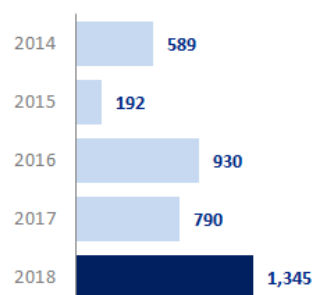
Assets, RUB bn



Equity, RUB bn



Net profit, RUB bn



In 2018, Russian banking sector assets increased by 10.4%, compared to growth of 6.4% a year earlier. The penetration of banking services, defined as a banks' total assets divided by GDP, increased by 1.6 pp to 94%.

In the first half of 2018, banks reduced interest rates on loans following a decrease in the key rate, which contributed to an increase in demand for borrowing. The increase in interest rates in the second half of the year did not, however, have a significant impact on the growth rate of the loan portfolio. As a result, the acceleration of growth in the retail loan portfolio (up to 22.4% in 2018 from 12.7% in 2017) due to high growth rates in mortgage and consumer lending (23.3% in 2018 and 21.1% in 2017, respectively), as well as the resumption of growth in the corporate loan portfolio (12.0% in 2018 compared to an increase of 2.2% a year earlier) ensured steady growth in lending of 14.7% in 2018 (4.7% in 2017). According to the Bank of Russia, excluding the depreciation of the rouble against the US dollar in 2018 and the effect associated with the revocation of the licences of a number of credit institutions, the corporate loan portfolio grew by 5.8% and the retail loan portfolio by 22.8% in 2018.

In 2018, the share of overdue loans in the retail portfolio decreased to 5.1% and in the corporate portfolio to 6.3%. The loan loss provision ratio decreased to 8.3%, but the coverage ratio rose to 177%.

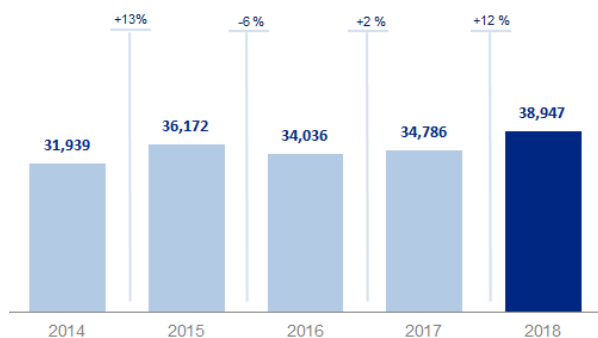
The weakening of the rouble had a noticeable impact on the growth of deposits and accounts. Corporate accounts increased by 16.4% in 2018 (compared to a 7.4% increase in 2017), while term deposits were up by 9.5% in 2018 (compared to 7.4% in 2017), accounting for 71% of banks' liabilities.

During the year, the net loans-to-deposits ratio decreased by 1.3 pp to 72%. Banking sector debt to the Bank of Russia increased by 29% in 2018, reaching 3.1% of assets.

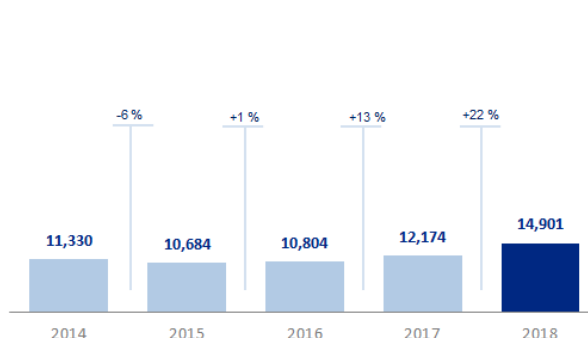
Banks' profits increased by 70.3% during the reporting period to RUB 1.3 trillion. The number of unprofitable credit institutions decreased from 140 at the end of 2017 to 100 in 2018. Growing profits contributed to an increase in return on equity in 2018, which rose by 6 pp to 15.1%, and an increase in capital adequacy (during the 12 months of 2018, the total capital adequacy ratio (N 1.0) increased by 10 bp to 12.2%).

Russian banking sector, RUB bn

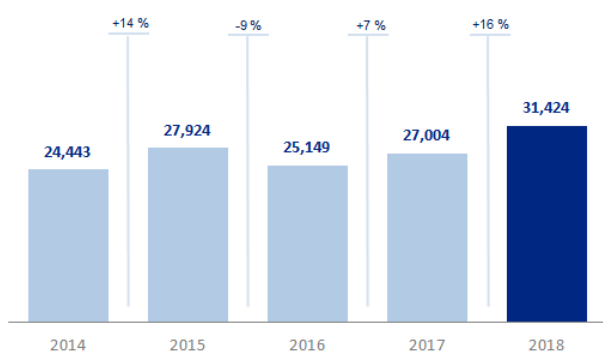
Loans to legal entities



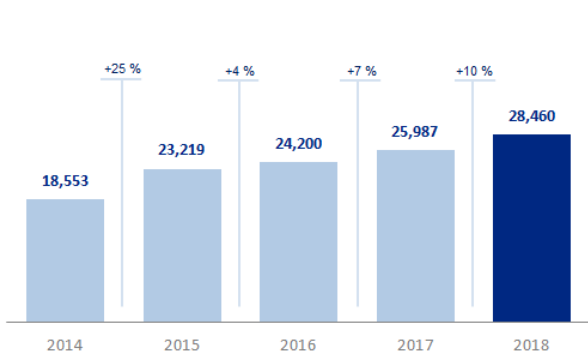
Loans to individuals



Deposits and accounts of legal entities



Deposits and accounts of individuals



4.2. KEY EVENTS



January

- On 1 January 2018, VTB Bank successfully completed the legal procedures for its merger with VTB24 and began servicing clients under a single brand. As part of the merger, online and mobile banking were renamed VTB Online for individual customers and VTB Business Online for corporate customers. During the New Year holidays, work was carried out to integrate the customer base and IT infrastructure, and all offices and online systems started operating as part of a single brand. A single product line was made available to customers throughout the entire network of VTB offices, offering the usual high level of service.

- VTB Bank began accepting applications for mortgage loans under a new programme of state subsidies. Support for borrowers envisages a reduction in the mortgage rate to 6% over three or five years. The programme can be used by families who have a second or third child between 1 January 2018 and 31 December 2022. Borrowers can take out a loan on preferential terms for the purchase of a newly built property or for existing housing through a developer.



February

- VTB joined a new programme offering preferential financing for small and medium-sized enterprises (Programme 1706, approved by Decree of the Government of the Russian Federation No. 1706 of 30 December 2017). The programme, which is being implemented jointly with Russia's Ministry of Economic Development, provides for a preferential annual lending rate of no more than 6.5% to companies in a variety of industries: agriculture, construction, transport, manufacturing, tourism, healthcare, etc. Loans to finance working capital are provided for up to three years or for up to 10 years for investment purposes.

VTB reached its Programme 1706 quota ahead of schedule in April 2018, concluding 32 loan agreements worth a total of RUB 4.5 billion. In total, 25 of the Bank's customers from 19 regions of Russia, representing 16 different industries, received support at a preferential annual rate of 6.5%. More than 80% of the agreements are for investment purposes.



March

- The S&P Global ratings agency upgraded VTB Bank's long- and short-term ratings from BB+/B, with a stable outlook, to BBB-/A-3, with a stable outlook. The agency noted VTB's success in improving the structure of its resource base by replacing costly financing through capital markets with customer funding, as well as measures to diversify its business profile by increasing its share of retail business and improving operational efficiency through the consolidation of the Group's structure and management system, as well as reducing the volatility of expenses for provisions.
- VTB Bank launched an expanded benefits programme for shareholders that includes a list of financial products and services that are subject to special conditions for Bank shareholders. The updated product line was launched throughout VTB's retail network. Preferential terms and conditions for VTB shareholders apply to the Multicard, Privilege and Prime service packages, custody services and insurance. Shareholders also have access to reduced rates on cash loans and when refinancing existing loans from other banks.



April

- VTB transferred the Group's divisions to a single information platform called the Corporate Business Portal. This project involves the introduction of tools for cross-functional interaction among Group employees and a work platform for the Bank's corporate business call centre, as well as the use of intelligent information processing algorithms. The Bank developed its own proprietary system for its Corporate Business Portal due to the scale and specificity of the Group's business.

- In April 2018, VTB was recognised as the best bank for trade finance in Eastern Europe in 2017 according to the British publication Global Trade Review. In 2017, VTB concluded more than 800 trade and export financing transactions with counterparties from 50 countries. The Bank supported its customers' foreign trade activities in the main sectors of the economy, including oil and gas, transport, machine-building, chemicals, steelmaking and others. VTB Bank also won an award for the best deal for arranging financing for the supply of aircraft for the Turkish airline SunExpress with insurance coverage provided by the Italian SACE export credit agency. This was a landmark transaction for the aviation financing market.
- VTB created a virtual bank branch to finalise its introduction of technology for remote customer service based on the OmniChat platform. The virtual branch's main functions are already available on the Bank's website, as well as through the VTB Online and VTB Business Online mobile applications. The virtual branch is a system that enables interaction between customers and the Bank's contact centre through the use of chat and other web-based collaboration tools. The online chat function enables customers to contact the Bank and exchange text messages and images with operators. Through remote channels, Bank specialists can help customers complete an application for a cash loan, a credit card or refinancing. This functionality is available both on the www.vtb.com and through the VTB Online and VTB Business Online mobile applications.



May

- On 23 May 2018, VTB Bank's Annual General Shareholders' Meeting was convened in St. Petersburg. The meeting was attended by more than 1,600 shareholders and shareholder representatives, including attendance via videoconferencing. The event was streamed online on the Bank's website, www.vtb.com. For the convenience of shareholders, an e-voting system was available for use at the meeting.



June

- VTB Capital's research team took the top spot in the Institutional Investor Emerging EMEA Research Team Ranking 2018 (in Russia). VTB Capital also climbed one notch in the Institutional Investor rating for the EMEA region, placing fifth among investment banks in the region and taking the top spot among Russian players. The investment bank's analytical team also became the leader in the EMEA region in the following sectors:
 - ✓ first place in the "Transport" category
 - ✓ second place in the "Power" category
 - ✓ third place in the "Sovereign Debt" category
 In individual rankings, the VTB Capital analytical team ranked third in the EMEA region.
- VTB Bank developed and introduced its own application "VTB My Investments" which provides retail clients with fast and easy access to investment products offered by VTB Group. The application incorporates broker services and asset management products. It allows clients to perform transactions in equities, forex and derivatives markets, to see the results of each transaction and the performance of their entire portfolio and to track changes of stock-exchange instrument rates. The flexible interface makes the application comprehensive and user friendly for both beginners and experienced individual investors.



July

- VTB's Multicard won the Frank RG Banking Reward Award 2018 in the "Frank RG Reward Star Top-Class Programme" category. The award was presented by the Frank Research Group, a leading research company that analyses the competitive environment in the Russian financial services market.
- VTB launched a line of credit products for small businesses in the agriculture segment. Financing is provided for working capital and investment purposes for up to seven years. VTB is working to support agribusiness companies as part of its Medium and Small banking business. VTB was one of the first Russian financial institutions to start working on a programme of preferential lending implemented jointly with Russia's Agriculture Ministry.



September

- VTB launched a new product, the Multicard credit card that offers a grace period of 101 days and the possibility of withdrawing or transferring funds without commission in the first seven days after receipt of a card. These conditions have been in effect since the cards became available in September 2018. In order to use the Bank's funds under the new Multicard credit card terms, cardholders simply have to make the minimum payment every month, i.e., 3% of the principal. Having been issued a 101-days Multicard, clients can also refinance other loans: during the first seven days, they can transfer or withdraw funds from the card in cash with no fees in order to cover debts in another bank.



October

- VTB Bank was assigned the highest rating for corporate governance, 7++ (Developed Corporate Governance Practice), based on the results of annual independent monitoring carried out by the Russian Institute of Directors. As part of the monitoring, various components of the Bank's corporate governance system were analysed, such as shareholder rights, the performance of management and oversight bodies, information disclosure and corporate social responsibility.
- VTB completed the acquisition of a controlling stake (85%) in Vozrozhdenie Bank. VTB launched a mandatory offer to buy back shares from Vozrozhdenie Bank's minority shareholders. All minority shareholders were able to take advantage of the offer up until January 2019. As a result, VTB was able to increase its stake in Vozrozhdenie from 85% to 96.30% of ordinary shares. Vozrozhdenie Bank's Development Strategy calls for further strengthening of the bank's market position in the Moscow region in the retail and corporate segments.
- Retail Investor Day was held in Moscow. The event welcomed 635 visitors, an all-time record. Stock market experts and leading VTB analysts presented information on the implementation of VTB Group's strategy and its financial performance, innovations in terms of interaction between the Bank and its shareholders, as well as a programme of special benefits and offers for Bank shareholders.

- On 31 October 2018, VTB Group and Sogaz Insurance Group closed a deal on the sale of 100% of VTB Insurance. All the companies in VTB Insurance Group, including VTB Life Insurance and VTB Medical Insurance, were included in the transaction. Until the integration is final, the companies in VTB Insurance Group will continue to honour their obligations to their customers in full. During the first stage after the completion of the transaction, VTB Insurance Group companies will continue to operate under their own brand.



November

- VTB Capital hosted the tenth annual Russia Calling! Investment Forum in Moscow. The event attracted more than 2,500 visitors, including more than 500 investors from 63 countries, government officials and heads of leading global corporations. Russian President Vladimir Putin addressed the forum's plenary session. The forum featured more than 900 business meetings for representatives of Russian companies and investors.
- VTB was named the 2018 Bank of the Year in Russia by The Banker magazine. The publication's international jury evaluated VTB's financial performance, as well as the strategic initiatives, technologies, products and services that the Bank introduced from January 2017 through June 2018. In winning the competition for the first time, the jury noted VTB's best practice in providing banking services in Russia. This award represents recognition by one of the most respected international financial publications of the success that VTB has demonstrated in various areas of activity: technology and management, as well as improving efficiency and shareholder value.



December

- Retail Investor Day was held in St Petersburg. The programme for the event included presentations by experts from VTB Group and Moscow Exchange. The key topics covered were the results of VTB's operations in 2018, VTB management's forecasts for 2019, VTB Group's dividend policy and an expanded programme of special offers for VTB shareholders.
- VTB Bank's Supervisory Council approved the purchase of an 81.1% stake in Sarovbiznesbank and a 71.8% stake in Zapsibkombank.

4.3. STRATEGY

VTB Group operates in accordance with its Development Strategy for 2017–2019.

The Strategy based on three key priorities:

- **Increased profitability** – exponential growth in net profit to more than RUB 200 billion by 2019 and a return on equity of around 14%;
- **Integration of the banking business** – the creation of a single universal bank;
- **Modernisation** – a breakthrough in the development of a modernised, customer-oriented bank through large-scale technological transformation.

The Development Strategy envisages significant structural changes in the Group's business model with the aim of improving the quality of customer service, strengthening market positions and significantly improving financial results. To achieve these goals, six strategic initiatives were developed and are being implemented:

- 1) improvement of the funding structure and reduction of the funding costs;
- 2) integration of VTB and VTB24 banks and reaching a new level of cooperation between business lines;
- 3) digital transformation of the Group's business and processes;
- 4) attainment of the target level of profitability in Corporate-Investment Banking while maintaining market leadership;
- 5) development of a new model for Medium and Small Banking focused on exponential growth in terms of the number of clients and income diversification;
- 6) new scale in Retail business.

2018 results of VTB Group's Development Strategy for 2017–2019

In 2018, VTB Group fulfilled its strategic goals in terms of net profit and return on equity. Net income reached a record high of RUB 178.8 billion, exceeding the target by 19%. At the same time, return on equity reached 12.3%, outstripping the target of 10%. Strong positions in the markets for corporate and individual clients' lending, significant growth in retail deposits and the replacement of more expensive sources of funding as well as effective cost management had a positive impact on the Bank's ability to fulfil these goals.

1. Improvement of the funding structure and reduction of funding costs

Fulfilling this goal by 2019 assumes an increase in the share of customer deposits among the Group's total borrowings to 81%. Retail deposits and accounts should be the key source of this growth. Their share of the Group's interest-bearing liabilities should increase to 36% by 2019.

By the end of 2018, VTB Group had fulfilled its established goals for attracting customer deposits, which accounted for 82% of interest-bearing liabilities as of the end of the year.

The most important factor behind this growth was more than 28% increase in individual account balances. As a result, the share of retail deposits and accounts among the Group's interest-bearing liabilities increased to 36%.

At the same time, the average cost of VTB's interest-bearing liabilities in 2018 decreased from 5.7% to 4.9%.

2. Integration of VTB and VTB24 banks and reaching a new level of cooperation between business lines

As a result of the merger of VTB and VTB24, the Group must switch to the model of a single universal bank in Russia and take the interaction of its global business lines to a fundamentally different level.

The merger of VTB Bank and VTB24 took place on 1 January 2018. All divisions of the parent organisation, as well as branches and subsidiaries that previously operated as part of VTB24 successfully began operating as part of the merged bank. All of the Bank's customers now have access to a unified product line, as well as all of the Bank's systems and processes, including remote banking for corporate customers, online and mobile banking for retail customers, processing, self-service devices and brokerage services, which are fully functioning without crashes.

In 2018, the Bank reached its first targets from the implementation of synergies within the merged bank: savings on operating expenses amounted to RUB 8.3 billion, growth in retail brokerage investments nearly doubled, and there was further growth in payroll projects. As part of the integration, measures for rebranding all points of sale and ATMs were successfully carried out; unified end-to-end

work models were built within the merged bank, including support and control areas; key decisions were made on the transition to a unified branch network model.

3. Digital transformation of the Group's business and processes

The implementation of a large-scale digital transformation programme includes improving the quality and effectiveness of the implementation of strategic initiatives undertaken in global business lines and functional units, ensuring the reliability and adaptability of the IT platform, as well as creating competitive advantages through the introduction of innovative technologies.

To ensure large-scale transformations, all IT processes were reviewed in 2018, the quality of IT change management and the IT project portfolio were improved, and agile development methods were introduced to reduce products' time to market.

Thanks to the introduction of advanced management approaches in accordance with plans, key digital transformation projects are being implemented, the IT landscape is being harmonised, IT systems are becoming more reliable, and new digital services are being introduced for retail and corporate customers using agile development techniques.

To ensure a high degree of information security, measures were taken to create a closed perimeter around critical banking systems, to introduce a system that protects against phishing emails, to create a project support service and to integrate information protection tools at the product design stage. As a result, the Group reached the maximum level of compliance with information security standards and was able to ensure zero downtime for critical systems as a result of cyberattacks and zero losses for the Bank because of cyberattacks.

4. Attainment of the target level of profitability in Corporate-Investment Banking while maintaining market leadership

The implementation of the Group's Development Strategy in Corporate-Investment Banking involves addressing the following challenges simultaneously: profit growth, maintaining leading positions in the corporate lending market, developing innovative products and upgrading the technology platform in the transaction business, improving the efficiency of cross-selling and profitability per client.

In 2018, the Group's Corporate-Investment Banking business increased its net profit by 34% to RUB 102.3 billion. At the same time, its loan portfolio increased 17%, which was significantly higher than the growth rate in Russia's corporate lending market.

VTB Group strengthened its position as a leading expert in the trade finance market and was recognised as the best trade finance bank in Eastern Europe (*Global Trade Review*) and the best trade finance bank in Russia (*Global Finance*).

In the investment business, leading positions were maintained in advising on M&A transactions and in arranging placements in public debt and equity markets. *Global Finance* named VTB Group the best investment bank in emerging markets, while *Finance Monthly* named it the best consultant among investment banks in Russia in 2018.

In 2018, VTB Group continued to develop customised and innovative client solutions. As a result, projects were implemented to enable payments and to accept contactless cards in the Moscow Metro and on Mosgortrans routes; support was provided for Moscow Parking digital services and for the Moscow Metro and Mosgortrans applications; the first release of the My Smart City application for residents of Moscow was developed.

Created in 2018, the VTB My Investments mobile application was recognised as the best in the market according to the Russian Association of Electronic Communications (RAEC).

5. Development of a new model for Medium and Small Banking focused on exponential growth in terms of the number of clients and income diversification

VTB Group's current development priority in Medium and Small Banking is the creation of a unique value proposition and the necessary business infrastructure to ensure exponential growth in terms of the number of clients and diversification of the Group's revenues.

As of the end of 2018, the volume of the Medium and Small Banking global business line loan portfolio had increased to RUB 1.1 trillion, while customer funding grew to RUB 1.4 trillion.

In 2018, VTB Group introduced a new model for segmentation and customer service. To increase the number of customers, a system of remote sales channels was launched, including a partner channel, online marketing and a call centre. To develop the value proposition, work continued on the implementation of projects to improve transactional products, introduce package offers, develop a remote banking system and optimise the processes of opening and maintaining accounts, including reserving accounts online. The Group also achieved significant results in automating the credit process for SME clients.

6. New scale in Retail business

The main objectives of VTB Group's Retail Business strategy are to increase the number of active customers, increase market share in lending and deposits, provide financing for the Group's goals and develop state-of-the-art technological solutions for customers.

As of the end of 2018, the total number of active customers in the Retail Business in Russia had increased to 12.3 million, including 6.5 million payroll customers. The Retail loan portfolio amounted to RUB 3.0 trillion as of the end of the year, which enabled VTB Group to achieve a 17.8% market share in retail lending. VTB's share of the market in retail customer funding increased to 14%, while its volume of retail customer funding surpassed RUB 4.4 trillion.

In 2018, VTB Group developed a new process for managing the life cycle of its payroll clients, improved the effectiveness of regional client teams in attracting such clients and significantly improved individual payroll offers for Bank clients. To increase balances in the accounts of retail customers, a new model for online sales of liability products was introduced, special incentive programmes were launched, loyalty programmes were developed, and steps were taken to increase customers' transactional activity. By restarting the Privilege operating model, the quality of service for premium customers was significantly improved.

Long-Term Development Programme

Based on the Development Strategy for 2014–2016, the Development Strategy for 2017–2019 and in accordance with the requirements for companies outlined in the special list published by the Government of the Russian Federation (Decree No 91-r of 23 January 2003), the Bank developed and approved an updated Long-Term Development Programme for 2014–2019 (Minutes No 4 of the Supervisory Council of 9 April 2018; hereinafter the "Programme").

The Programme contains a detailed list of measures to ensure that the Bank achieves the development goals specified by the Strategy (a more detailed description of the implementation of individual measures in 2018 is presented in the relevant sections of this Report).

The need to update the Programme in 2018 was due to:

- changes in the macroeconomic conditions related to the forecast used for development of the Programme;
- approval of the Bank's Development Strategy for 2017–2019 and, as a result, the need to reflect in the Programme VTB's current strategic initiatives and plans for their implementation for

2017–2019, as well as the need to synchronise the timing of the Programme with VTB Group’s strategic cycle;

- the requirements of the directives of the Government of the Russian Federation regarding changes to the Programme (in terms of increasing labour productivity; the need for human resources, including in engineering and technical specialisations; replacing foreign-made products with products of Russian origin; reducing operating expenses (costs); improving corporate governance; the inclusion of a key performance indicator based on dynamics in SME lending).

In accordance with the instructions of the Government of the Russian Federation (Directive No. 4955p-P13 of 17 July 2014), the Programme’s implementation is subject to an annual audit.

The audit of the Programme’s implementation is governed by the Bank-approved Standards for Conducting an Audit of the Implementation of the Long-Term Development Programme, which contains information about the procedures of the planned audit, the procedures for the tender to select an auditor, conducting the audit, the time frame for completing audit-related work and on decision-making based on the results of the audit, as well as on the corresponding Terms of Reference for conducting the audit.

The audit of the implementation of the Programme for 2018 was carried out by Ernst & Young LLC, and an audit report was prepared based on the audit results. The Supervisory Council reviewed the report on the fulfilment of the Programme for 2018 and the results of the audit. On the basis of these procedures, the auditor concluded that the information in the report fairly represents:

- the actual values of the Bank’s performance indicators specified by the Programme for the year ending on 31 December 2018, and the extent of the attainment of the target values;
- information about the reasons for failing to implement measures included in the Programme, and deviations in the actual values of the Bank’s performance indicators against those envisaged in the Programme for the year ending on 31 December 2018.

Key Performance Indicators (KPIs)

An important element in monitoring the attainment of the objectives of the Strategy and the Programme is the inclusion of key performance indicators (KPIs) in the system of incentives for responsible persons, guaranteeing employees a uniform course of action for the attainment of strategic goals.

In order to provide the basis for further development of the KPI system, the following documents were approved by the Bank:

- A list of key performance indicators to measure the performance of members of VTB Bank’s Management Board (Minutes No. 18 of the Bank’s Supervisory Council of 1 December 2017);
- The Method for Calculating and Evaluating the KPI “Return on Shareholder Investment” (Minutes No. 26 of the Bank’s Supervisory Council of 30 December 2014);
- The Procedure for Determining the Expected Amount of Remuneration for the Members of the Bank’s Management Board Depending on the Degree of Fulfilment of the KPIs (Minutes No. 26 of the Bank’s Supervisory Council of 30 December 2014);
- Regulation on Remuneration of the Bank’s Executive Bodies and the Key Performance Indicators for Their Activities (Minutes No. 2 of the Bank’s Supervisory Council of 26 February 2018).

The current version of the Regulation on KPIs also contains the following information:

- appropriate remuneration for the tasks performed, the results of activities and the level of risks taken;
- correlation between the remuneration of the Bank’s executive bodies and the achievement of the objectives and tasks specified in the Programme;

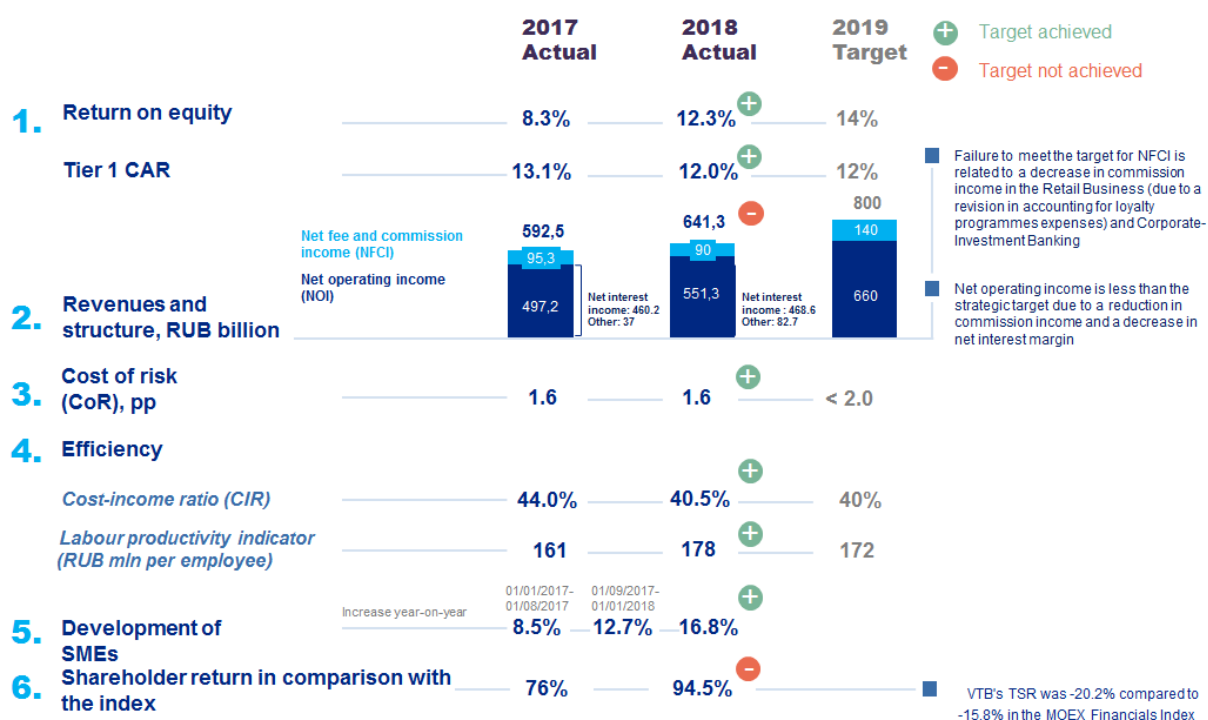
- correlation between the chief executive officer's KPIs and the achievement of performance targets of VTB Group, calculated on the basis of the IFRS consolidated financial statements of VTB Bank and its subsidiaries, as determined in the Programme.

Information on the link between the expected amount of the variable part of remuneration for VTB Bank's Management Board and the execution of the established KPIs can be found in the Procedure for Determining the Variable Amount of Remuneration for the Members of the Management Board of the Bank, as well as in the employment contracts of the Bank's senior management.

The key performance indicators are developed to assess the activities of the Bank's executive bodies, taking into account the areas of activity of the Bank's respective managers. It is also possible to use individual indicators for each respective manager to determine how successfully various projects/tasks/programmes have been implemented.

The list of KPIs and their weight in accordance with the Bank's governing documents are determined for the reporting period by a decision of the Supervisory Council on an individual basis for each member of the Management Board.

Key performance indicators of the Group



Detailed information on the Group's financial results for 2018 can be found in the "Financial review" section.

4.4. RESULTS OVERVIEW ⁴

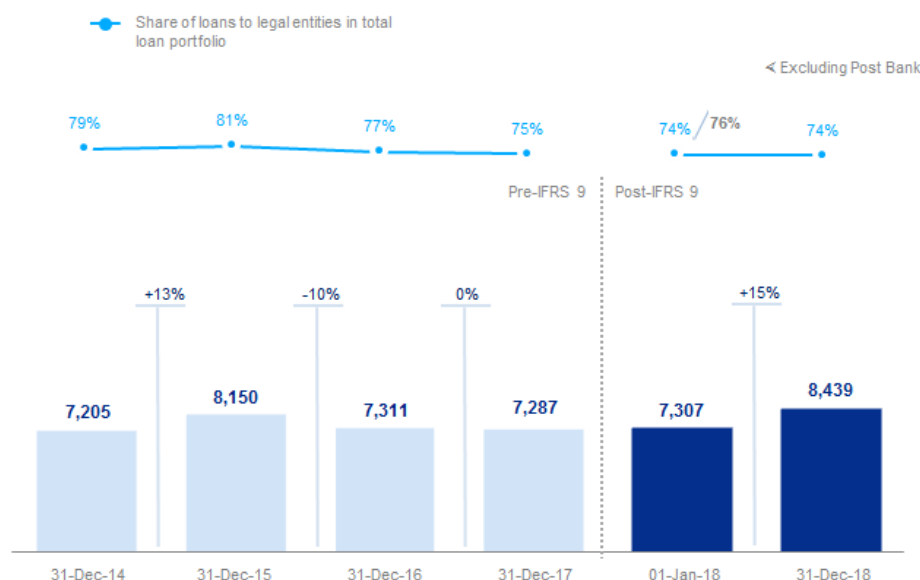
VTB Group delivered robust business growth in 2018, strengthening its market position and outperforming the industry average both in corporate and retail lending and in customer funding.

In 2018, the Group's loan portfolio (excluding Post Bank as of 01 January 2018 and 31 December 2018)⁵ increased by 19% to RUB 11.4 trillion due to an increase in lending to individuals and legal entities.

⁴ All figures in this present report are based on the financial results from IFRS Consolidated Financial Statements of VTB Group and might be rounded which allows for insignificant deviations in calculations expressed in percentage amounts if compared to figures from the Financial Statements of the Group.

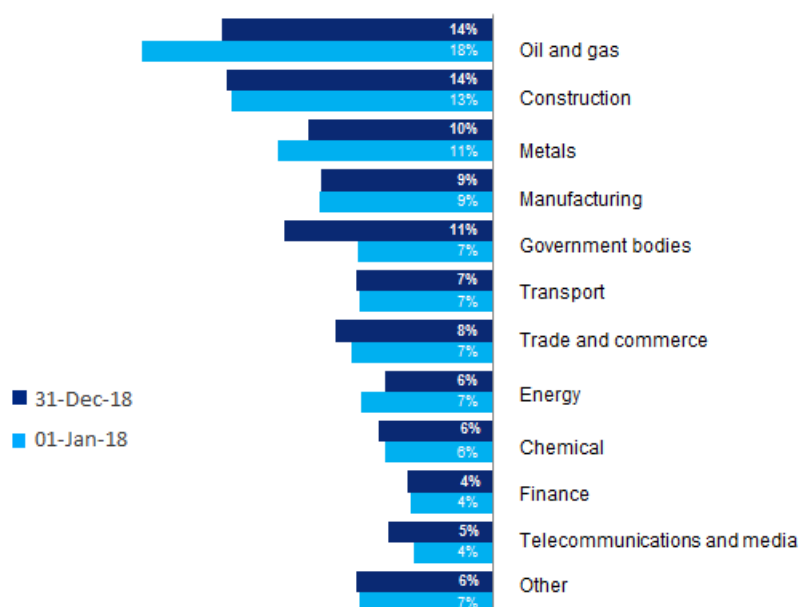
VTB Group loans to legal entities reached RUB 8.4 trillion, an increase of 15% compared with 1 January 2018. At the same time, the Group saw its share of the corporate lending market increase from 16.8% to 18.6%.

Loans and advances to legal entities, RUB billion



The key drivers of growth in the corporate loan portfolio were the construction, telecommunications and media, as well as trade and commerce sectors. The Group continued to develop work with all sectors, making lending to small and medium-sized enterprises (SMEs) a priority.

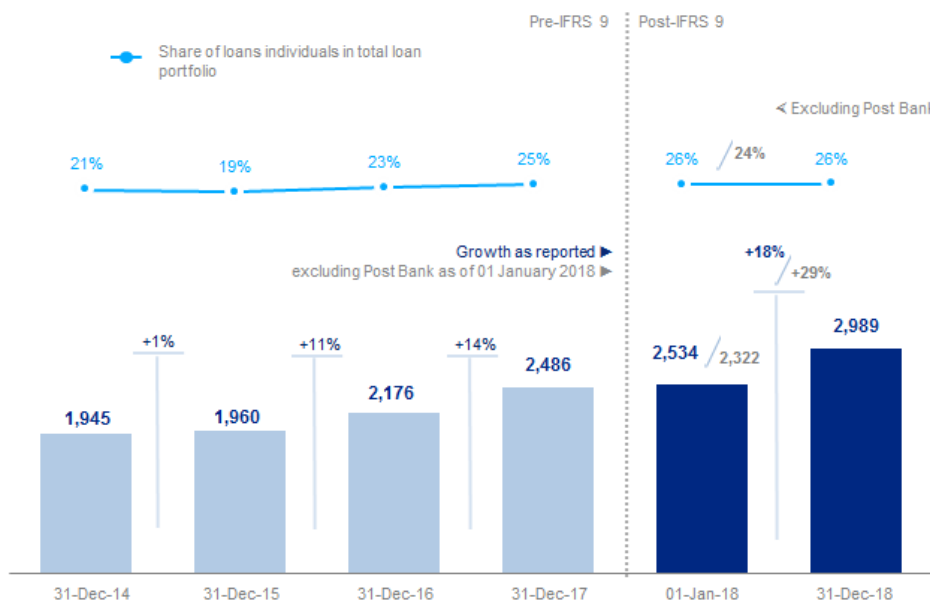
Loans and advances to legal entities by industry, %



⁵ To calculate the change in the loan portfolio in terms of accounting for the assets of Post Bank, the line consolidation method is used as of 31 December 2018 (corresponding to the consolidated financial statements of the VTB Group under IFRS for the year ended 31 December 2018) and as of 1 January 2018 (management reporting data is used). For more information, see the section "VTB Group today/VTB Group in the Financial Services Market/Key Changes in the Structure of VTB Group".

Retail lending increased by 29% (excluding Post Bank as of 01 January 2018 and 31 December 2018) to RUB 3.0 trillion. The Group increased its market share by 70 bp to 17.8% (up from 17.1% as of 31 December 2017).

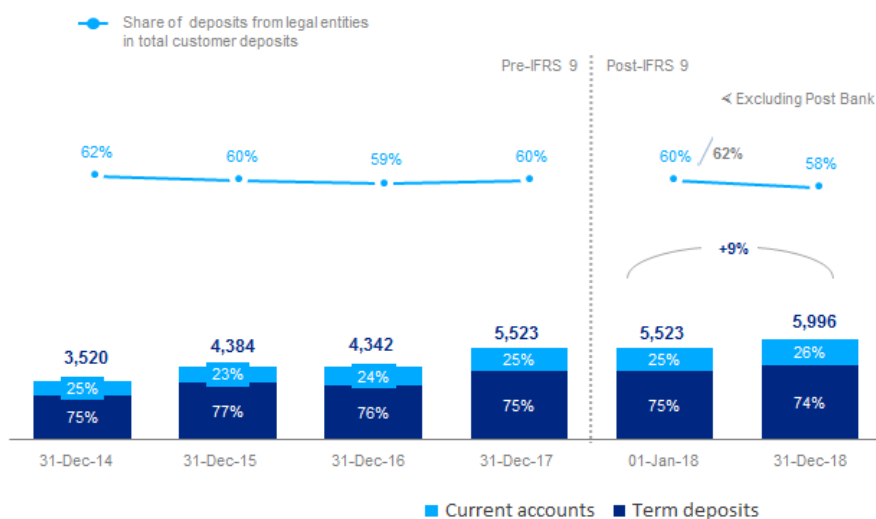
Loans to individuals, RUB billion



In 2018, VTB Group continued to increase customer deposits, which amounted to RUB 10.4 trillion, an increase of 16% in the reporting period (excluding Post Bank as of 01 January 2018 and 31 December 2018) due to an increase in deposits from both individuals and legal entities.

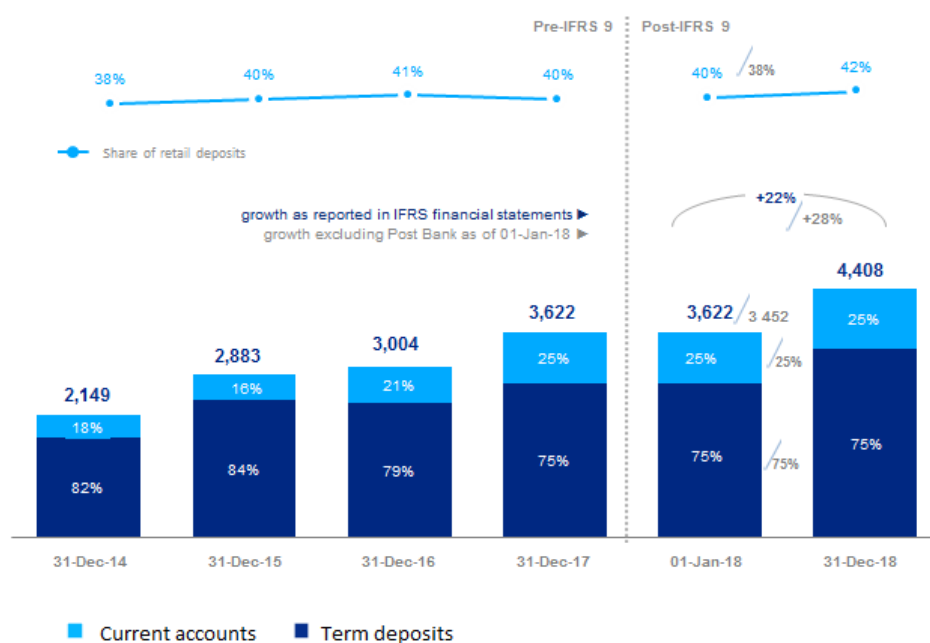
Customer funding from legal entities grew by 9% to RUB 6.0 trillion. In deposits and accounts from legal entities in Russia, VTB Group maintained its leading position with a market share of 20.7% at the end of 2018 (compared to 23.1% as of 31 December 2017).

Deposits and accounts of legal entities, RUB billion



VTB Group deposits from individuals amounted to RUB 4.4 trillion as of 31 December 2018. During 2018, individual deposits had increased by 28% (excluding Post Bank as of 01 January 2018 and 31 December 2018). The Bank enjoyed its biggest increase in market share in the last three years, up by 1.4 pp from 12.6% to 14.0%, outperforming both target and strategic indicators. As of 01 January 2018, excluding Post Bank, the Bank's market share increased by 2 pp (from 12.0% to 14.0%). In the reporting period, the Group accounted for one-third of the increase in customer deposits in the entire Russian banking sector.

Deposits and accounts of individuals, RUB billion



All of VTB Group's key global business lines contributed to business growth during the reporting period.

4.4.1. CORPORATE-INVESTMENT BUSINESS

The Corporate-Investment Business (CIB) global business line specialises in servicing major corporate clients through sales of lending, transaction and investment products, as well as leasing and factoring services in Russia, the CIS countries, Europe, Asia and Africa.

Segment overview

Client base in Russia and abroad: **11.7 thousand** acting clients

Banking client base in Russia: **9.5 thousand** acting clients

CIB loan portfolio: **RUB 6.7 trillion** (before provisions for credit losses, excluding Vozrozhdenie Bank)

Deposits and accounts from CIB clients: **RUB 3.9 trillion** (excluding Vozrozhdenie Bank)

Share of VTB Group total, %

Assets	52
Customer loans and advances (net)	60
Customer deposits and accounts	37

Net interest income	36
Net fee and commission income	23
Provision charge ⁶	37
Net operating income	42
Staff costs and administrative expenses	25

Source: VTB Group's IFRS consolidated financial statements for 2018.

To maximise the effectiveness of its CIB customer service, VTB created a dedicated client coverage unit and product units that are responsible for maintaining and developing a cutting-edge line of banking products.

The client coverage unit's service model centres on sector coverage, with dedicated teams responsible for doing business with clients from different sectors of the economy. This approach enables the Group to improve the quality of its sector expertise and build products and solutions tailored to the needs of specific clients.

The product units are also structured for sector specialisation and to meet the requirements of major corporate clients. This allows the Group to enhance its approach to credit analysis and improve the quality of its corporate loan portfolio.

Transaction banking comprises two main product lines: the documentary business, which includes a variety of guarantees and letters of credit; and liquidity management products, including account management products, financing products (including the accrual of interest on client account balances), as well as acquiring services, remote banking services, and settlement and cash services.

The Group's investment banking business offers a full range of investment banking products, including trading operations, organising debt and equity issuance, M&A transactions and consulting services, private equity, asset management, FX and interest-rate products and hedging strategies.

In 2018, the Bank was successful in achieving its targets in terms of key financial indicators in corporate-investment banking and was able to maintain its leading positions thanks to its mobile business model and willingness to make innovative decisions while taking due account of market conditions.

The Bank focused in particular on diversifying its business, improving the efficiency of processes and continued cost reductions. An important achievement in terms of diversifying the corporate-investment banking business was the creation of a brokerage services department — a key source of investment products for retail customers — as part of the merger between VTB and VTB24. In terms of cost reduction, the restructuring of the Group's European sub-holding was completed at the end of 2017, and VTB's European financial operations centre was moved to Frankfurt. This reduced the Group's costs related to servicing three offices.

Lending to CIB clients

VTB offers a wide range of lending products for corporate clients, providing financing for a range of tenors in all major global currencies. The Bank also offers various types of credit lines with drawdown limits, credit limits or a combination of these limits.

In addition to traditional financing, VTB also offers major corporate clients complex credit products, including structured repo, investment and project financing, debt and equity financing services, consulting services on structuring investment projects, trade finance services and direct financing from institutional investors and banks. VTB's clients have access to structured financing products that make it possible to significantly reduce interest rates by allowing the Bank to select the currency for repayment. Leasing and factoring products are provided to the Group's customers through VTB Leasing and VTB Factoring.

⁶ This includes expenses for provisions for credit losses on debt financial assets and for provisions for credit losses on credit obligations and other financial assets.

In 2018, the Bank continued its strategic cooperation with the Essar Group by providing commodity prepay financing (a transaction in which the bank provides funds for prepayments for future oil supplies) in the amount of EUR 162 million for the Stanlow Refinery in England, as well as approving USD 2.45 billion in funding for Essar Global Fund Limited and USD 180 million for the Matix Group.

In 2018, the Group continued to develop its lending business in international markets in Central and Eastern Europe, the Middle East and Africa (CEEMEA), and Asia. Several strategic deals were concluded in Asia, work continues with the aim of expanding the business in CEEMEA countries through new transactions in existing and new regions of operations, and the Group strengthened its focus on new opportunities in Eastern and Southern Europe.

An important area for the development of the Corporate-Investment Business in 2018 was work on the financing of public-private partnership projects.

Work continues on financing projects in the mining sector, and the Bank began financing green-energy projects in Russia.

Against the backdrop of positive trends in the construction and real estate sectors in 2018, the Bank continued to provide financing for high-quality projects, including entering new target markets:

- cooperation expanded with the largest, most stable players in the residential construction sector: as of the end of 2018, five of the 10 largest Russian developers were clients of the Bank;
- in the commercial real estate sector, work continued with borrowers both in terms of construction projects and in lending secured by finished real estate;
- a landmark deal on the use of escrow accounts was signed with the PIK Group;
- cooperation with companies in the housing and communal services sector was expanded;
- lending secured by commercial real estate and construction projects in Central and Eastern Europe was developed, as was lending secured by hotel real estate in Western Europe.

The Bank also carried out significant work to improve its portfolio management: work with borrowers continued to improve the security of transactions.

In 2018, VTB continued to develop trade and export financing in all regions where the Group operates and to support its clients' foreign trade operations all around the world. The Bank's first transaction with China's Sinosure export credit agency was completed.

VTB continued to carry out export credit transactions involving the Export Insurance Agency of Russia (EXIAR). During the reporting period, the first transaction was implemented with Solaris Commodities as part of a programme to subsidise interest rates on export credits from the Russian Export Center and insured by EXIAR.

VTB successfully completed a number of long-term trade finance deals with the participation of leading export credit agencies (ECAs). Taking advantage of the Group's European operations, the main focus was on direct financing for clients with ECA coverage.

Deposits and accounts from CIB clients

Attracting deposits and accounts from CIB clients is an important part of VTB's business. The Bank is constantly taking steps to improve customer service and streamline business processes to further develop deposit products and reduce operating expenses. In 2018, the structure of contracts was revised for the investment of funds in the form of deposits in minimum-balance accounts, which made it easier to invest customer deposits. In addition, VTB's flexible policy in setting rates and its individual approach to customers made it possible to respond in a timely manner to market changes, regulatory decisions and demand from Russian companies.

The Bank's simplified click-and-deposit system for the investment of free cash also continued to gain popularity among corporate clients in 2018, as it significantly reduces the time needed to process deposit transactions.

CIB transaction banking

Products for managing payments and liquidity

VTB offers companies a wide range of transactional products and services. Leading Russian and foreign holdings in Russia use the Bank's services on a continuing basis. Solutions for the centralisation of treasuries have been implemented for clients that take into account companies' individual features, and large-scale projects have been launched for expanded banking support for investment projects and much more.

In 2018, VTB was awarded a prize from the Association of Corporate Treasurers for its significant contribution to the development of corporate treasuries in Russia.

In order to improve the quality of customer service and provide clients with the latest services that they need, the Bank has been implementing a project to launch an advanced system for remote banking services. The system will enable access to a wide range of banking and non-banking services; conduct operations on behalf of several companies through a single interface; enable paperless document management with counterparties, trading platforms and government agencies; manage accounts opened in other banks; quickly generate a variety of analytical reports and much more. The system interface offers flexible settings that make it customisable for every user. In 2018, the first release of the system was made available, and customer transfers got under way.

During the reporting period, VTB also implemented a number of other projects aimed at providing customers with cutting-edge services and improved service quality:

- The business hours for making intrabank payments were doubled. Payments by legal entities and individual entrepreneurs received through the remote banking system from 6:00 to 22:00 in the Kaliningrad region and from 6:00 to 23:00 local time in all other regions where the Bank operates are performed on the same day.
- A new pilot procedure for opening accounts was made available through clients' personal online accounts. The service significantly reduces the time needed to open an account for both the client and the Bank.
- The opening of accounts for CIB clients is centralised, which enables the Bank to ensure uniform documentation review and service quality regardless of the office where the client banks.

Documentary business

VTB Group remained one of the leaders in the documentary business with a market share of 16.3%⁷ in terms of the volume of guarantees and letters of credit issued in 2018. Traditionally, significant emphasis has been placed on the development of technologies and processes in order to ensure the implementation of documentary products and services for customers using the most up-to-date technological platform. In 2018, VTB Bank began issuing electronic guarantees for customs authorities, which significantly simplifies the process for all participants and reduces the time required for the customs authorities to receive and review guarantees by more than 50%.

In addition, the Bank is also playing a leading role in a project aimed at the digitisation of the documentary business that is being carried out by the FinTech Association on the Masterchain blockchain platform. As part of the project, VTB conducted its first pilot transactions in 2018 to issue digital bank guarantees.

The key drivers of business development in this area were:

- the versatility and high degree of flexibility of the product line, covering the whole range of product offerings;
- the complexity of interactions with customers, based on the synergy between the credit and transaction solutions offered by VTB Group;

⁷ VTB Bank's calculations.

- significant financial strength and high-performance products, which made it possible to complete low-risk transactions in a highly competitive environment;
- well-developed regional infrastructure and the establishment of an efficient procedure for the completion of transactions that provide customers with convenient access to documentary products wherever VTB Group operates both inside and outside the country;
- high demand on the part of clients for VTB Group's expertise in the area of complex structured cross-border transactions and the availability of a developed infrastructure for the implementation of such transactions.

VTB Group continues to be an active participant in industry and professional associations in the documentary business, including ICC Russia, and it makes significant contributions of expertise to improving the mechanisms that have a regulatory impact on the market and the development of its infrastructure.

Transaction business outside Russia

In 2018, VTB's subsidiary banks in Belarus, Kazakhstan, Angola and Western Europe continued to expand and improve their range of transaction banking products and to actively promote their services to clients. All these measures made it possible for the foreign network to earn its highest-ever commission income from the transaction business since it became an independent business line.

In the reporting period, foreign subsidiary banks and branches working in the field of CIB attracted clients for settlement services, making it possible for them to make both local payments and settlements with counterparties from the Russian Federation as quickly and safely as possible using VTB Group's infrastructure.

Comprehensive transactional solutions for large companies

In 2018, VTB was actively involved in large-scale projects to centralise the management of cash flows, liquidity and financial risks at leading Russian corporations. VTB also implemented comprehensive transactional solutions for approximately 100 groups of companies made up of more than 3,000 legal entities.

In 2018, VTB Bank retained its position as the main settlement bank for some of the largest companies in Russia, including Russian Railways, Russian Post, Transneft, Rostelecom, Moscow Metro, the Air Traffic Management State Corporation and Rosneft; became the only settlement bank used by Alrosa; significantly increased its volume of settlement business with Severstal, Evraz, Zarubezhneft and Maks M; while also getting business for settlement services from the East Mining Company.

The Bank provided monitoring services for the accounts of real estate developers (according to Federal law #214-FZ) to some of the leading companies in the industry, including PIK Group, Capital Group, Hals Development, Don-Stroy, Coalco, Zheldoripoteka, RG Development, TsDS, Setl Group and others.

Cutting-edge solutions for transport and for cities

VTB Group continued to develop individual innovative client solutions, with the following projects in particular implemented in 2018:

- VTB became the agent bank for Moscow Metro and enabled the purchase of tickets for urban transport through all MosMetro channels.
- The Bank enabled the use of contactless bank cards on the turnstiles at Moscow Metro stations and on Mosgortrans routes.
- VTB provided support for digital services such as the Moscow Parking application, as well as the Moscow Metro and Mosgortrans applications.
- The Bank developed the first release of the My Smart City application, which allows Moscow residents to receive news from the Moscow city government and departments, information about cultural events and so-called Active Citizen votes, to pay for utilities and fines and to top up Troika cards.
- VTB started creating an ecosystem for Russian Railways based on the Unified Transport Card.

Custody services

VTB Group Custody is one of the largest custodians in Russia and provides a full range of custody services for all types of securities issued by Russian and foreign issuers. The majority of companies operating in the Russian market hold depository accounts with the Bank. During the reporting period, transaction services through accounts with Russian sovereign bonds remained in high demand among domestic and foreign participants in the Russian securities market through Euroclear Bank accounts. Euroclear Bank is one of the largest international account depositories, whose agent for custody operations in Russia is VTB Custody.

The Bank's depository acts as a Russian sub-custodian for the Bank of New York Mellon and Deutsche Bank Trust Company Americas, holding the underlying assets for issuing depository receipts for shares in a number of major Russian issuers.

Investment banking

VTB Group is Russia's leading investment banking franchise and continues to be one of the key advisors for Russian corporate clients looking to access global capital markets. Investment services are primarily sold under the VTB Capital brand. In 2018, the Group maintained its leading position in various segments of Russia's investment banking market.

Global markets

VTB Group offers a full range of services for fixed-income, equity and FX trading, as well as interest-rate and global commodities market operations. The Group also provides currency and interest-rate risk management services, including hedging solutions, as well as structured finance, structured deposits and notes, structured credit and hybrid products.

VTB Group clients are able to access equity capital markets in Russia and in a number of countries in Eastern Europe, the Middle East and Africa. VTB Capital is a member of the London Stock Exchange, and it also has access to a number of foreign markets through its extensive network of local brokers.

In 2018, VTB Capital strengthened its position in the Russian stock market and became one of the three largest market operators, and it also significantly increased its market share in terms of trade with international clients. VTB Group also strengthened its leading position by trading volume in the Moscow Exchange repo market and became one of the three largest operators in the repo market.

The Group remains one of the leading players in the foreign exchange and derivatives markets, with market shares of 22% and 30%, respectively.

VTB Group maintained its position as one of the leading traders of government and corporate bonds on the Moscow Exchange and in over-the-counter markets. It remains the market leader in Russia in fixed-income instruments. In 2018, the Group's share of trades in the bond market was 15% for both rouble-denominated bonds and Eurobonds.

Global commodities

VTB Group's commodities business — a strategic area of development — has established infrastructure to support the complete sales cycle from national producers to end consumers all over the world. VTB was able to create in a very short time a national universal trader in Russian and international markets (Russia, China, India, Central Asia, Europe) and to create an anchor product for the development of its international business. VTB's commodities business is currently represented by a top international team with expertise in all major areas, including oil and petroleum products, coal, precious and industrial metals, agricultural products and fertilizers.

In 2018, VTB Group expanded its presence in commodities markets, including in international markets. Its line of basic assets includes precious and non-ferrous metals (gold, aluminum, copper and tin); oil,

petroleum products and petrochemical products; coking and power-generating coal; and agricultural products (soybeans, wheat, barley and sunflower seeds).

The Group's trading companies — VTB Capital Trading (Zug, Switzerland) and VTB Capital Trading LLC (Moscow) — continue to expand their range of services. Structured finance transactions (stocks and cargo in transit), advances on future deliveries (prepayment), and transactions on delinquent deliveries were concluded. The client base was expanded in the CIS countries and other international locations. The first deals in Italy, Turkey and Japan were concluded, while trading volumes increased in Kazakhstan, China and India.

The most significant transactions for the industry are financing the extraction and production of raw materials, as well as optimising the usage of working capital.

VTB Bank continues to offer an option structure to hedge the commodity risks of Russian producers of mineral resources. The use of this structure makes it possible to reduce the negative impact on companies' revenues when oil prices fall below a certain level (the so-called protection level). At the same time, due to the special currency component of the structure, the Bank was able to establish a protection level that was economically attractive to oil producers.

Key deals in 2018 included:

- a renewable transaction for hedging market risks with a consumer of petroleum products;
- hedging transactions on iron ore production;
- long-term prepayment on future supplies of crude oil with an independent oil producer;
- a structural transaction for the supply of crude oil with a deferred payment and built-in currency conversion;
- financing the supply of grain crops by providing the buyer with a post-payment;
- financing of warehouse stocks of grain crops;
- advances on the export of grain crops from Kazakhstan for delivery to the European Union.

Investment banking

VTB Group offers a full range of investment banking products, including advising on M&A transactions and organising the issuance of debt and equity securities. The business is focused on serving customers in key sectors of the economy in both Russia and international markets.

Advisory

In 2018, VTB Capital was again recognised as the leader in terms of the volume of M&A transactions in Russia, according to a number of independent agencies, including Thomson Reuters, Dealogic and Mergermarket.

Outside Russia, VTB Capital offered consulting services in international M&A markets, including deals in countries such as India, China and Angola.

VTB Capital received several prestigious awards for its consulting services, including:

- "The Best Investment Bank in Emerging Markets", according to *Global Finance*;
- "The Best M&A Transaction in Asia 2018", according to *The Banker*, for its consulting work on the USD 12.9 billion sale of Essar Oil;
- "The Best Consultant among Investment Banks in Russia 2018", according to *Finance Monthly*.

Equity capital markets

In 2018, Thomson Reuters once again named VTB Capital the top bookrunner in the Russian equity market in terms of the volume of placements, with a record market share of 84.5%.

Among the most notable transactions in 2018 was an accelerated book-build for shares in SAFMAR Financial Investments worth USD 163 million, in which VTB Capital acted as the sole global coordinator, as well as an accelerated book-build for the placement of Inter RAO shares worth USD 73 million, where VTB Capital acted as the joint global coordinator and bookrunner.

Debt capital markets

According to the independent agencies Thomson Reuters and Dealogic, VTB Capital was once again one of the top-ranked companies in 2018 in terms of the volume of transactions in the debt capital markets of Russia, the CIS and Eastern Europe. While maintaining its leading position in Russia, VTB Capital strengthened the Company's global presence in debt capital markets by participating in several transactions outside the country, including for customers from Turkey and Kazakhstan, as well as in 13 new bond issues for customers from China.

The most significant transactions completed in 2018 included participation as the sole lead manager of the sovereign issue of Eurobonds by the Ministry of Finance of the Russian Federation worth more than USD 4 billion, as well as the organisation of a transaction for the issue of Eurobonds by RusHydro worth CNH 1.5 billion, the first issue of bonds denominated in renminbi (dim sum bonds) by a Russian corporation.

Corporate real estate market

In 2018, VTB began offering corporate real estate consulting services to provide clients with a unique service to assist in complex corporate real estate situations that require not only knowledge of the corporate real estate market but also expert qualifications in terms of financing and structuring.

The Global Banking Services' new Corporate Real Estate Consulting Department acted as a financial consultant for Yandex in a complex project worth USD 145 million for the acquisition of a property to house the company's new headquarters.

Investment management – VTB Capital Investments

VTB Capital Investments, a single platform for the VTB investment projects that provides comprehensive investment services for a wide range of investors in the Russian market, was established on 1 January 2018 as part of the CIB global business line.

With its effective business strategy, excellent team of professionals, focus on the development of digital services, in-depth expertise and optimal risk management system, VTB Capital Investments was able to occupy a leading position in the investment services market.

The VTB Capital Investments product line includes an extensive client base and a wide range of products, strategies and investment proposals for both private and institutional Russian and international clients.

VTB Capital Investments provides a full range of investment services for a broad array of investors and consolidates the following companies:

- VTB Capital Investment Management: the largest Russian asset management company for Russian and international investors;
- VTB Bank's Brokerage Department: brokerage services for private customers;
- VTB Capital Broker: brokerage services for institutional investors; and
- VTB Capital Forex: services for individuals in Forex markets.

VTB Capital Investments was managing more than RUB 1.5 trillion in client assets as of the end of 2018, which was 63% more than the total amount of client assets managed by these businesses before the merger in 2018. VTB Capital Investments manages the funds of more than 300,000 retail and corporate investors, pension funds, and large institutional and sovereign funds.

Thanks to this new approach, close interaction between departments, a focus on results and the team's commitment to create the best product in the market, VTB managed to launch a record number of new products and services in a very short time. Since the beginning of 2018, VTB Capital Investments has implemented more than 30 projects to launch new products and improve services for customers. New products launched include investment consulting, exchange-traded currency repo, a mobile application with a robo-adviser and VTB exchange-traded funds.

In 2018, the VTB Capital Investments team promptly created a mobile application "VTB My Investments" to help new investors ("The Best Investment Application 2018", according to the Russian Association for Electronic Communications).

VTB Capital Investment Management is Russia's largest asset management company, offering a wide range of investment products for institutional and private investors. Its main activities include the management of open-end funds, asset management for private banking customers and institutional accounts, such as private pension funds, insurance companies, endowment funds, sovereign funds and self-regulating organisations.

VTB Capital Investment Management also manages closed-end funds, real estate funds, venture funds and hedge funds.

In 2018, the volume of assets under management exceeded RUB 750 billion.

Working with institutional clients is one of the key areas of VTB Capital Investment Management's business. The assets of institutional and government clients managed by VTB Capital Investment Management have increased by 26% to more than RUB 365 billion, and contracts have been signed with 13 non-state pension funds and endowment funds.

VTB Capital Investment Management's retail investment funds have a long history of successful asset management. Twenty retail funds with various investment strategies provide a large selection of investment opportunities. The line of retail investment funds includes bond funds, mixed funds, diversified equity funds, a money market fund, an index fund and a commodity market fund. The strategies employed are diversified by industry, currency and location.

Three open-end fund companies began trading on the Moscow Exchange in 2018, which increased their liquidity and resulted in increased interest from customers.

VTB Capital Investment Management was the market leader in terms of mutual fund portfolio growth in 2018, with more than RUB 30 billion invested, which accounted for more than 32% of the growth in the retail fund market during the reporting period. This investment growth enabled the Company to become one of the three leading companies in the retail mutual investment fund market. The volume of assets managed by retail funds exceeded RUB 40 billion as of the end of 2018, an increase of 300% compared to the previous year.

In the autumn of 2018, sales were launched for the Accumulated Savings mutual investment fund, which offers life insurance for investors equal to the amount of their investments. There is no other fund in the Russian market with a similar offer.

In 2018, VTB Capital Investment Management successfully launched a second residential real estate fund for retail investors with more than RUB 2.4 billion in assets under management.

VTB Bank's Brokerage Services Department provides brokerage services to private clients.

In 2018, a record number of new products and services were sold:

- VTB Bank was the first to enable clients to register and open Moscow Exchange accounts online;
- The process of opening a brokerage account was made much easier and became much faster: VTB Bank's retail customers can now sign a brokerage services agreement through VTB Online and continue to conduct operations in the stock, currency and derivatives markets through the VTB My Investments mobile application: opening and adding funds to a brokerage account

and/or Individual Investment Account through online banking or the VTB Online mobile application takes no more than three minutes;

- Since the middle of 2018, it has been possible for brokerage service clients to invest in VTB Capital Asset Management mutual funds traded on the stock market and to manage these funds' portfolios through the VTB My Investments mobile application.

For more about investment services for retail customers, see the “Results Overview/Retail Business” section.

VTB Capital Broker provides institutional and corporate clients, UHNWI⁸ and family offices⁹ with individual solutions for investing in rouble and foreign-currency instruments using state-of-the-art remote technologies, marginal lending and information and analytical support for their decision-making.

The volume of client assets doubled in 2018, reaching more than RUB 500 billion, and the Company's revenue also doubled. The number of corporate customers increased by 81% to 451 customer accounts.

VTB Capital Forex is the leader in Russia in terms of client base, volume of client funds, turnover and number of trading operations; its volume of cleared funds exceeded RUB 1 billion, and its volume of trading operations exceeded RUB 4.5 trillion.

Research

VTB Capital provides its clients with high-quality investment analytics on the economy, sovereign debt and the corporate sector and is a recognised source of information on the markets of Russia, Central and Eastern Europe, the Middle East and Africa. VTB Capital analysts cover the activities of more than 100 companies, publishing over 2,500 reviews every year with analysis of financial information and major events that have a direct impact on the activities and results of the companies and sectors of the economy subject to analysis. VTB Capital analysts work closely with the Equity and Fixed Income Market Operations Departments, while also providing analytical support for strategic decision-making by VTB Group management.

According to the results of the Institutional Investor 2018 Emerging EMEA Research Team survey, VTB Capital analysts were the best in the “Russia” category and ranked fifth in the Emerging EMEA region. The VTB Capital analytics transport sector team remained the leader in the EMEA region, and several analysts improved their position compared to the previous year.

In the Extel Survey 2018 ranking, the VTB Capital analytics team also ranked first in Russia and was among the leaders in such categories as “Analytics in the Fixed Income Instrument Market (Russia)”, “Oil and Gas (Russia)”, “Metallurgy”, “Chemical Industry, Transport and Engineering (EMEA)”, and several others.

⁸ Ultra-high-net-worth individuals.

⁹ A family office is a family welfare management model that includes monitoring of the implementation of ongoing financial transactions, investing family capital, tax planning, real estate transactions, financing the education of family members, inheritance issues and so on.

Awards received by VTB Capital in 2018

 World's Best Investment Banks Best Investment Bank in Emerging Markets 2018	 Best Investment Bank in Russia 2010 - 2018	 Best Investment Bank in Russia 2018	 Best Financial Services in Russia 2016 - 2018
 World's Best FX Providers Best FX Provider in Russia 2011 - 2015, 2017, 2018	 Best Securitisation House in CEE and EMEA 2009, 2010, 2013 - 2018	 TOP-3 Equity Sales Team in Russia 2011 - 2018	 #1 Investment Banking Advisory Firm in Russia 2015, 2016, 2018
 #1 M&A Advisor in Russia 2018	 #1 ECM Bookrunner in Russia 2018	 #1 DCM Bookrunner in Eastern Europe 2018	 Best Investment Bank on Eurobonds Market 2016 - 2018
 #1 Research Team in Russia 2011, 2012, 2014, 2017, 2018	 Best Broker in Russia 2018	 Best Investment Banking Brand in Emerging Markets 2018	 #1 Pan European Conference: Investment Forum "RUSSIA CALLING!" 2016 - 2018

VTB Capital's major investment transactions in 2018

 SAFMAR INDUSTRIAL AND FINANCIAL GROUP SAFMAR Group USD 163 million Accelerated Bookbuild Offering  VTB Capital Sole Global Coordinator and Bookrunner 2018	 INTER RAOUES energy without borders Inter RAO USD 73 million Accelerated Bookbuild Offering  VTB Capital Joint Global Coordinator and Bookrunner 2018	 GAZPROM Gazprom RUB 70 billion Local bond issues  VTB Capital Arranger and Bookrunner 2018	 GAZPROM NEFT Gazprom Neft RUB 25 billion Local bond issues  VTB Capital Arranger and Bookrunner 2018
 TRANSNEFT Transneft RUB 15 billion Local bond issues  VTB Capital Arranger and Bookrunner 2018	 DOM.RF RUB 25 BILLION Local bond issues  VTB Capital Arranger and Bookrunner 2018	 PHOSAGRO PhosAgro USD 500 million Eurobond issue  VTB Capital Global Coordinator 2018	 GAZPROM Gazprom CHF 750 million Eurobond issue  VTB Capital Global Coordinator 2018
 Russian Federation USD 4 billion Dual Tranche Sovereign Eurobond issue  VTB Capital Sole Bookrunner and Dealer Manager 2018	 RusHydro RusHydro CNY 1.5 billion Eurobond issue  VTB Capital Arranger 2018		

Non-banking financial business

Along with providing corporate clients with banking and insurance services, VTB Group also offers clients leasing and factoring services. Synergies and cross-selling of banking and non-banking products remain one of the Group's main development priorities.

Leasing

- No. 1 in terms of market share in the leasing market¹⁰
- No. 1 in terms of net leasing investments and operating lease assets¹⁰
- No. 1 in the cargo truck segment¹⁰;
- No. 1 in the rolling stock segment¹⁰;
- No. 1 in the aircraft segment¹⁰;
- No. 1 in terms of the volume of new business in the segment of equipment for oil and gas production and processing.¹¹

VTB Leasing is one of Russia's leading leasing companies. The company has 59 offices across Russia, as well as subsidiary businesses in the CIS and Europe. VTB Leasing is one of the top three leasing companies in Russia and one of the top 20 in Europe.

¹⁰ According to a study by Fitch Ratings, 2018.

¹¹ According to RAEX, 2018.

VTB Leasing's clients are large corporate clients, standard bearers in their industries, both state-owned and private: Aeroflot, Rosneft, the Federal Cargo Company, SUEK, Novotrans, Russian Post and many others. At the same time, in the area of auto leasing, VTB partners with more than 25 thousand small and medium-sized enterprises and individual entrepreneurs. As of the end of 2018, VTB Leasing was one of the largest players in this segment in terms of the number of leased cars and amount of specialised machinery.

By the end of 2018, VTB Leasing's leasing portfolio amounted to RUB 575.5 billion, while the company's volume of new leasing contracts amounted to RUB 276.7 billion. The main sectors of the leasing portfolio remain rail transport, aviation equipment and auto leasing. The share of transactions in rapidly expanding sectors for leasing such as automobiles, freight transport and specialised machinery continued to grow, reaching 12% of the portfolio by the end of 2018.

Factoring

- No. 1 in working with SMEs¹²
- No. 1 in terms of receivables financing;
- No. 1 in terms of factoring portfolio volume.

VTB Factoring, the leader in the Russian factoring market, provides a full range of factoring services for working with receivables and payables. The company operates across Russia through its network of affiliates located in 15 of the country's largest cities and also through branches of VTB Bank.

The well-coordinated work of VTB Group's unified team, based on an individual approach to the development of unique solutions, allowed VTB Factoring to significantly expand its business in 2018: the company's portfolio grew by RUB 80 billion (or 60%), the largest increase in the factoring market. In general, the volume of receivables financed by the company amounted to RUB 611 billion, while its factoring portfolio exceeded RUB 215 billion. As a result, VTB Factoring remained the leader for the seventh year in a row in terms of both financing receivables and its factoring portfolio, with a market share of more than 30%.

VTB Factoring's main areas of focus are Russia's largest companies in markets for goods and services and for the supply thereof, as well as maintaining its leadership in the factoring sector and the development of new opportunities in the factoring business, including long-term factoring, such as contracts in the energy sector and other solutions.

4.4.2. MEDIUM AND SMALL BUSINESS

The Medium and Small Business (MSB) global business line specialises in serving small and medium-sized corporate clients.

Segment overview

Client base in Russia and abroad: 659.5 thousand acting clients in the MSB segment (not including clients of Vozrozhdenie Bank)

VTB Bank clients in Russia: 577 thousand acting clients in the MSB segment

MSB loan portfolio: RUB 1.3 trillion (before provisions for credit losses, not including Vozrozhdenie Bank)

MSB customer deposits: RUB 1.4 trillion (not including Vozrozhdenie Bank)

Geographical coverage of the MSB global business line: Russia, Kazakhstan, Belarus, Armenia,

¹² According to the Association of Factoring Companies of Russia, 2018.

Georgia, Azerbaijan

Share of VTB Group total, %

Assets	8
Customer loans and advances (net)	11
Customer deposits and accounts	14
Net interest income	14
Net fee and commission income	30
Provision charge ¹³	13
Net operating income	16
Staff costs and administrative expenses	12

Source: VTB Group's IFRS consolidated financial statements for 2018.

The Medium and Small Business (MSB) segment is one of the most competitive sectors in the banking market. Most of Russia's largest banks have announced that MSB is a priority segment for development, with so-called digital banks very active in attracting customers. The small-business market is characterised by high volatility: with a relatively steady number of customers, there are new companies in the market every year, and a significant portion of customers change banks, which further intensifies competition.

Very few digital banks have a foothold in the medium-sized-business segment, but there are strong local players in some regions that have an advantage due to their local presence. As a rule, medium-sized-business customers work with two or three banks, which is what determines the specifics of competition: in this segment, the quality of personal customer relations, the price-related and non-price-related transaction terms and the overall quality of service and technology are determining competitive advantages.

Taking into account market trends and customer needs, VTB Group merged its medium-sized- and small-business segments into a single Medium and Small Banking global business line in 2018. As part of this process, extensive changes to the process of servicing small-business clients were worked out and partially implemented. The Bank developed a new sales and service model that takes into account the needs of the three main subsegments in this market. In addition to changing the sales model in its regional network, the Bank began developing sales through remote channels.

In 2018, a single product factory for small and medium-sized businesses was launched that combined the dynamic development of the entire line of transactional and credit products for the SME segment.

In addition, to make the Bank a more attractive option to potential customers and to establish convenient mobile service conditions for customers, a corporate digital factory was created in the reporting period that made it possible not only to apply digital banks' successful approach to attracting customers but also to build a full-fledged digital habitat (or ecosystem) for customers: active remote banking channels and services were developed that allow customers to save a significant amount of time, while helping them manage their business effectively.

Lending and documentary business

Lending to SME clients largely depends on general trends in the economy: in challenging economic conditions, companies reduce their borrowing, while they use credit products more actively during periods of economic growth. At the same time, VTB Bank aims to constantly improve the lending process for SME customers, which ultimately leads to a larger market volume and growth in sales of loan products.

¹³ This includes expenses for provisions for credit losses on debt financial assets and for provisions for credit losses on credit obligations and other financial assets.

According to the Expert RA rating agency, VTB's share of the lending market for SMEs was 21% in 2018. In addition, the Bank became one of the three market leaders in terms of loans to SMEs issued in 2018, while the Bank's lending to SMEs increased at a rate of 22.8% in 2018.

VTB offers preferential financing terms through state programmes that support business.

As of the end of 2018, VTB had 1,756 existing loan agreements for state support programmes worth a total of RUB 211 billion.

As of 1 January 2019, the largest number of loan agreements were part of the preferential programme run by the Russian Agriculture Ministry. Loans are provided to agribusiness companies at an annual rate of not more than 5%.

The second-largest number of loans were provided through programmes for concessional financing through the Russian Ministry of Economic Development (transactions through Programme 674 were concluded in 2017, while those through Programme 1706 were concluded in 2018).

In 2018, a great deal of attention continued to be paid to supporting small and medium-sized enterprises (SMEs). Cooperation with the SME Corporation continued in terms of working with existing and potential SME customers. In its work to support SME customers, VTB offers a lending programme with favourable terms against guarantees from the SME Corporation. Using the SME Corporation's tools for SMEs, it is now much easier for the real sector of the economy to access financing for business development, including regional production. Projects were financed in a wide range of industries, such as the cultivation of crops, the food industry (flour and gingerbread production), manufacturing industries (furniture, textiles, glass products), sports activities and others.

Together with the Industrial Development Fund, VTB finances projects aimed at developing new high-tech products, technical re-equipment and the creation of competitive production operations.

VTB Bank is also actively involved in a state programme approved by the Russian Government to support investment projects in Russia based on project financing and a programme run by the Russian Ministry of Industry and Trade that provides concessionary financing for the purchase of agricultural, road construction and municipal equipment (Programme 163).

In order to increase its lending volume, the Bank implemented a number of pilot projects and programmes in 2018 that enabled it to offer small-business customers loans on favourable terms, including various loyalty programmes for reliable borrowers, pre-approved loans and other targeted offers for customers that take into account the specifics of their business.

For the MSB documentary business, 2018 was marked by a number of achievements, including both the completion of specific transactions and the overall growth of the Bank's documentary portfolio, as well as the development of the product line and services for customers.

By the end of 2018, there was increased demand for documentary business products on the part of MCB clients: the portfolio of documentary transactions with such clients grew by almost 35% in 2018. In addition to the growing customer demand for bank guarantees among residents of the Russian Federation, a positive trend in the credit business was observed in 2018. The product solutions offered by the Bank for arranging client financing through the use of letters of credit led to an increase in the portfolio of letters of credit by 34%, with the number of transactions increasing by nearly 50%.

A number of projects were implemented in 2018 as part of the development of services for Bank customers. One promising area for the Bank's documentary business for MSB clients is the development of remote electronic channels for issuing bank guarantees, including in respect of small-business solutions (express guarantees).

MSB transactional business and the development of non-banking services

As part of VTB Group's development strategy, work continued on the implementation of large-scale strategic projects involving the creation of new products and services, as well as the development of

existing VTB transaction services. The key tasks involved projects to unify the processes and services provided on various technological platforms in connection with the merger of VTB Bank and VTB24.

The MSB global business line managed to achieve record results in terms of the opening of current accounts by introducing a basic line of packages throughout the network, as well as through a number of marketing campaigns aimed at attracting customers.

In addition, a number of projects were carried out in 2018 that were aimed at increasing customer loyalty and expanding the product range, in particular:

- a project to open and connect special procurement accounts to the remote banking system (according to Federal Laws #44-FZ/223-FZ);
- the working day for processing intrabank payments was increased to 23 hours;
- a universal corporate card was introduced that combines cash withdrawal and deposit options.

VTB confirmed and strengthened its position as a key financial partner of the City of Moscow with regard to the most important issues related to the capital's functioning. The Bank ensures best practices in organising the reception and routing of payments received for housing and utilities from residents of Moscow, and the list of partner companies and available services has been expanded. Interaction with government structures and agent banks involved in the project has been maintained at the same high level.

The Bank expanded its cooperation with the Capital Repair Fund of the City of Moscow in 2018 by launching a project on banking support for the settlement of contracts concluded between the Capital Repair Fund and contractors. The successful project was able to attract a significant number of new customers with a total contract volume of about RUB 15 billion.

The Bank plays an active role in the development of a system for the repair of the common property of apartment buildings, maintaining its key position in terms of servicing regional operators in its regional network.

In addition to offering MSB clients its traditional banking products and services, a number of state-of-the-art non-financial services were offered in 2018:

1. The Closer to Business portal is a free information and educational resource that publishes topical articles on business issues, provides expert advice on how to create and develop a business, and offers Bank clients an opportunity to receive training and receive a certificate. In addition, the portal now offers a free online consultation services concerning any business issue that may arise.
2. The VTB Business Connect platform, which enables access to the largest international marketplaces through a single-window system, offers a range of services from cloud accounting to legal assistance and counterparty verification.
3. Online business registration, training and discounts from VTB partners available online. A virtual branch enables customers to interact with the Bank's contact centre using chat and collaboration tools through a web interface.

Small and medium-sized business outside the Russian Federation

Outside Russia, the Group has been working with MSB clients in the CIS and Georgia.

For several years already, VTB Kazakhstan has been taking part in the Business Road Map 2020, a programme approved by the Government of the Republic of Kazakhstan and aimed at the development of regional private entrepreneurship. The Bank finances projects in priority sectors of the country's economy and with subsequent state subsidisation of the lending rate (in the amount from 30% to 50% of the Bank's actual loan rate).

In 2018, the Bank signed an agreement with the KazakhExport state corporation that made it possible to expand the range of financial instruments available for export-oriented Kazakh enterprises: pre-export financing and non-payment risk insurance from the importer.

In Azerbaijan, a subsidiary bank signed a memorandum of cooperation with the Azexport.az portal, which opens up new opportunities for export financing. In accordance with the memorandum, VTB Azerbaijan gained access to a database of about 1,000 exporters.

VTB Georgia maintained its reputation as an active player in the Unified Agro-project state programme to support agribusiness, as well as the Make It in Georgia and Produce It in Georgia state programmes to support local production and tourism. Through these programmes, the government subsidises the Bank's annual interest rate of up to 10% (the borrower pays the Bank no more than 3% annual interest) and provides guarantees in the amount of 50% of the loan amount.

As part of efforts to improve the quality of the Group's loan portfolio and to monitor non-core assets, subsidiary banks worked to standardise their approaches to recovering troubled debts based on best practices within the Group. In addition, unified programmes were approved for the divestment of non-core assets.

4.4.3. RETAIL BUSINESS

The Retail Business (RB) global business line specialises in banking services for individuals and also includes a line of pension products.

Segment overview

VTB Bank client base in Russia: 12.3 million

Client base in Russia and abroad: 15.3 million, including customers of VTB Group's banking and other non-bank financial business

Number of retail branches of VTB Bank in Russia: 1,596

Number of regions and locations where the Bank operates in Russia: 77 federal subjects and 415 population centres

Number of VTB Bank ATMs in Russia: 15,529

Number of payroll clients: 6.5 million

Number of cards issued by VTB Bank: 14 million

Share of VTB Group total, %

Assets	22
Customer loans and advances (net)	25
Customer deposits and accounts	40
Net interest income	47
Net fee and commission income	43
Provision charge ¹⁴	31
Net operating income	56
Staff costs and administrative expenses	48

Source: VTB Group's IFRS consolidated financial statements for 2018.

¹⁴ This includes expenses for provisions for credit losses on debt financial assets and for provisions for credit losses on credit obligations and other financial assets.

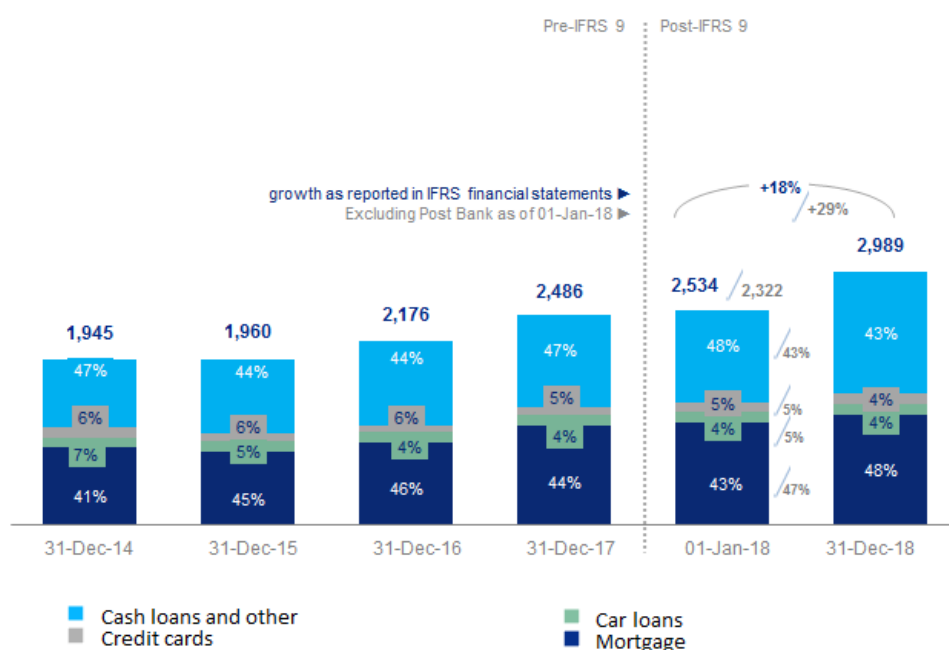
Retail lending

The growth of VTB Group's retail lending continued to accelerate during the reporting period. A favourable situation developed amid stabilisation of the macroeconomic situation in Russia's retail market. Credit rates reached a historic low in several market segments, as the public began acting on pent-up demand. In this context, VTB Group expanded its retail business throughout the entire reporting period.

The Group continued to improve the conditions for retail lending, promoted new products and took part in state-run anti-crisis programmes to support retail lending, reacting carefully to changes in conditions in the credit environment and continuing to attract a strategic segment of customers.

Loans to individuals (excluding Post Bank as of 01 January 2018 and 31 December 2018)¹⁵ increased by 29% to RUB 3.0 trillion. The Group increased its market share by 70 bp to 17.8% (up from 17.1% as of 31 December 2017).

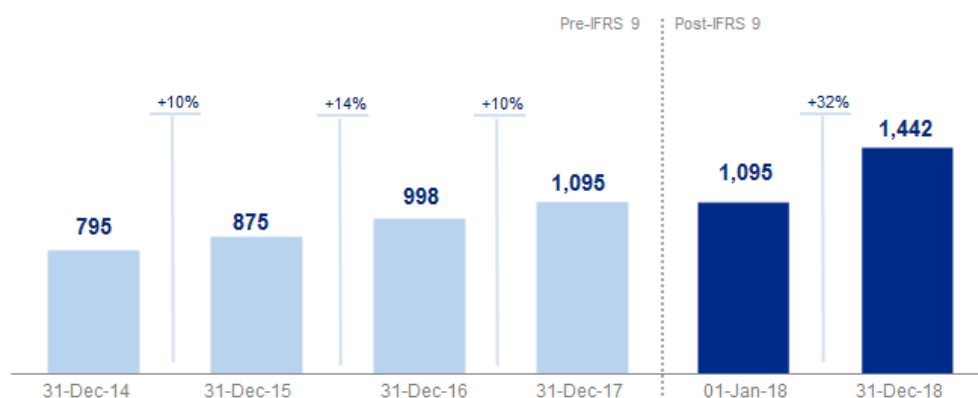
Retail loan portfolio, RUB billion



The key drivers of growth in the Group's retail loan portfolio were mortgage lending (up 32% year-on-year), consumer lending (excluding Post Bank as of 01 January 2018 and 31 December 2018: up 30% year-on-year) and car loans (up 18% year-on-year).

¹⁵ To calculate the change in the loan portfolio in terms of accounting for the assets of Post Bank, the single-line consolidation method is used as of 31 December 2018 (corresponding to the consolidated financial statements of the VTB Group under IFRS for the year ended 31 December 2018) and as of 1 January 2018 (management reporting data is used). For more information, see the section "VTB Group today/VTB Group in the Financial Services Market/Key Changes in the Structure of VTB Group".

Mortgage loans, RUB billion



VTB is one of the leaders in Russia's mortgage market. As of 31 December 2018, VTB Group's mortgage loan portfolio amounted to RUB 1.4 trillion. During the reporting period, VTB Group's mortgage loan portfolio grew at a rate of 32%, outpacing average growth in the market. As of the end of 2018, the Group had increased its share of the mortgage market in Russia by 1.3 pp to 22.7%. In addition, VTB completed a transaction in 2018 to sell mortgage loans to DOM.RF with the subsequent issue of mortgage securities valued at RUB 150 billion. Not including this sale, the Group's mortgage portfolio would have grown by 45%.

In 2018, the Bank issued 290 thousand mortgage loans. At the end of the year, the Bank's mortgage portfolio included about 891 thousand active mortgages.

The total volume of mortgage loans issued amounted to RUB 673 billion, the highest ever in VTB Group's history. In 2018, one out of every five mortgage loans in the Russian Federation was issued by VTB; about 1.4 million families purchased housing with the help of VTB Group.

VTB's active presence in the sector of mortgage lending for housing under construction and its cooperation with the country's largest construction companies enabled customers to purchase new housing compliant with current quality requirements under the most favourable terms, including a reduced interest rate for mortgages, and the option of purchasing housing at an earlier stage of construction.

VTB's stable partnerships with leaders in the secondary mortgage market enable our clients to select their desired property as conveniently and as quickly as possible, while also minimising transaction risks.

In 2018, the average mortgage issued by VTB Bank in Moscow and the Moscow region was valued at RUB 4.3 million, while it was RUB 1.9 million in other regions. Borrowers can get a mortgage through VTB with a down payment beginning at 10%, while the average down payment on mortgage loans is 30% of the cost of the housing being purchased, and the maximum loan amount is RUB 30 million.

A mortgage can be issued for a period of up to 30 years, while the average mortgage contractual term is about 17 years, and the actual period of repayment of mortgage loans is about seven years.

In 2018, a state support programme was launched that enables families with children to get a mortgage loan at an annual interest rate of 6%. In 2018, 985 loans worth RUB 2.5 billion were issued through the programme.

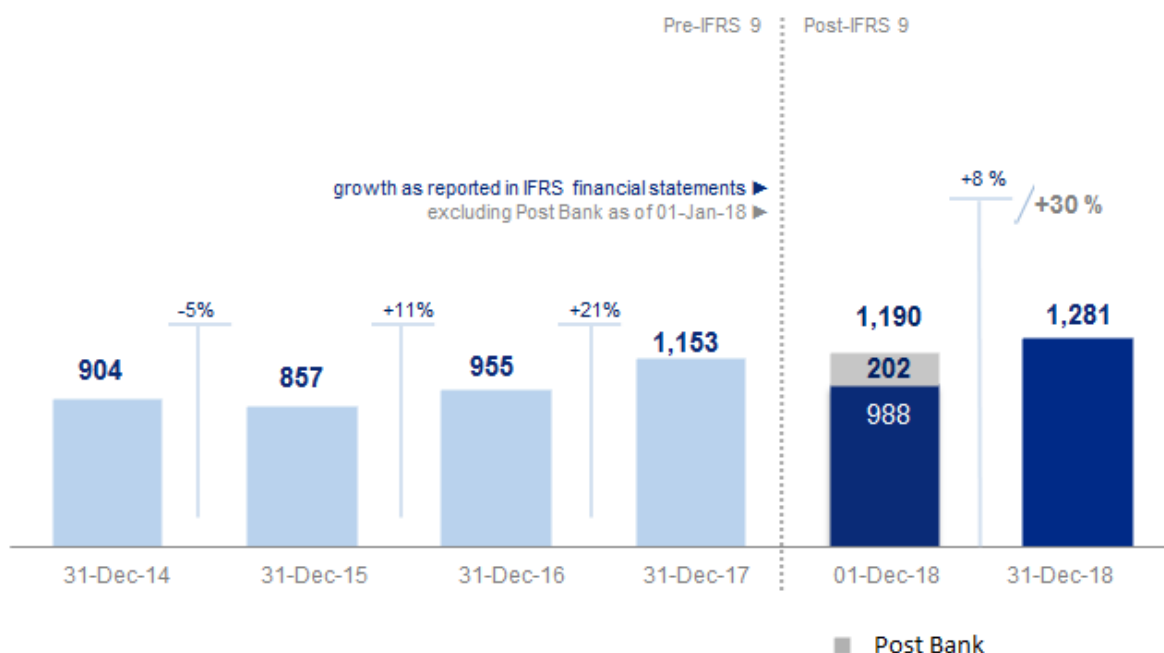
In 2018, VTB maintained its position as a market leader in lending to military personnel participating in the accumulative mortgage system, with a market share of about 20%. Mortgage loans worth around RUB 10 billion were issued through this programme.

In 2018, VTB became the absolute market leader in terms of the refinancing of mortgage loans from third-party banks. Through the programme, customers were issued more than 43 thousand loans worth

RUB 83.6 billion during the reporting period. The volume of loans issued through the refinancing programme doubled compared to 2017. In December 2018 alone, this service was used by about 5.5 thousand mortgage holders, who obtained loans in excess of RUB 10 billion. For all of 2018, the refinancing of housing loans from other banks accounted for 12.4% of the total volume of VTB's mortgage sales.

Consumer loans

Consumer and other loans, RUB billion



VTB Consumer loans demonstrated strong growth during the reporting period. As of 31 December 2018, VTB Group's portfolio of consumer and other loans amounted to RUB 1.3 trillion, having increased by 30% during the reporting period (excluding Post Bank as of 01 January 2018 and 31 December 2018).

More than 500 thousand people transferred their loans to VTB as part of a programme for cash refinancing of loans from third-party banks.

VTB Group's retail business continued to improve its line of consumer credit products. The Group is continuously improving its pricing system to ensure optimal results for this business line.

During the reporting period, the Bank significantly simplified its procedures for processing consumer loans and improved their terms of service. At the beginning of 2018, a new technology for processing credit products was introduced in Bank offices: clients can apply for several products through a single loan application: cash loans and refinancing plus a credit card. All clients need to obtain an online loan solution is a passport.

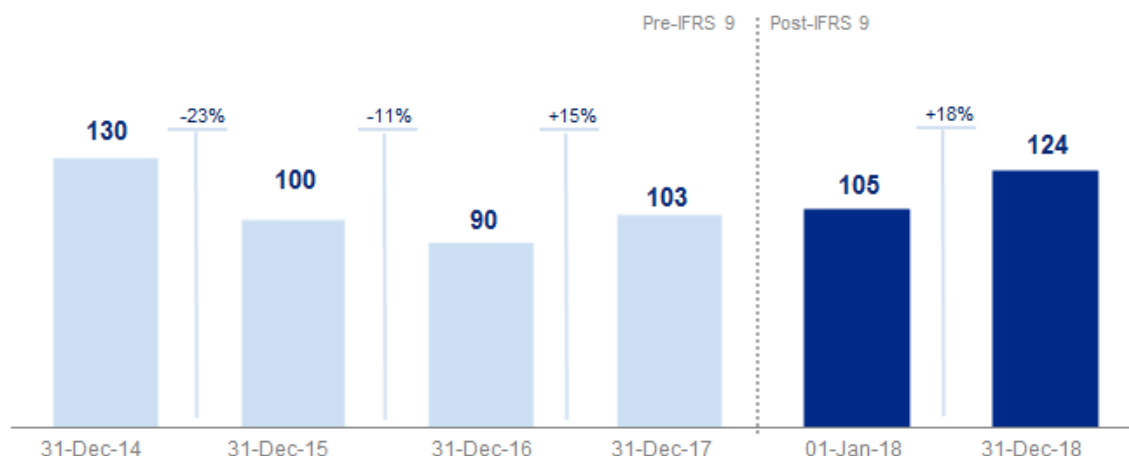
VTB Bank reduced the interest rate on cash loans three times during the reporting period. As a result, the nominal rate for this product decreased by an average of 5 pp. In September 2018, a new pricing concept was introduced for cash/refinancing loans, whereby the interest rate depends on whether the loan is insured—borrowers receive a discount on loans when concluding an insurance contract. As a result of the change in the pricing concept, VTB Group increased its share in the cash loan market by 90 bp during the reporting period from 17.7% at the end of 2017 to 18.6% at the end of 2018. In addition, VTB's market share in cash loan sales reached its highest level ever at 27% during the reporting period.

The Bank simplified access to loans for low-income borrowers, made it possible to apply for refinancing loans without additional references from third-party banks and increased the loan period to seven years.

Throughout 2018, remote lending to Bank customers was further developed, new programmes and products were made available for processing through VTB online that make it possible to get a loan without visiting a Bank office (such as a cash loan or top-up—internal refinancing with the possibility of issuing additional funds).

Car loans

Car loans, RUB billion



VTB Group is a leader in the automobile loan market. VTB Group car loan portfolio reached RUB 124 billion as of 31 December 2018, an increase of 18% compared with 2017. As of the end of the year, VTB Group had a 14.6% share of the automobile loan market.

During the reporting period, the issuance of car loans increased by 18% compared with 2017 to RUB 84.5 billion. VTB was the market leader in terms of the number of car loans issued in 2018, at 123.5 thousand. Sales performance was supported by an increase in VTB Group's market share in terms of new automobile loans from 12.6% in January to 17.8% in December.

The market for new-car sales grew by 13% during the reporting period, and VTB's sales in the new-automobile segment increased by 10%. There was significant development in the area of lending for used cars. In this segment, VTB's sales increased by 70%, while the share of the used-car segment reached 19%. VTB was the market leader in the used-car loans segment, issuing 30.3 thousand loans worth RUB 16.3 billion.

There was noticeable growth in a programme that finances the purchase and sale of used cars between individuals: 4.2 times more loans were issued compared to 2017, and the share of this segment reached 1.6%. Transactions for this product are carried out in a single visit to the Bank's car loan centre. As part of the implementation of this programme in 2018, the Bank worked with a number of websites that specialise in car sales: auto.ru, avito.ru, drom.ru.

To mark its 1 millionth car loan in February 2018, VTB launched a special marketing campaign that was carried out online and also through email and text messages, and at ATMs. The millionth client was awarded a Smart car, and 20 policies of additional voluntary insurance (making it possible to set the insurance amount for the period of the insurance policy) were also given away. A special lending programme called AutoJubilee was launched for the low-risk customer segment offering a lower interest rate for the purchase of new cars: the client is offered various discounts depending on the services provided. This campaign was popular among customers throughout Russia, accounting for about 13% of sales, while the volume of automobile loans issued through the programme was RUB 8.0 billion.

In 2018, VTB successfully implemented two programmes offering government subsidies for automobile loans: the First Car and Family Car programmes, through which borrowers received a 10% discount off

the car's sticker price (25% for the Far Eastern Federal District). Some 17.8 thousand loans worth about RUB 8 billion were issued through these programmes.

As of the end of the year, the share of state-supported programmes amounted to more than 14% of all VTB automobile loans (in terms of the number of loans issued).

The transformation of VTB's product line continued in order to improve the personalisation of offers for each individual client: discounts were introduced on lending rates for the purchase of insurance and services offered by VTB specifically for customers with automobile loans, and individual offers were made to customers in the premium segment, employees of the Bank's corporate clients and VTB Bank shareholders. Thus, customers were able to independently design a personal loan offer based on their personal needs.

There was another special programme that was launched in September 2018. The terms of the Super 5 programme allow borrowers to minimise their loan payments during the first six months thanks to a record low annual interest rate of 5%. The programme was in high demand among customers: the volume of loans issued amounted to RUB 1.7 billion, and the programme saw a 5% increase in sales from September to December.

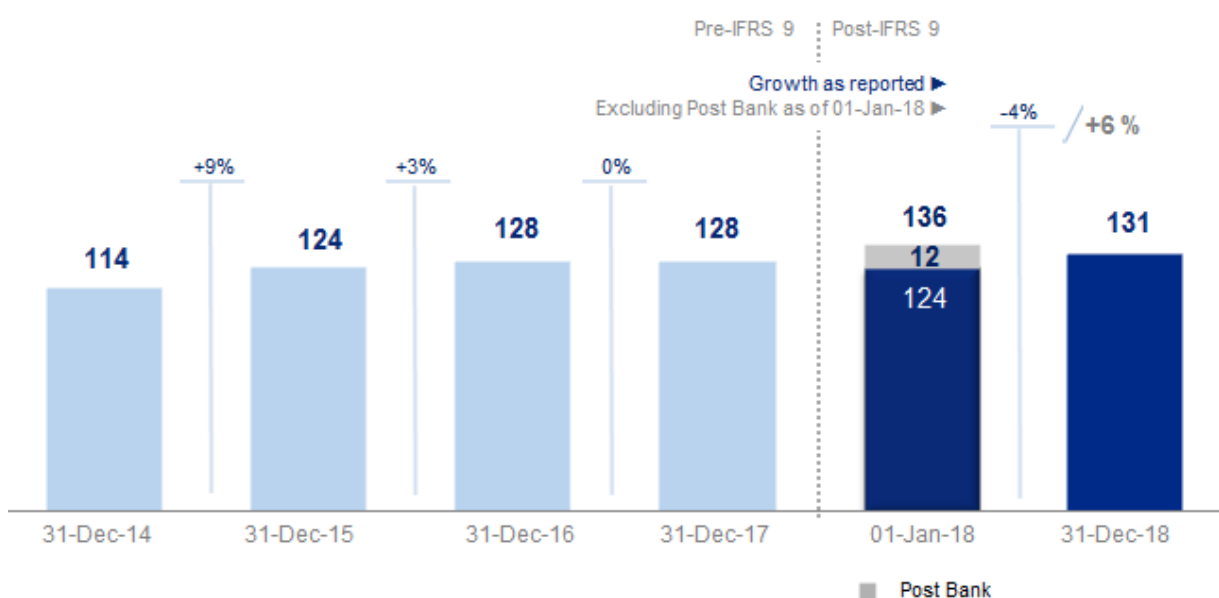
The largest number of vehicles financed by VTB in 2018 were sold in Moscow (19%), St Petersburg (8%), Kazan (6%), Chelyabinsk (4%) and Krasnodar (4%).

In addition to developing its automobile loans programmes, VTB also expanded its network by 68 sales points during the year, bringing the total to 741. In 2018, new modules for automobile loans were launched in Salekhard and Yakutsk.

VTB also continued its transition to a new front-end solution in 2018 through which 17.2% of all auto loans were issued in the fourth quarter of the year.

Bank cards and acquiring

Bank card portfolio, RUB billion



As of 31 December 2018, VTB's bank card portfolio amounted to RUB 131 billion, having increased by 6% during the reporting period (excluding Post Bank as of 01 January 2018 and 31 December 2018).

The Bank issued 16.4 million cards in 2018. The majority of cards issued (9.0 million) were Multicards, the flagship product that VTB Bank launched in mid-2017. Multicard is a unique product in the Russian market that can handle all of a client's daily transactions: card payments, savings, payments and transfers, obtaining credit card loans — clients can apply for a credit card at the same time as they apply for a Multicard.

The Multicard has received well-deserved recognition from the professional community and Bank customers: after being named the “Best Card Product” at the end of 2017, the Multicard won the Frank RG Banking Reward Award 2018 in the “Frank RG Reward Star Top-Class Programme” in 2018.

The Bank continued to improve its product line during the reporting period: a new product called Privilege Multicard was launched for privilege customers. The new Privilege package of services includes all the benefits of the Multicard and also offers additional services for high-net-worth clients: a Priority Pass card for business lounges, international travel insurance, a concierge service and roadside assistance. Some 123.3 thousand cards with the updated package were sold in 2018.

In 2018, a number of special offers and solutions were added to the Multicard:

- Global simplification of the Multicard product through the liberalisation of the criteria for its free-of-charge offers, P2P transfers and withdrawals from ATMs of third-party banks.
- A unique Multicard offer of a Visa card with a travel option (+1% of rewards for operations carried out through the Pay service).
- Through instant-issue technology, clients now have to make only one visit to a Bank branch in order to arrange a Multicard.
- The Troika transport application for Multicard enables passengers to use their bank card to ride the metro or other forms of public transport.
- The Campus Card enables cardholders to use their Multicard not only to pay for purchases and receive their salary but also as a key that can access various types of automated information and other university and school systems (ID card, library card, electronic academic record, etc.). As of the end of 2018, the Campus Card had been launched at nine educational institutions.
- Special Multicard conditions for military pensioners were launched: a card with all its privileges is provided free of charge to individuals who present a military pensioner certificate.
- A significant number of operations and services were completely transferred to digital channels: now, tracking a card's production status, changing loyalty options, connecting to the Pay service and receiving a PIN code are all possible on a smartphone through the Bank's mobile application.

In September 2018, VTB launched the new Multicard 101 credit card with new parameters:

- Increased grace period of 101 days;
- The ability to withdraw cash with no fees in the first seven days;
- A new "Borrower" bonus option that allows cardholders to reduce the interest rate by 3 pp on cash loans and by 0.6 pp on mortgages;
- Only a passport is required for processing, without proof of income.

The launch of the new Multicard 101 significantly increased sales, with 70% more cards issued compared to the same period in 2017.

There were 3.7 million valid credit cards in circulation at the end of 2018.

Mir card. In October 2018, the Bank began issuing contactless Mir cards (more than 340 thousand cards were issued in 4Q 2018). In 2018, VTB completely transferred all recipients of budget funds to the Mir card national payment system. By 1 July 2018, more than 2 million separate accounts had been opened for which Mir cards were issued or reassigned.

Payroll projects. For payroll projects since July 2018, VTB launched an updated B2B programme, simplified the criteria and offered free payroll services for the vast segment of companies (legal entities

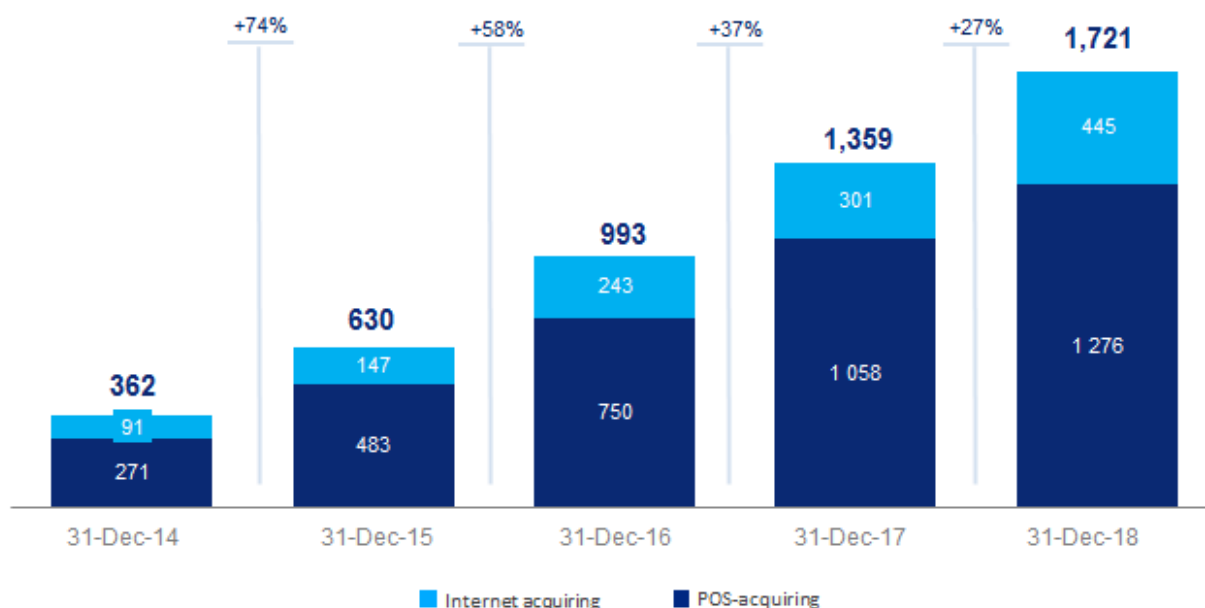
with salaries starting at RUB 10 thousand), cancelled cash withdrawal fees at all ATMs for all payroll cardholders and enabled free transfers to accounts at other banks.

The payroll card portfolio increased by 502 thousand during the reporting period to more than 6.5 million cards. More than 2.5 million payroll cards were sold.

Successful acquiring projects

- For the first time anywhere in the world, card-to-card transfers were enabled and carried out using Samsung Pay's tokenisation technology. When making a money transfer using tokenisation technology, a digital identifier, i.e., a token, is used instead of the sender's bank card data. This reduces the risk that payment details will be compromised. Every token is unique because it is generated for a specific device and cannot be used separately, which makes it useless for hackers to intercept such data and thus increases the security of the payment service.
- Russia's largest seller of electronics and home appliances, M.Video/Eldorado (all stores and the website), became a client of VTB's acquiring service.
- The State Academic Bolshoi Theatre of Russia (ticket office and online shop) also became a client of VTB's acquiring service.
- New online payment technologies through Google Pay and Samsung Pay were implemented.
- In addition to the terminals at Moscow Metro cash desks and the readers in ticket printing machines, two turnstiles were introduced in each station vestibule that are equipped to enable payment for transport by bank card.
- VTB's card-to-card international transfers technology (perevodworld.vtb.ru), enabling transfers to cards of foreign banks.
- Changes were made to make it more convenient for tourists from South-east Asia to pay for goods and services in Russia: a network of terminals (27,000 devices) was established for payment through AliPay.
- The volume of account-to-card, card-to-account and card-to-card transfers increased several-fold.
- Cash2Card technology was implemented, which makes it possible to credit a card with an amount deposited in cash through an ATM or at an agent's cash desk.

VTB Bank acquiring, RUB billion



Working with bad debts

In 2018, the Bank confirmed its leading position in the market for the recovery of bad debts. According to a study conducted by PricewaterhouseCoopers at the end of 2018, the Bank's recovery process is the most cost-efficient in the market.

In 2018, the Bank was the first to begin the widespread use of notary writs, which can significantly reduce the time needed to receive implementation documents.

The collection function continues to develop from a technological point of view. In 2018, an Intelligent Robot Collector was tested to automatically call customers with overdue debts. An intelligent system capable of free speech recognition and synthesis was used to inform clients about the occurrence of overdue debts and to reach an agreement on debt repayment.

The technology makes it possible to significantly reduce (by 7 times) the Bank's expenses (as compared to the work of an operator) and to improve service quality. It was decided to replicate the technology.

Retail deposits and accounts

As part of VTB Group's development strategy 2017–2019, one of the Group's main objectives is to improve its funding structure by increasing its share of customer funding, primarily from individuals.

In 2018, the Bank introduced several promotional offers for deposits and savings accounts:

- The premium promotion in online channels from 24 January to 3 September 2018;
- "Maximal" deposit from 5 July to 3 September 2018;
- "Maximum" deposit from 3 September 2018 to 31 January 2019;
- "Loyal" deposit from 23 November to 31 January 2019;
- Savings account promotion offering a higher rate in the first month from 2 July 2018 to 31 January 2019.

The Bank won four tenders for the payout of insured deposits to customers of problem banks (with a total payout of RUB 37 billion). In addition, a pilot for escrow accounts was launched in conjunction with the CIB and MSB global business lines.

VTB Online remote banking service

In 2018, the number of active VTB Online customers increased by 56% to 6.3 million people, including an 81% increase among users who access the system through mobile devices. For the first time in the Bank's history, the share of online users exceeded 50% of the total number of active banking clients.

Throughout 2018, the Bank introduced new features and implemented new services in VTB Online, such as:

- Use of a short code to log in and confirm operations through the mobile banking system;
- Push notifications to a smartphone about card transactions and operations carried out through VTB Online;
- Tracking a card's order status and getting a pin code online;
- Transfers by phone number to another bank within the framework of Visa and MasterCard services;
- Payment of invoices by QR code;
- Ordering bank documents by e-mail without visiting a branch office;
- Installing and changing Multicard bonus options, calculating bonus points and viewing bonus account statements;
- Connecting a card to Apple Pay in two clicks;
- Setting savings goals through mobile banking;
- Zero-visit cash loans with the ability to refinance an existing loan.

This development contributed to an increase in the average number of operations per quarter per user from 10.6 to 12.8, while the rating of the VTB Online mobile application increased from 4.0 to 4.8 in the AppStore and from 3.4 to 4.4 on Google Play.

Sales of deposits, not including VIP clients, increased by 186%, doubling the portfolio of online deposits. The share of online deposits in the total retail portfolio increased from 26% to 44%. Due to the introduction of zero-visit cash loans in 2018, total loan sales through VTB Online increased 5.5 times.

Payments and transfers

The number of payments and transfers made by VTB customers in 2018 doubled to 201 million operations. This increase was facilitated by the continued development of payment services. Throughout 2018, the Bank's remote banking channels added more than 1.6 thousand new service providers (utilities, education, telecoms, etc.). Key projects in 2018 included:

- The launch of instant transfers by phone number to another bank via the Visa Alias Directory and MasterCard Transfers Hub services;
- The Bank's participation in the development of the Bank of Russia's Fast Payment System (FPS) and taking measures to prepare for the launch of the FPS in March 2019 as part of a consortium of 12 banks.
- The introduction of payments by QR code;
- The possibility of transferring change from payments to service providers when paying in cash at an ATM.

As of the end of 2018, the fastest-growing services were: adding funds from cards of another bank (the volume of operations increased 10.9 times to RUB 85.9 billion) and intrabank transfers by phone number (increased 3.4 times to RUB 84.5 billion).

Services for high-net-worth customers

In 2018, VTB continued taking steps to attract customers to the Bank's premium service model. During the reporting period, emphasis was placed on a qualitative change in the structure of the client base.

Privilege package

As of the end of 2018, the Privilege package showed the following results:

- customer base: 478 thousand people;
- liabilities: RUB 1.3 trillion (30% of retail deposits by VTB Group customers);
- investment products: RUB 198 billion (26% from retail investment products purchased by VTB Bank customers);
- the average account balance among high-net-worth clients increased from RUB 2.6 million in 1Q 2018 to RUB 3.0 million in 4Q 2018.

Privilege holders can be served at 531 VTB offices in 203 cities, including 47 dedicated offices for high-net-worth clients.

Private Banking

VTB Private Banking continued to strengthen its leadership in the private banking market in Russia. As of the end of 2018, the VTB Private Banking network consisted of 30 offices. In 2018, two new VIP offices were opened in Moscow: Lermontovsky and Okhotny Ryad-Prime.

During the year, VTB saw a 30% increase in Private Banking clients to more than 18 thousand customers. VTB Private Banking's assets under management grew by RUB 502 billion to RUB 1.8 trillion. The average balance per customer at the end of 2018 was RUB 100 million.

By the end of the reporting period, the Bank had observed changes in customer preferences in terms of the structure of liabilities. New funds are being directed towards increasingly popular investment

products. As of the end of 2018, investment products accounted for 40% of new assets under management. Due to these and other changes, the portfolio of investment products managed by VTB Private Banking increased by 1.9 times in 2018 to RUB 437 billion. In particular, high-net-worth clients purchased VTB bonds, which are a good alternative to deposits, with higher yields. In 2018, VTB Bank issued bonds on 11 occasions, worth a total of more than RUB 35 billion. Private Banking accounted for more than 70% of the total.

During the reporting period, integration processes were successfully completed in terms of transferring VIP customer service to target systems. All customer accounts are available in the mobile application and serviced through the Bank's unified software. VTB Private Banking is in constant contact with its customers, having conducted more than 50 customer events and various forums in 2018, which made it possible to promptly respond to all customer inquiries.

Investment services for retail customers

As of the end of 2018, VTB Group had become one of the three leading market operators among investment companies and banks that provide brokerage services to private clients in terms of the number of registered customers.

2018 showed the best result in the last 10 years for VTB in terms of the increase in the number of its retail customers using brokerage services. The portfolio of registered clients increased by 46 thousand, reaching 319 thousand. Thus, inflow of new customers increased by 70% compared to the previous year. About 20% of the total number of new brokerage accounts were opened through digital channels due to the launch in October 2018 of a service that enables clients to open accounts remotely, which made the process much simpler for customers. VTB Bank became the first bank to enable clients to register and open Moscow Exchange accounts online. As a result, in December 2018, the Bank added 10.5 thousand new customers (according to the Moscow Exchange), the highest figure for any month in the past 10 years (for the sake of comparison, the Bank added 1.8 thousand new customers in January 2018). Compared to 2017, the number of new brokerage accounts offering a tax benefit (Individual Investment Accounts) increased by 130%.

The total client portfolio increased by 74% compared with 2017, reaching a record RUB 476 billion. The portfolios of the Structural Notes and Personal Broker products almost doubled in the reporting period.

In 2018, VTB Capital Investment Management enjoyed broad sales of its mutual investment funds, as a result of which mutual fund sales in the Bank's agent network increased 20 times compared to 2017, which made VTB Capital Investment Management the market leader in Russia in 2018 in terms of new investments in mutual funds. VTB Capital Investment Management's mutual fund portfolio grew by more than RUB 30 billion, accounting for 32% of the total growth in the Russian mutual fund market in 2018, having increased by eight times compared with 2017. About 90% of mutual fund sales in 2018 involved high-net-worth clients.

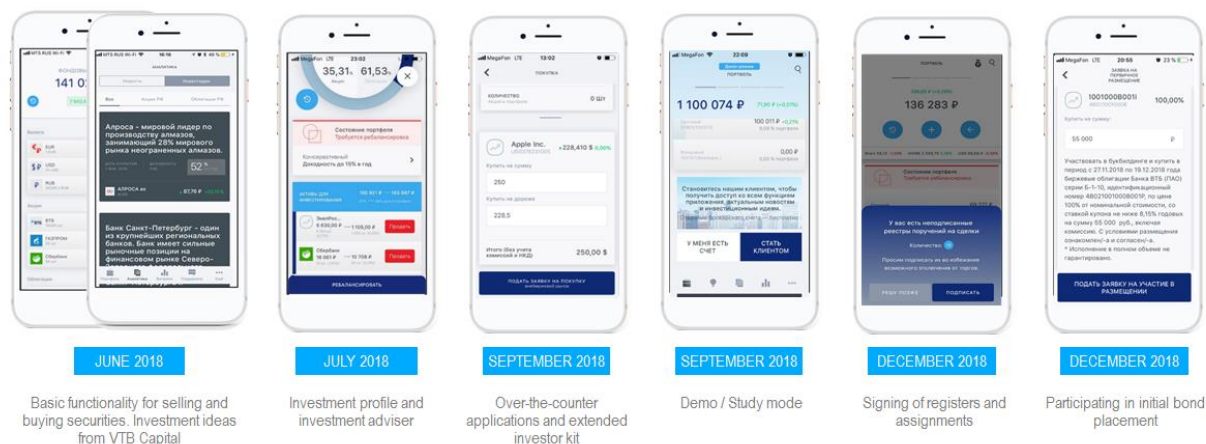
VTB Bank launched its VTB My Investments application in 2018. Now customers can open a brokerage account in just three minutes and start carrying out operations in the securities market. The VTB My Investments application is updated on a regular basis, and new services are added every 2-4 weeks.

VTB My Investments: 2018 results

In 2018 VTB launched a mobile app for beginning investors

Best investment app according to the Russian Association for Electronic Communications (RAEC)

- > 32 thousand customers
- > RUB 420 billion in turnover
- > 570 thousand transactions



Special offers for VTB Bank Shareholders

In 2017, VTB Bank developed a special programme for Bank shareholders that includes a comprehensive offer of financial services on preferential terms. The go-ahead for the shareholder benefit programme was given at VTB Bank's Annual General Meeting of Shareholders on 26 April 2017. On that same day, special service conditions were made available at VTB's retail branches. The first contribution was processed on the day the launch of the programme was announced. Prior to the establishment of the merged Bank, not all shareholders could take advantage of special offers, since there were no retail offices of VTB Bank in some regions. The merger of the regional network of the two banks enabled access to the programme for shareholders living in more than 40 regions where the programme was previously unavailable.

In March 2018, VTB expanded its list of financial products and services that are subject to special conditions for Bank shareholders. An updated product line has been launched throughout VTB's retail network.

Preferential terms and conditions for VTB shareholders apply to the Multicard, Privilege and Prime service packages, custody services and insurance. Shareholders also have access to reduced rates on cash loans and when refinancing existing loans from other banks.

The possibility of accessing special conditions for certain products depends on the size of the individual shareholder's stake in VTB Bank. At the same time, shareholders are not required to provide documents confirming their ownership of shares. The shareholders' register is checked automatically as of its last closing date whenever any branch in VTB's retail network is contacted.

As of 31 January 2019

VTB Bank's portfolio of shareholder loans amounted to RUB 11.4 billion, having increased by 56% over the preceding 12 months; deposits and accounts from individual VTB Bank shareholders exceeded RUB 130 billion, having increased by 8% over the preceding 12 months.

Branch network and ATMs

In 2018, large-scale work was carried out to build a target architecture for the regional network that would be the same in every region where the Bank operates, and VTB Bank's retail and corporate regional networks were merged on 1 January 2019.

A single business leader was assigned to each region who is responsible for the development of business in that region, thus centralising the management functions of the three business lines in the regions where the Bank operates. Regional operational offices now report directly to the central office and have broad authority to make business decisions at the regional level. At the same time, all the network, legal, accounting and administrative support functions for the regional network were transferred to base branches, which are located in urban centres in Russian federal districts and in other major cities where the Bank operates.

Despite these large-scale changes, customer service was provided as usual.

As of the end of 2018, VTB's unified regional network comprised 1,596 sales offices in 77 regions and 414 cities in Russia.

During the year, 24 new offices were opened, and 22 projects were carried out to optimise the existing network. In the course of 2018, 29 inefficient offices were closed.

As part of the merger, work will continue on the development of the Bank's regional network, including by opening new branches, as well as reducing costs and improving the efficiency of regional divisions.

VTB's network of self-service devices increased to 15,529 units in 2018 thanks to the development of a self-service network with a recycling function. During the year, the number of self-service devices with this function increased by 52% from 1,863 to 2,837 devices installed throughout Russia (906 devices in Moscow and the Moscow region and 1,931 devices in regional branches).

Transaction turnover in VTB's network of self-service devices in 2018 increased by RUB 279 billion (up 7%) compared with 2017, while turnover in cash deposits made through the network of self-service devices increased by RUB 197 billion (up 17%).

The functional differences between the self-service devices of the former VTB24 and VTB Bank's retail business have been eliminated. The following are now available in self-service devices running special-purpose software:

- adding cash to a Troika card's electronic wallet and making a record of the transaction;
- searching for and paying traffic fines, taxes and debts owed to the Federal Bailiff Service;
- searching the Unified Information and Payment Centre for payments made for housing and utility services in Moscow for the preceding 12 months, with the possibility of manually entering the amount and the period;
- more than 7,000 payments to the Municipal Services Office of the City of Moscow;
- making cash payments, with the possibility of transferring change to one's own phone number, or making payments to an Internet provider or a charitable foundation;
- making payments using a QR code.

In addition, the interface design was updated on self-service devices equipped with touchscreens, and the colour scheme used in other remote banking channels was applied.

The number of VTB's active banking customers in Russia increased by 7% in 2018 to 12.3 million people. VTB Group had 15.3 million active retail customers, including those of banking and other non-banking financial businesses in Russia and abroad.

Other non-banking financial business

VTB's non-state pension fund

VTB's non-state pension fund (hereinafter, "the Fund"), a fast-growing non-state pension fund in Russia and one of the leading players in the Russian market, provides a full range of services for compulsory pension insurance and non-state retirement benefits, including corporate pension programmes.

The Fund is a member of the National Association of Non-state Funds (NSF) and a member of the NSF Board. The Fund played an active role in the development of the legislative framework for pension reform in Russia, and representatives of the Fund are part of the Committee for Standards on the Activities of Non-state Pension Funds under the Bank of Russia, the Working Group on Legislative Support for the Development of the Pension System and Investing in Pension Savings under the State Duma Committee on the Financial Market, and the Interdepartmental Working Group on the Improvement of the Legislation of the Russian Federation in Regulating the Activities of Non-state Pension Funds under the Ministry of Finance of the Russian Federation.

As of the end of 2018, the Fund was managing RUB 197 billion, up 32% compared to 2017. The amount of pension savings (compulsory pension insurance) totalled RUB 193 billion (32% growth), while the amount of pension reserves under non-state coverage totalled RUB 4.3 billion (30% growth).

The Fund pursues an investment policy that combines high profitability and maximum investment security, ensuring the preservation and accrual of customer funds. In 2018, the yield on pension savings allocated to the Fund's customer accounts reached 5.38%. The yield on pension reserves as part of the programme for non-state provision of pensions amounted to:

- 5.00% through a balanced investment portfolio;
- 5.36% through a conservative investment portfolio.

As of the end of the reporting period, the Fund was serving more than 2.2 million customers. In the first nine months of 2018, the Fund was Russia's fifth-largest by pension assets under management.

In March 2018, the Expert RA ratings agency awarded the Fund a rating of ruAAA (the highest level of creditworthiness/financial reliability/financial stability). Its outlook is stable.

The Fund is working on the introduction of digital technologies. A service for concluding contracts and receiving contributions online for the provision of non-governmental pensions was developed and launched; the Personal Account service was upgraded; a service that allows non-governmental pension provision to receive bonus points as contributions through the VTB Collection programme (a format unique to Russia) went online.

Post Bank joint venture

In September 2018, VTB Group and Russian Post signed additions to the shareholder agreement regarding Post Bank, which resulted in Post Bank becoming a joint venture for the Group. VTB Group treats its investment in Post Bank as an investment in a joint venture that is accounted for using the equity method.

VTB Group maintains close cooperation with Post Bank. As a shareholder, VTB Bank will receive profit insofar as Post Bank continues its successful growth. Moreover, since, at this stage of its development, Post Bank is rapidly expanding its sales network and customer base, a change in the principle of consolidation will have a positive effect on its results and improve the operational performance of VTB Group.

As of the end of 2018, Post Bank's gross loan portfolio increased by 44% to RUB 305 billion. Post Bank's cash loan portfolio increased by 45% to RUB 254 billion, its POS loan portfolio increased by 40% to RUB 37 billion, and its credit card portfolio increased by 35% to RUB 15 billion.

Post Bank's customer deposits and accounts increased by 85% to RUB 315 billion, while its volume of term deposits increased by 71% to RUB 226 billion. Customer funds in savings and current accounts increased by 2.3 times to RUB 89 billion.

In 2018, Post Bank's client base grew to 10 million customers (an increase of 3.6 million). The number of pensioners receiving a pension through Post Bank increased at an even faster rate of 2.4 times. As of 31 December 2018, the Bank was providing pension services to a total of 869 thousand pensioners (up from 358 thousand as of the beginning of 2018).

During the reporting period, Post Bank's regional network expanded by 55% from the beginning of the year to 19 thousand points in 6,075 communities.

Its ATM network grew by 17% to 4,805 devices by 31 December 2018. As part of the development of Russian Post's acquiring project, Post Bank installed 50 thousand payment terminals at Russian Post offices that make it possible to pay for postal services, as well as withdraw and deposit funds onto Post Bank cards at post office cash counters.

Rapid growth in remote banking channels was observed during the reporting period. The number of active users of remote banking services increased by 110% to 3.8 million people.

In December 2018, Post Bank launched a pilot project for the sale of VTB Bank mortgage loans. The partnership is effective in terms of attracting customers and selling banking products.

4.4.4. FINANCIAL REVIEW

Results in brief

2018	
PROFITABILITY FURTHER ENHANCED EXCEEDING STRATEGIC TARGETS	Net profit 178.8 RUB bn +49% YoY ROE 12.3% +4.0 pp YoY
ROBUST BUSINESS EXPANSION SUPPORTED MARKET SHARE GROWTH IN KEY SEGMENTS	+15.5% YoY Corporate loans 8,439 RUB bn +28.7% YoY Retail loans 2,989 RUB bn +8.6% YoY Corporate deposits 5,996 RUB bn Excluding Post Bank as of 01.01.2018 and 31.12.2018 +27.7% YoY Retail deposits 4,408 RUB bn
NIM RESILIENT DESPITE MARKET HEADWINDS	NIM 3.9% -20 bp YoY
COMBINATION OF COST CONTROL AND REALISED SYNERGIES IMPROVED EFFICIENCY METRICS	Cost / Income ratio 40.5 % -3.5 pp YoY Costs dynamics -0.4% YoY
STRONG BALANCE SHEET BUILDING THE FOUNDATION TO NEW GROWTH OPPORTUNITIES	NPL coverage ratio 112% +2.7 pp YoY LDR 103% +3.3 pp YoY Tier I CAR 12.0% -50 bp YoY Total CAR 13.5% -80 bp YoY

ANALYSIS OF VTB GROUP'S PROFIT AND LOSS STATEMENT IN ACCORDANCE WITH IFRS

Key profit and loss indicators

<i>RUB billion</i>	2018	2017	Change, %
Net interest income	468.6	460.2	1.8
Net fee and commission income	90.0	95.3	(5.6)
Net other income	82.7	37.1	123.5
Operating income before provisions	641.3	592.6	8.2
Provision charge	(167.1)	(171.9)	(2.8)
Staff costs and administrative expenses	(259.8)	(260.9)	(0.4%)
Profit before tax	214.4	159.8	34.3
Income tax expense	(35.6)	(39.7)	(10.3)
Net profit	178.8	120.1	48.9

Net interest income and net interest margin

Interest income on loans and advances to customers, amounts due from other banks and financial assets represent one of the main sources of the Group's operating income. In 2018, gross interest income amounted to RUB 1,034.0 billion, a decrease of 2.1% from 2017.

Interest expense (including payments to the deposit insurance system) decreased by 5.1% to RUB 565.4 billion. The average return on interest-bearing assets decreased by 80 bp to 8.6% as of the end of the year. The average cost of interest-bearing liabilities also decreased by 80 bp to 4.9%. Since cost of interest-bearing liabilities decreased at the same rate with the yield on interest-bearing assets, there was little change in net interest income.

Net interest income in 2018 increased by 1.8% year-on-year to RUB 468.6 billion due to an outstripping reduction in interest expenses.

The net interest margin for the year decreased by 20 bp to 3.9%. The Group recorded a decrease in net interest margin starting from Q3 2018 that accelerated in Q4 2018. The decrease in the net interest margin in 4Q 2018 was the result of a change (from line to line consolidation to the single-line consolidation principle) in how VTB Group consolidates Post Bank, whose business model implies a high level of risk and high margins. In addition, the decrease in the net interest margin in 2H 2018 was the result of changes in market rates, as well as the the different speed between the revaluation of assets and liabilities cost, and the borrowing of a significant amount of more expensive funds from the Bank of Russia in 3Q 2018 (3% of the Group's cumulative liabilities as of 30 September 2018). These funds were replaced by customer deposits in 4Q 2018, after which the volume of borrowings from the Bank of Russia returned to normal, amounting to 0.4% of the Group's total liabilities as of the end of the reporting period.

Interest income

<i>RUB billion</i>	2018	2017	Change, %
Interest income calculated using the effective interest rate method			
Financial assets measured at amortised cost			
Loans and advances to customers	902.7	949.4	-4.9
Due from other banks	38.3	45.8	-16.4
Investment financial assets	1.9	-	-
Other financial assets, including securities	-	21.4	-
Debt financial assets at fair value through other comprehensive income	24.7	-	-
Total interest income calculated using the effective interest rate method	967.6	1,016.6	-4.8
Other interest income			
Financial assets at fair value through profit or loss	42.1	15.6	169.9
Net investment in finance leasing	24.3	24.0	1.3
Total other interest income	66.4	39.6	67.7
Total interest income	1,034.0	1,056.2	-2.1

Interest expense

<i>RUB billion</i>	<i>2018</i>	<i>2017</i>	<i>Change, %</i>
Customer deposits	(424.2)	(433.9)	-2.2
Due to other banks and other borrowed funds	(87.0)	(107.5)	-19.1
Debt securities issued	(17.6)	(24.9)	-29.3
Subordinated debt	(11.9)	(15.0)	-20.7
Total interest expense calculated using the effective interest rate method	(540.7)	(581.3)	-7.0
Advances received under construction contracts	(1.9)	-	-
Total interest expense	(542.6)	(581.3)	-6.7
Payments to the deposit insurance system	(22.8)	(14.7)	55.1
Net interest income	468.6	460.2	1.8%

Net fee and commission income

Total fee and commission income in 2018 increased by 2.9%, amounting to RUB 133.4 billion. The bulk of fee and commission income came from settlement transactions and trade finance, accounting for 55.9% of the total, down from 58.4% in 2017. Total fee and commission expense increased by 26.5% in 2018, mainly due to an increase in fees and commissions on settlement transactions and trade finance.

Net fee and commission income for 2018 decreased by 5.6% year-on-year to RUB 90.0 billion.

The decrease in net fee and commission income was due to the high base effect (net fee and commission income increased by 17% in 2017). Additionally, the net fee and commission income was negatively impacted by change of accounting of the customer loyalty programmes expenses, which were deducted from the gross fee and commission income. The transfer of the portion of expenses from customer loyalty programmes (RUB 9.3 billion) incurred during the reporting period was reflected in the Group's consolidated financial statements as of 31 December 2018. Prior to the change in accounting policy, all expenses related to loyalty programmes were considered part of other operating expenses. Taking into account the adjustment in the method of accounting for expenses related to the loyalty programmes, the increase in net fee and commission income amounted to 4.2% for 2018.

Net fee and commission income

<i>RUB billion</i>	<i>2018</i>	<i>2017</i>	<i>Change, %</i>
Commission on settlement transactions and trade finance	74.6	75.7	-1.5
Fee received for insurance products distribution and agents' services	20.9	18.2	14.8
Commission on guarantees and other credit-related commitments issued	11.7	13.2	-11.4
Commission on cash transactions	10.8	6.7	61.2
Commission on operations with securities and capital markets	9.3	10.7	-13.1
Other	6.1	5.1	19.6
Total fee and commission income	133.4	129.6	2.9
Commission on settlement transactions and trade finance	(34.6)	(25.5)	35.7
Commission on cash transactions	(2.7)	(2.7)	0.0
Commission on operations with securities and capital markets	(1.6)	(2.8)	-42.9
Commission on guarantees and other credit related facilities received	(1.3)	(0.5)	1.6
Other	(3.2)	(2.8)	14.3
Total fee and commission expense	(43.4)	(34.3)	26.5
Net fee and commission income	90.0	95.3	-5.6

Net other operating income

Net other income increased by 123.5% and amounted to RUB 82.7 billion. The key drivers behind this increase in other income were an increase in income from the disposal of subsidiaries and associated companies and joint ventures, an increase in income from operations involving foreign currency and precious metals, an increase in income from operations with other financial instruments revalued at fair value through profit or loss, as well as a reduction in expenses from other non-banking activities.

The total financial result from the disposal of VTB Insurance, which is reflected in net other income, amounted to RUB 54 billion. In addition, net other income was negatively impacted during the reporting period by irregular expenses from the revaluation of investment property and fixed assets (RUB 26 billion) and the deconsolidation of VTB Ukraine (RUB 17 billion), as well as the impairment of investments in the associated company Moscow Metrostroy in the amount of RUB 12 billion.

Provision charge

In 2018, the Group's provision charge for credit losses on debt financial assets, credit related commitments and other financial assets, legal claims and other commitments amounted to RUB 167.1 billion, a decrease of 2.8% compared to 2017.

The cost of risk of the loan book amounted to 1.6% in 2018, unchanged from 2017.

Staff costs and administrative expenses

Despite the increase in inflation during the reporting period, staff costs and administrative expenses decreased by 0.4% compared to 2017, amounting to RUB 259.8 billion. VTB Group continued to adhere to a policy of strict cost control, which, combined with synergy effects, improved cost-effectiveness. Changes in the method of consolidation applied to Post Bank and the sale of the insurance business also had a positive effect on cost-effectiveness. The ratio of costs to operating income before provisions decreased to 40.5% from 44.0% in 2017. The ratio of costs to average assets improved from 2.1% in 2017 to 1.9% in 2018.

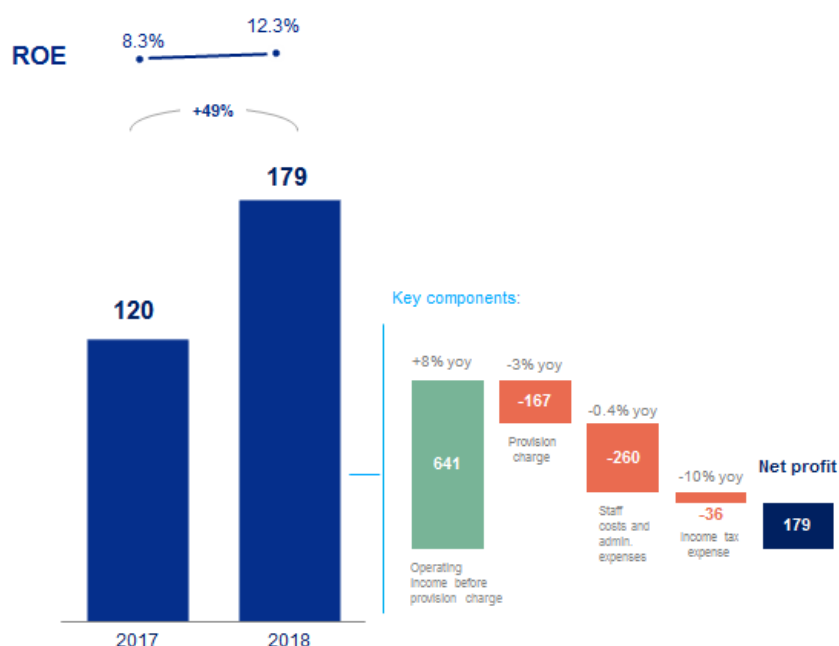
Improving operational efficiency through synergy effects

VTB24 Realised 2018 effect RUB 8 bn	VTB24 2019 expected effect RUB 15 bn
VTB Europe Realised 2018 effect EUR 40 mln	Bank of Moscow Realised 2018 effect RUB 10 bn

Net profit

Net profit for 2018 increased by 48.9% compared to 2017, amounting to RUB 178.8 billion, due to faster growth of income from core activities (compared to the increase of costs) and increased cost-effectiveness. In 2017, the difference between the increase in income and costs was 4 pp, increasing to 8.4 pp in 2018.

Net profit, RUB billion

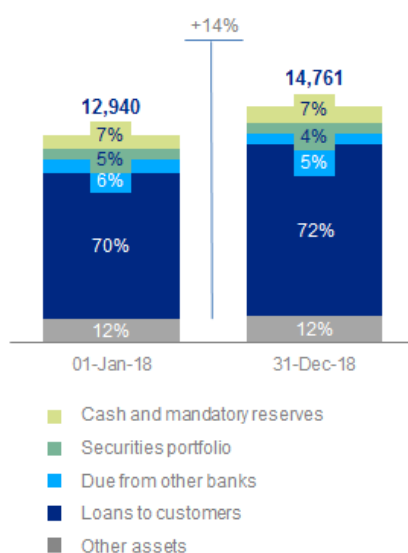


Analysis of the statement of financial position according to IFRS

Assets

As of 31 December 2018, the Group's total assets amounted to RUB 14,760.6 billion, up 14.1% compared to 1 January 2018. Asset growth was balanced, and the share of the loan portfolio in the asset structure rose to 72% from 70% in 2017.

Assets structure, RUB billion



In 2018, the Group's gross loan portfolio (excluding Post Bank as of 01 January 2018 and 31 December 2018),¹⁶ increased by 18.7% (to RUB 11,427 billion) amid growth in the volume of retail loans and lending to legal entities by 28.7% and 15.5%, respectively.

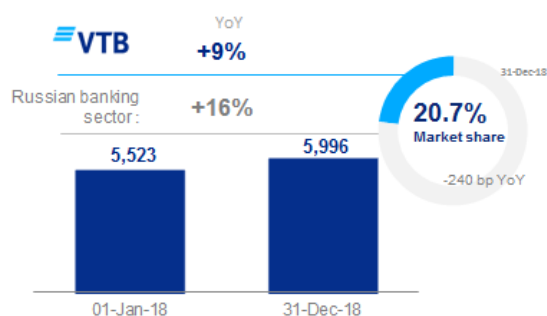
Growth in VTB Group's retail lending continued to accelerate in the reporting period compared to 2017, with the retail loan book increasing by 28.7% (excluding Post Bank as of 01 January 2018 and 31 December 2018) in 2018 (compared to 14.3% in 2017). The Group saw growth in volumes of mortgages, automobile loans and consumer loans of 31.7%, 17.7% and 28.4% respectively (excluding Post Bank as of 01 January 2018 and 31 December 2018) in 2018. The share of retail loans in the portfolio structure increased to 26.2% compared to 25.4% in 2017.

VTB Group's corporate loan portfolio also grew at a faster pace than 2017 (15.5% in 2018 compared to a decrease of 0.3% in 2017).

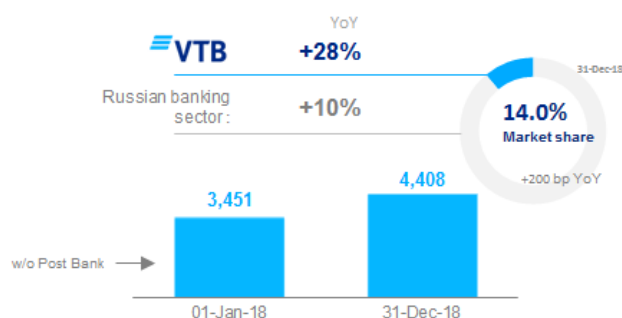
Accelerated growth of loans to legal entities in the reporting period allowed the Group to compensate for the fact that it lagged behind the overall corporate lending market in 2017 (the Russian banking sector grew by 12.0% in 2018 compared to 2.2% in 2017).

¹⁶ Hereinafter: to calculate the change in the loan portfolio, the line-by-line consolidation method is used on 31 December 2018 and 1 January 2018.

Deposits and accounts of legal entities RUB bn



Deposits and accounts of individuals RUB bn



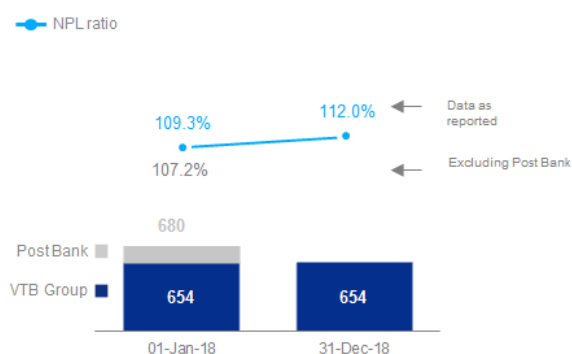
Assets

RUB billion	31-Dec-18	01-Jan-18	Change, %
Cash and short-term funds	935.8	773.8	20.9
Mandatory cash balances with central banks	111.1	97.1	14.4
Trading financial assets, including pledged under repurchase agreements	298.7	237.3	25.9
Derivative financial assets	202.5	169.0	19.8
Due from other banks	693.1	821.7	-15.7
Loans and advances to customers, including pledged under repurchase agreements	10,695.2	9,098.1	17.6
Investment financial assets, including pledged under repurchase agreements	352.6	373.1	-5.5
Investments in associates and joint ventures	283.2	117.1	141.8
Assets of disposal groups and non-current assets held for sale	22.0	17.2	27.9
Land, premises and equipment	402.3	348.2	15.5
Investment property	197.2	210.4	-6.3
Goodwill and other intangible assets	160.0	157.4	1.7
Deferred income tax asset	119.6	112.4	6.4
Other assets	287.3	407.2	-29.4
Total assets	14,760.6	12,940.0	14.1

Asset quality

As of 31 December 2018, the total amount of non-performing loans¹⁷ was RUB 654 billion, or 5.7% of gross customer loans before provisions (compared to RUB 680 billion, or 6.9%, as of 1 January 2018).

Non-performing loans and allowance for impairment, RUB billion



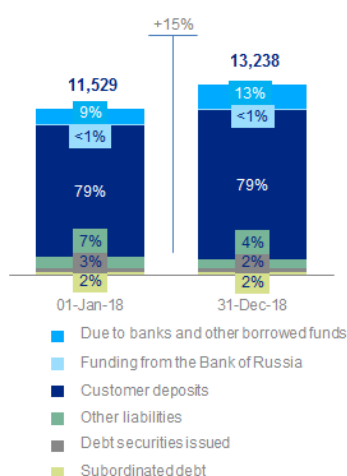
The Group continued its policy of clearing its loan portfolio by writing off bad assets through the corresponding impairment allowance after all necessary procedures to recover the asset have been carried out. The volume of non-performing loans written off in 2018 amounted to RUB 157 billion (compared to RUB 182 billion in 2017).

As a result of the write-off of non-performing loans, the impairment allowance represented

¹⁷ The Group identifies non-performing loans as credit-impaired loans, expected credit losses for these loans are assessed for the entire term, with overdue principal and/or interest payments for more than 90 days, as well as acquired or impaired loans with overdue principal and/or interest payments for a period of more than 90 days from the date of initial recognition.

6.4% of the total loan book as of 31 December 2018, compared to 7.5% as of 1 January 2018. At the same time, the non-performing loans coverage ratio increased to 112.0% as of 31 December 2018, compared to 109.3% as of 1 January 2018.

Liabilities



The Group's total liabilities amounted to RUB 13,237.6 billion as of 31 December 2018, an increase of 14.8% compared to 1 January 2018.

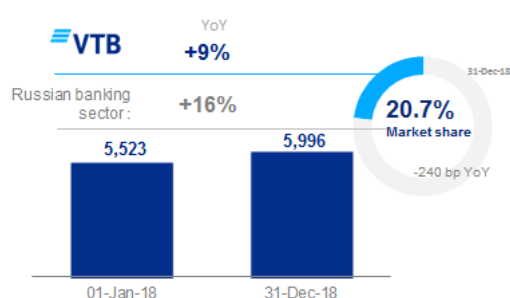
Liabilities structure, RUB billion

As of 31 December 2018, customer deposits amounted to RUB 10,403.7 billion, an increase of 15.9% over the year (excluding Post Bank as of 01 January 2018 and 31 December 2018). As a result, customer deposits accounted for 78.6% of the Group's total liabilities as of 31 December 2018, while the ratio of loans to deposits was 102.8% at the end of 2018, compared to 99.5% as of 1 January 2018.

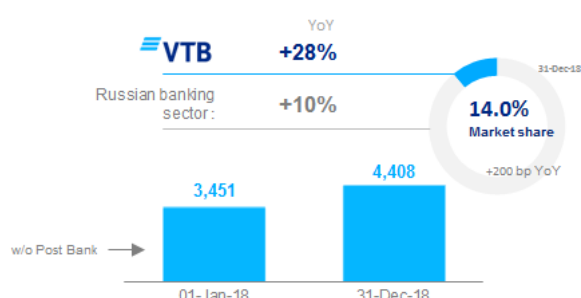
By the end of the reporting period, deposits from legal entities had increased by 8.6%, while customer deposits were up 27.7% (excluding Post Bank as of 01 January 2018 and 31 December 2018).

The Group's dependence on funding from debt capital markets remains low. The share of funds raised through issues of debt securities in total liabilities decreased to 2.0% as of 31 December 2018, compared to 2.8% a year earlier.

Deposits and accounts of legal entities RUB bn



Deposits and accounts of individuals RUB bn

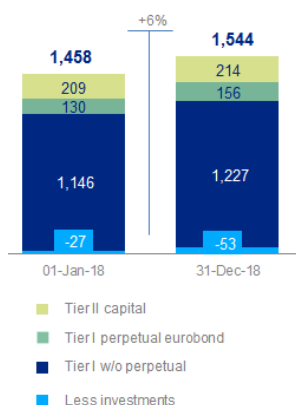


Liabilities

RUB billion	31-Dec-18	01-Jan-18	Change, %
Due to other banks	1,425.7	810.3	75.9
Customer deposits	10,403.7	9,144.7	13.8
Derivative financial liabilities	140.2	134.2	4.5
Other borrowed funds	329.7	304.5	8.3
Debt securities issued	259.1	322.7	-19.7
Liabilities of disposal groups held for sale	-	7.0	-
Deferred income tax liability	12.4	26.7	-53.6
Other liabilities	452.3	585.9	-22.8
Total liabilities before subordinated debt	13,023.1	11,336.0	14.9
Subordinated debt	214.5	193.2	11.0
Total liabilities	13,237.6	11,529.2	14.8

Capital and capital adequacy

Capital structure according to Basel standards



The Group's capital management policy is to maintain a sustainable capital base so as to retain the confidence of investors, creditors and market participants, as well as to ensure the future development of its operations.

High profitability supported the level of capital adequacy against a background of accelerated growth in lending and significant dividend payments: as of 31 December 2018, the Group's capital adequacy and Tier 1 capital adequacy ratios were 13.5% and 12.0%, respectively, compared to 14.3% and 12.5% as of 01 January 2018.

Capital and capital adequacy according to Basel standards

<i>RUB billion</i>	<i>31-Dec-18</i>	<i>01-Jan-18</i>	<i>Change, %</i>
Tier 1 capital	1,382.8	1,275.9	8.4
Tier 2 capital	214.4	208.9	2.6
Deducted: equity investments in financial institutions and subordinated debt provided	(53.3)	(26.7)	99.6
Total capital after deductions	1,543.9	1,458.1	5.9
Risk-weighted assets	11,476.0	10,184.0	12.7
Tier 1 capital ratio to total risk-weighted assets, %	12.0	12.5	-0.5 pp
Total capital ratio to total risk-weighted assets, %	13.5	14.3	-0.8 pp

According to the requirements of the Bank of Russia, Russian banks must comply with the minimum requirements for capital adequacy ratios, defined as a percentage of risk-weighted assets, calculated in accordance with the requirements of the Bank of Russia: common equity adequacy ratio (N 1.1), core capital adequacy ratio (N 1.2) and total capital adequacy ratio (N 1.0). As of 31 December 2018, the minimum levels were as follows: 4.5% for N 1.1, 6.0% for N 1.2 and 8.0% for N 1.0, compared to 4.5%, 6.0% and 8.0%, respectively, at the end of 2017.

In 2017 and 2018, the Bank's capital adequacy ratios calculated in accordance with the requirements of the Bank of Russia exceeded the minimum.

VTB Bank's capital and capital adequacy (RAS, Bank of Russia statutory ratios for banks)

<i>RUB billion</i>	<i>2018</i>	<i>2017</i>	<i>Change, %</i>
Total equity	1,587.0	1,069.4	48.4
Risk-weighted assets	14,002.3	9,443.1	48.3
Common equity adequacy ratio (N 1.1), %	9.0	10.1	-1.1 pp
Core capital adequacy ratio (N 1.2), %	10.1	10.3	-0.2 pp
Total capital adequacy ratio (N 1.0), %	11.3	11.3	0 bp

In other countries, the Group's banks comply with the requirements for the level of capital adequacy established by national central banks or other oversight bodies.

Measures to improve IFRS reporting in 2018

During the reporting period, VTB Group applied the new standards that entered into force on 1 January 2018:

- IFRS 9 Financial Instruments;

- IFRS 15 Revenue from Contracts with Customers.

With the introduction of IFRS 9, the Group revised the classification of a number of financial instruments in accordance with specific business models and also reassessed provisions for expected credit losses for all types of financial assets and off-balance-sheet liabilities exposed to credit risk.

With the introduction of IFRS 15, the Group revised its assessment of requirements and obligations to comply with the basic principle of the new standard, which is to recognise revenue in an amount that reflects the transaction price at the time of the transfer of goods or the provision of services to a client.

In addition, VTB Group changed its presentation of certain items in its statement of financial position and its profit and loss statement in order to increase the usefulness of the information and its accessibility for users to understand its financial statements:

- before applying IFRS 9, the Group decided to present on a separate line its consolidated statement of the financial position of its trading financial assets and to reclassify financial assets classified as fair value through profit or loss into investment financial assets;
- Since first applying IFRS 9, the Group has adjusted the comparative information provided in its consolidated profit and loss statement and in respect of interest income and provisions for impairment and for expected credit losses.

In 2018, VTB Group launched a project to implement IFRS 16, which entered into force on 1 January 2019. The project focuses on accounting models, principles of classification and evaluation, as well as processes that need to be developed. Work is under way to verify, test and validate the assumptions used and the results at the Group level.

4.5. RISK MANAGEMENT

Policy, organisation and structure of risk management

VTB Group-level risk management

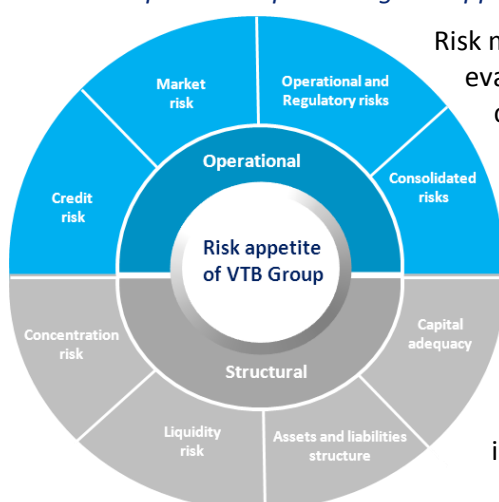
The main risks that VTB Group is exposed to are credit risk, market risks, liquidity risk and operational risks.

Information about the structure of all significant risks inherent in the Group's activities is disclosed on a regular basis in accordance with the requirements of the Bank of Russia on the official website of the Bank at:

<https://www.vtb.ru/akcionery-i-investory/raskrytie-informacii/raskrytie-informacii-dlya-regulyativnyh-celej/> (available in Russian language only).



VTB Group's risk map showing risk appetite indicators



Risk management at the Group level includes risk identification, evaluation and monitoring; control over the size, structure and concentration of risks; identification of effective measures to optimise and minimise risks; and compiling regular risk reports.

One of VTB Group's key principles of risk management is to take the Group's risk appetite into account when managing its activities. Risk appetite is determined in accordance with regulatory requirements and international practice. This approach involves the identification and oversight of the Group's overall target risk level and risk profile in accordance with its strategic objectives and the integration of risk appetite into business planning and risk management procedures.

A high-level risk appetite for the Group includes the following key provisions:

- The size of potential losses on risks accepted by the Group should not reach such a level that would lead to the cessation of the Group's operations, including under stress conditions;
- Group companies must have enough capital to secure the interests of creditors in the hypothetical (extremely unlikely) event of unexpected losses as a result of risks taken;
- The structure of the Group's operational cash flow and liquidity buffers should ensure the timely fulfilment of obligations to clients in the short and long term;
- The structure of assets and liabilities must ensure the efficient use of resources and comply with the Group's business model;
- The level of risk involved in the decision-making process must be assessed and monitored on an ongoing basis, and the impact of activities must also be assessed on an ongoing basis while taking risks into account;
- As part of its operations, the Group must try to avoid a high degree of concentration of credit risk in counterparties, industries and countries/regions with a high level of risk;
- Sustainable development and economic efficiency in the long term;
- Compliance with the regulatory requirements of the Bank of Russia, the recommendations of international bodies, as well as the requirements of local (foreign subsidiaries) or industry regulators;
- Maintaining an impeccable reputation, avoiding actions that could result in harm to the Group's reputation;
- Maintaining and improving credit ratings granted by international rating agencies (without state support).

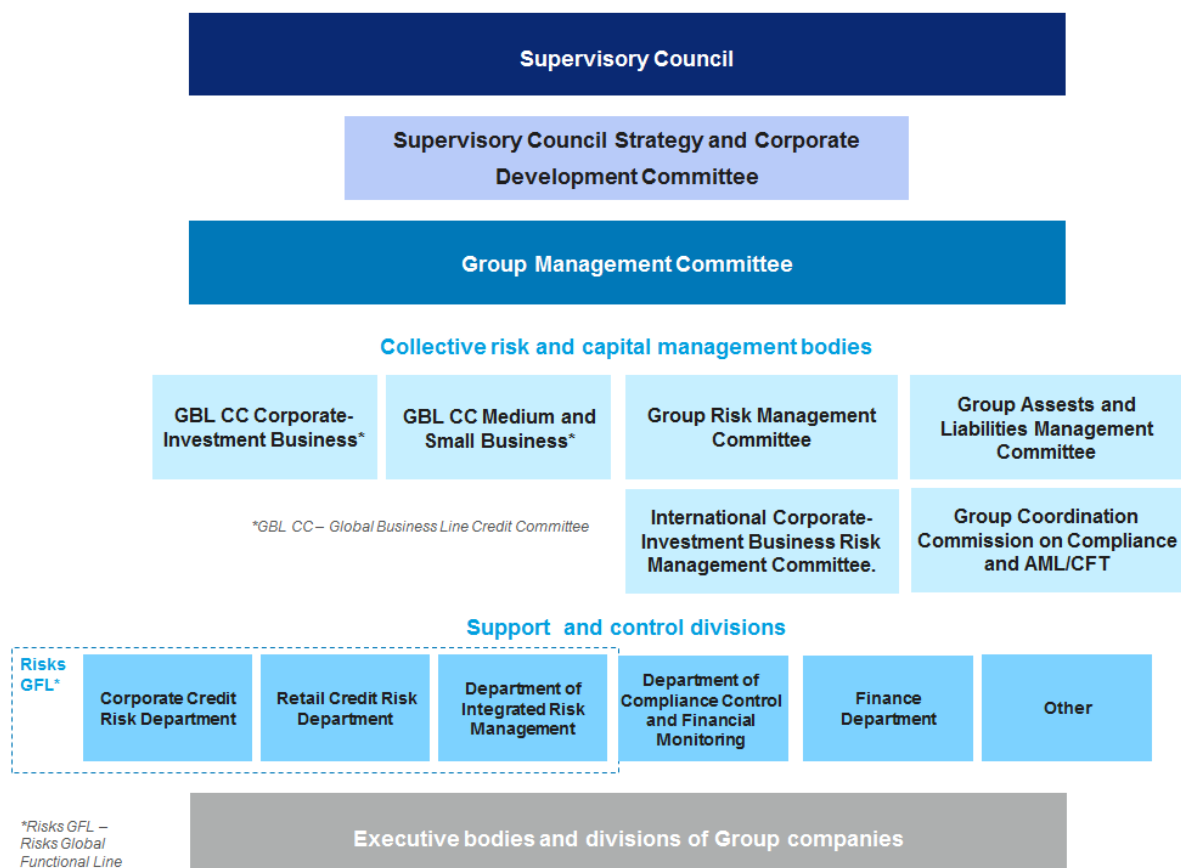
VTB Group's high-level risk appetite is detailed through the establishment of specific quantitative and qualitative indicators, with corresponding reference values.

Quantitative indicators of risk appetite are divided into operational indicators (they may be passed down to the system of limits established for business lines, VTB Group companies and other allocation levels) and structural indicators (centrally managed at the Group level). Risk appetite indicators limit all significant risks inherent to VTB Group's operations.

The key principles of the Group's risk management system also include:

- Compliance with legal and other mandatory requirements;
- Transparency of risk-associated activities for shareholders, investors and other interested parties (primarily by disclosing the relevant information as required), taking into account their interests;
- Analysing and managing risks on a consolidated basis, covering all of the Group's Russian and foreign banks, as well as its key financial companies;
- Optimal distribution of risks within the Group; minimising exposure and potential losses from risks in markets where the Group operates;
- Developing a risk management culture within the Group's companies, including improving employees' skills in terms of identifying and preventing possible risks and losses in their areas of responsibility;
- Providing the risk management function with sufficient resources, introducing modern methods for assessing and monitoring risks and automated risk management systems based on industry best practices.

Structure of Group divisions and collective bodies involved in risk and capital management



The Group's risk management system has a multi-layered structure, which includes consolidated (Group-level) and local-level risk management, with a high degree of centralisation of the Group's risk management function. The risk management system is built around the Group's global business lines (Corporate-Investment Business, Medium and Small Banking, Retail Business) and is based on the harmonisation of approaches to managing risk, including through the coordination of competencies exercised by the Group's specialised risk divisions.

The standard organisational structure of the Group's banks and financial companies includes an independent risk assessment and control division that corresponds to the appropriate risk profile, specific features and scale of the business, as well as a senior manager responsible for comprehensive risk management.

To coordinate risk management policies and practices across the Group, and to implement and improve the analysis of consolidated risk management procedures, a number of collective bodies report to the VTB Group Management Committee. These collective bodies include:

- The Group's Risk Management Committee, including its Commission on the Introduction of Risk Management Methodologies and on Business Continuity Management within VTB Group;
- The Group's Corporate-Investment Business and Medium and Small Business Credit Committees;
- The Group's Assets and Liabilities Management Committee, as well as its subordinate commissions;
- The Group's International Corporate-Investment Business Risk Management Committee.

Control over the organisation of risk management and the risk management policy within the Group's companies is carried out on a systematic basis, primarily through corporate governance (including through the representation of VTB Bank on subsidiaries' supervisory councils/boards of directors), as

well as through the Group's specialised risk divisions. Key internal regulations of subsidiaries related to risk management are approved by governing bodies, taking into account the contribution of the specialised risk divisions.

Organisational and functional structure of the Risks Global functional line (GFL Risks)

Divisions of GFL Risks ensure the effective functioning and development of the management system



During the year, the Group continued implementation of its strategy for the development of its risk management system for 2017–2019, as well work on the long-term development programme for the Bank for 2014–2019, which was approved by the Bank's Supervisory Council, including:

- the implementation of measures to ensure the transition to a methodology for assessing credit risk and the level of provisions in accordance with IFRS 9;
- improvement of a system of indicators and of procedures for preparing, approving and passing down the Group's risk appetite;
- implementation of internal procedures for assessing capital adequacy (ICAAP) at the Group level in accordance with the regulatory requirements of the Bank of Russia;
- ongoing work on the development of a methodology and procedures for managing certain types of risks (including interest-rate risk);
- implementation of projects to develop the IT infrastructure for risk management and to prepare risk reports, including taking into account the requirements of the Bank of Russia.

VTB Bank-level risk management

The Bank's main internal documents specify key principles of, and approaches to, the organisation and development of its risk management system (including subsidiaries included in the Group's consolidated risk management), including:

- The Regulation on the VTB Bank Risk Management System, designed in line with the procedures endorsed by the Russian Government and approved by the Supervisory Council on 16 November 2015;
- VTB Bank's Strategy for Managing Risk and Capital and the Procedure for Managing VTB Bank's Most Significant Risks, developed in accordance with the regulatory requirements of the Bank of Russia and subject to revision at least once a year to update its provisions.

An updated edition of VTB Bank's Strategy for Managing Risk and Capital was approved by a decision of the Bank's Supervisory Council on 25 December 2018; a new edition of the Procedure for Managing VTB Bank's Most Significant Risks was approved by a decision of the Supervisory Council on 23 July 2018.

The main strategic objective in risk management is to minimise potential financial losses (loss of revenue) from exposure to the risks faced by the Bank's operations, ensuring financial strength and long-term sustainable growth for the Bank in accordance with the strategic objectives specified by the Supervisory Council.

VTB Bank's strategy aims to create an integrated risk management system that corresponds to the nature and scale of the Bank's operations and risk profile, and that enables further business development in line with economic conditions and the Bank's needs.

The Bank's risk management is developed and improved in accordance with legal regulations and recommendations of the Bank of Russia, as well as generally accepted international standards and banking best practices.

In terms of organisation, VTB Bank's risk management system comprises the Supervisory Council and the Bank's executive bodies, credit committees, the Retail Risk Committee, the Assets and Liabilities Management Committee, the Credit Risk Management Committee and other special committees and structural units involved in risk management processes.

The main divisions responsible for developing the risk management system and controlling significant risks assumed by VTB Bank and VTB Group used to be the VTB Bank Risk Department and Retail Credit Risk Department. Since 20 November 2018, this function has been performed by VTB Bank's Integrated Risk Management Department and the Retail Credit Risk Department.

CREDIT RISK

Credit risk is the risk of financial loss (loss of revenue or additional expenses) should a borrower/counterparty/issuer fail to meet its contractual obligations.

VTB Group-level credit risk management

Credit risk at VTB Group is managed simultaneously at the local level with VTB Group companies and at the Group (consolidated) level.

Within the framework of the local credit risk management system, Group companies assume and manage credit risks independently (including through insurance and hedging of risks), within the scope of their authority and limits with regard to risk indicators, and in accordance with national regulations. VTB Group's companies are responsible for the results of their lending activities and the quality of their loan portfolios, and also for monitoring and controlling the credit risks associated with their portfolios.

The key elements of the Group's consolidated credit risk management are as follows:

- Harmonisation of credit policies (credit risk management policies) of the Group's companies;
- Development and adoption of common standards concerning credit procedures, decision-making processes, models and methods for managing credit risk to be used throughout the entire Group (including the methodology for assessing counterparties, pricing credit operations, collateral, monitoring, backup, stress testing);
- Establishing consolidated limits and other restrictions within the Group (including limits on counterparties/groups of related counterparties, large transactions, countries, industry sectors);
- Assessing the capital necessary to cover the Group's credit risks;
- Maintaining a centralised database of Group borrowers, including those requiring particular attention;
- Preparing regular consolidated financial statements regarding the Group's credit risk and submitting them to the Group's governing bodies for review.

Consolidated risk management covers all essential assets and off-balance-sheet operations of the Group's companies that bear credit risk and that require control over their concentration within the Group as a whole. Within the context of consolidated control and reporting, the scope and range of such operations is determined by the Group's coordinating bodies.

In 2018, specialised units within VTB Bank, including the Non-Core and Bad Assets Department and the Retail Debt Collection Department, dealt with identifying, monitoring and resolving issues of bad debt at the Group level.

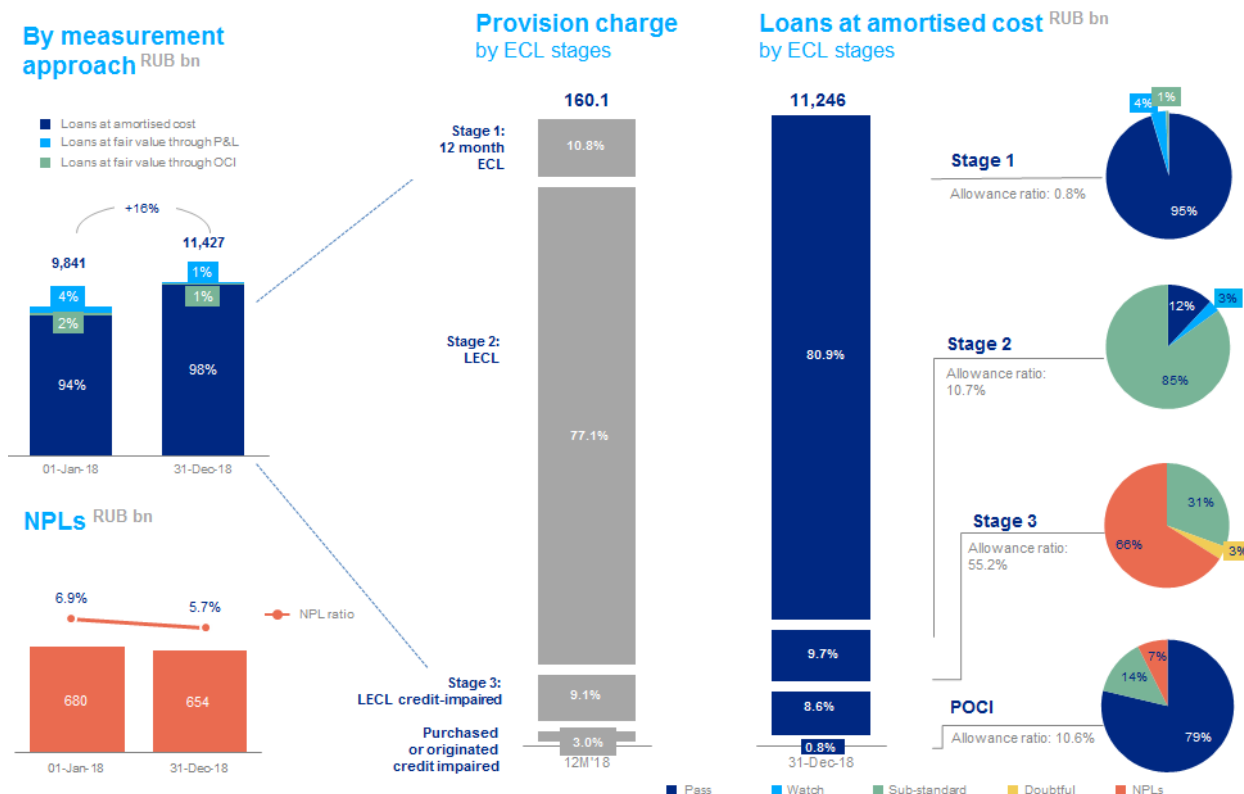
The corporate credit risks of subsidiary banks were managed by the Risk Department in 2018 (the Corporate Credit Risk Department (CCRD) from 20 November 2018). As the Group's specialised risk division for corporate credit risks, the CCRD is responsible for developing common approaches and methods for managing corporate credit risks, for evaluating them on a centralised and systematic basis and for developing the optimal structure of corporate credit risk accepted by the Group, including its compliance with the Group's risk appetite.

The centralised management of retail risks at VTB Bank's subsidiary banks was carried out by the Retail Credit Risk Department (RCRD) in 2018. As the Group's specialised risk division dealing with credit risks, the RCRD is responsible for developing common approaches and methods for managing retail risks, for evaluating them on a centralised and systematic basis and for developing the optimal structure of retail risk accepted by the Group, including its compliance with the Group's risk appetite.

VTB's subsidiary banks that perform the above-mentioned operations are guided by the Main Retail Credit Risk Management Guidelines, approved by the VTB Group Risk Management Committee, as well as other Group documents that establish standards and approaches for managing retail credit risks at the level of each subsidiary bank and at the Group level.

As part of the transition to IFRS 9 at VTB Bank, an intra-bank provisions methodology was developed in accordance with IFRS 9 in 2018, as well as general Group approaches to the establishment of provisions. Since 2018, provisions have been calculated in accordance with IFRS 9 for VTB Group's financial statements.

Gross loan portfolio breakdown under IFRS 9



* Purchased or originated credit impaired (POCI) financial assets - financial assets that are credit-impaired upon initial recognition.

VTB Bank-level credit risk management

VTB Bank manages credit risk by:

- Restricting credit risk through the Bank's existing system of limits, which comply with the Bank of Russia's mandatory regulations and other requirements. They are reviewed regularly by the VTB Risk Department (since 20 November 2018, by VTB Bank's Corporate Credit Risk Department and the Integrated Risk Management Department) and approved by VTB Bank's authorised collective body;
- Accepting collateral and insurance to cover credit risks, charging adequate fees for credit risk and establishing provisions for possible loan losses;
- Assessing the level of credit risk assumed by the Bank for each counterparty, as well as regularly monitoring the loan portfolio, individual customers, transactions and collateral (including by ranking borrowers);
- Preventing credit risk at the loan application review stage and taking prompt measures as soon as credit risk factors have been identified through monitoring.

The Bank applies the following main methods of credit risk assessment:

- Determining a customer's level of creditworthiness by analysing financial indicators and conducting an expert assessment (in compliance with the Bank's internal procedures for ranking); the level at which a customer (or a group of related customers) is ranked is taken into account when determining the cost levels of loan transactions;
- Analysing the level of concentration of the Bank's credit risk for individual borrowers (or a group of related borrowers), industries, countries, customer segments, types of credit products;

- Estimating possible losses from credit risk in the process of calculating and creating provisions for possible losses (in compliance with the requirements of the Bank of Russia and IFRS);
- Assessing capital adequacy and the scale of credit risk when calculating the required ratios established by the Bank of Russia;
- Determining internal capital needs (capital calculation) for credit risk, taking into account the actual quality of the loan portfolio (as required by the Bank of Russia and under Basel II)¹⁸;
- Conducting stress testing of loan portfolio losses, taking into account different macroeconomic scenarios.

The key methods for managing credit risk at VTB Bank are determined by the policy on managing credit risk (credit policy). The main tool for credit risk monitoring and mitigation is the system of established credit limits. In terms of managing retail credit risk, the Bank applies a Credit Risk Management Policy (Credit Policy) in Retail business.

The main types of credit risk limits are:

- Limits on the aggregate level of credit risk for the loan portfolio as a whole and for individual segments;
- Limits restricting the level of risk for a particular customer (or a group of related customers). These limits include limits for operations with a customer (or a group of related customers), including sub-limits for various types of operations with a credit risk/designated purpose (credit limits, documentary limits, limits on trading activities, limits on transactions with debt securities, etc.);
- Limits on the concentration of credit risk (by industry, country, credit products);
- Credit and deposit limits are established for credit organisations (including overdraft sub-limits, nostro accounts, provision of funds), limits on trading operations, limits on transactions with debt securities, and limits on contingent liabilities;
- Limits in accordance with the requirements (mandatory regulations) of the Bank of Russia.

The Bank employs collateral to reduce credit risk.

LIQUIDITY RISK

Liquidity risk means the risk that the Group or a member of the Group will be unable to finance its activities, i.e., to ensure asset growth and settle liabilities as they become due without incurring losses in an amount that would threaten the financial stability of the Group and/or a member of the Group.

VTB Group-level liquidity risk management

Liquidity risk management involves a set of measures used to manage the Group's assets and liabilities with the aim of maintaining the Group's ability to meet its obligations while ensuring an optimal balance between the level of liquidity risk and the profitability of the Group's operations.

The VTB Group Management Committee and Assets and Liabilities Management Committee and VTB Bank's Treasury Department and the Market Risk Division of the Integrated Risk Management Department all play a role in the Group's liquidity risk management process.

The VTB Group Management Committee:

- determines the Group's general policy in the area of liquidity risk management;
- sets limits and triggers for VTB Group's liquidity risk appetite;
- reviews reports on the status of VTB Group's liquidity risk as part of reports on Group risks.

¹⁸ Approach based on internal credit ratings.

The Group Assets and Liabilities Management Committee:

- approves the Regulation on the Procedure for Managing Liquidity Risk in the Group;
- approves the Group's liquidity risk assessment methodology;
- monitors the Group's liquidity;
- decides on measures related to the management of the Group's assets and liabilities with the aim of ensuring the required level of liquidity and growth of the Group's assets.

Liquidity management is applied at the Group level based on bylaws approved by the Group's Management Committee. Within the Group, liquidity management is based on the following principles:

- Each bank/company within the Group manages its own liquidity on a separate basis in order to meet its obligations and comply with the requirements of the national regulator and the recommendations of VTB Bank;
- VTB Bank manages the Group's liquidity by centrally controlling and managing the key measures taken by the Group.

Methods for controlling and reducing the Group's liquidity risk include:

- monitoring compliance with the established appetite for liquidity risk;
- monitoring compliance with the regulatory limit set by the Bank of Russia for the short-term liquidity of a banking group.

VTB Bank-level liquidity risk management

Liquidity risk management involves a set of measures used to manage the Bank's assets and liabilities with the aim of maintaining the Bank's ability to meet its obligations while ensuring an optimal balance between the level of liquidity risk and profitability of the Bank's operations.

The Bank has current and forecast liquidity risk management in place.

Managing current liquidity entails short-term forecasting and management of cash flows in respect of currencies and terms (time frames) so that the Bank can ensure that it will meet its obligations, complete settlements on behalf of its customers and fund ongoing operations.

Current liquidity management is carried out by the Treasury Department based on a real-time (intraday) determination of the Bank's current payment position and forecast future payment position, taking into account the payments schedule and other scenarios.

The objective in forecast liquidity management is to develop and implement instruments to manage assets and liabilities to support the Bank's instant funding capability, and to plan increases in its asset portfolio by optimising the ratio of liquid assets and profitability.

The Bank achieves this by making long-term liquidity forecasts and by adhering to internal liquidity standards (standards for liquid and highly liquid assets and the liquidity standard for the treasury securities portfolio), as formulated by the Assets and Liabilities Management Committee. The liquidity accounting standards of the Bank of Russia are also applied when carrying out forecast liquidity management.

Each forecast includes receivables and payments according to the contractual terms for operations, while also taking into account the following:

- Planned transactions;
- Possible extension of clients' funds (deposits and promissory notes);
- Possible outflows of unstable "on-demand" capital (clients' settlement and current accounts, as well as Loro accounts).

In addition, the Risk Department (since 20 November 2018, the Integrated Risk Management Department) conducts stress testing to assess risk factors that can have an impact on the Bank's liquidity

forecast. Liquidity gaps are closed through new borrowings and the renewal of existing deposits. The Group's medium-term liquidity is managed by attracting interbank loans and customer deposits, repo transactions and secured loans from the Bank of Russia. The currency structure of liquidity is managed by conducting "conversion swap" transactions.

A significant proportion of VTB Group's liabilities is represented by customer deposits (deposits, promissory notes, current accounts of corporate and retail customers), resources from the Bank of Russia and interbank deposits.

Although a considerable portion of customer liabilities are short-term deposits and "on-demand" accounts, the diversification of these liabilities and VTB's past experience indicate that these liabilities are consistently refinanced by customers, and they are, for the most part, a stable source of funding. The stable element of short-term customer liabilities is determined for various currencies using a statistical trend analysis of the cumulative balances of these accounts over time.

Money-market instruments (interbank loans and deposits, repurchase agreements) are used to control short-term liquidity, and are not considered as a source of funding for long-term assets.

Methods for controlling and reducing liquidity risk include:

- Monitoring compliance with established internal limits and regulations, including appetite for liquidity risk;
- Analysing liquidity risk using a set of quantitative and qualitative indicators;
- Implementing forecasting, situational modelling and stress testing of the Bank's liquidity;
- Monitoring calculated gaps taking into account the scenario analysis of the Bank's liquidity for various time periods to identify disparities between receivables and payments;
- Identifying and analysing the impact of internal and external factors on the Bank's liquidity, and the forecast for changes;
- Adopting and implementing solutions for management of assets and/or liabilities of the Bank to maintain liquidity risk at a level that complies with internal and regulatory liquidity ratios;
- Developing a detailed plan of action for mobilisation of liquid assets by the Bank in the event of insufficient liquidity;
- Ensuring compliance with the Bank of Russia's mandatory liquidity ratios by monitoring actual and forecast values of intra-bank maximum permissible indicators for mandatory ratios.

MARKET RISK

Market risk is the risk of downward pressure on the Group's financial results or its capital base due to adverse changes in the value of the Group's assets/liabilities (claims/obligations) as a result of market conditions, i.e., risk factors.

VTB Group has a standing collective body within the Group Management Committee as part of its system for managing the Group's consolidated assets and liabilities: the VTB Group Assets and Liabilities Management Committee (ALMC). The ALMC's main objectives are:

- management of VTB Group's assets and liabilities;
- management of VTB Group's treasury risks;
- determining the principles for internal and external pricing within VTB Group;
- determining approaches to capital allocation within VTB group according to different types of risks;
- determining approaches to the redistribution of capital among VTB Group companies.

The Group's Coordination Commission on Assets and Liabilities Management and Interaction with Financial Institutions under the ALMC has been in operation since 2017. Its main objectives are:

- ensuring the effective functioning of common Group principles, procedures and limits in terms of the management of assets and liabilities;

- ensuring effective interaction within the framework of intra-group rules for conducting business with financial institutions.

The Risk Management Committee sets operational and portfolio limits for market risk and distributes the risk appetite for the trading book among VTB Group members and business lines.

The Regulation on the Procedure for Managing Market Risk in VTB Group (hereinafter, the "Regulation") establishes procedures for identifying and monitoring market risks, the structure and hierarchy of market risk limits from the level of VTB Group to the level of Group members and individual divisions, procedures for monitoring compliance with limits and restrictions and for responding in case they are exceeded, and it also specifies the procedure for preparing reports on the Group's market risk.

Market risk is assessed and managed in the context of the following types of books:

- A trading book consisting of operations carried out in order to extract profits through their revaluation or hedging of other elements of the trading book;
- A portfolio of Treasury debt securities consisting of operations conducted by the Treasury Department and revalued at fair value.
- A bank book consisting of interest-sensitive instruments that are revalued at amortised cost or instruments used to hedge elements of the bank book. Loans that do not pass the SPPI test are counted in the bank book.

Based on an analysis of VTB Group's portfolio, the following areas of market risk can be identified:

- Interest-rate risk of the Bank's book;
- Currency risk of the Bank's book and the Treasury debt securities portfolio. Depending on the nature of the operations bearing currency risk, the Group's entire currency position is attributed to either the Trading book or the Bank's book;
- Market risk of the trading book and the Treasury debt securities portfolio.

Interest-rate risk of the Bank's book

Interest-rate risk management is based on VTB Group's bylaws and includes:

- Setting standard interest rates for deposits and internal rates for financing, taking into account current market conditions;
- Calculating interest-rate risk (ECap, etc.);
- Setting capital limits for covering the interest rate risk for the Group and individual banks;
- Establishing an indicator for the Bank book's appetite for interest-rate risk — the signal value of the sensitivity of net interest income to a change in interest rates.

The main parameters used to assess interest-rate risk are:

- The sensitivity of the Group's interest position to a change in interest rates, measured in terms of (1) the size of the reduction in the net present value of the interest position; and (2) the net interest income under an unfavourable change in interest rates, as well as a parallel movement of the yield curves by 100 and 400 basis points;
- The capital for covering interest-rate risk, measured by assessing reductions in the net current value of the Bank's interest-rate position in the event of likely unfavourable interest-rate movements.

Currency risk of a structural open currency position

The Group uses internal regulations adopted by the Group's Management Committee to manage its currency risk. It also ensures that the currency of its assets matches that of its liabilities and maintains an open currency position (OCP) in each of the Group's banks within established limits, including

internal OCP limits and the capital limit to cover the currency risk of structural OCP, as well as regulatory OCP limits.

Approved stress scenarios are used to calculate the capital required to cover VTB Bank's currency risk stemming from structural OCP.

The following are the main parameters used to assess the currency risk of the Group's structural OCP:

- Calculation of open currency positions in the context of individual currencies and VTB Group companies;
- Calculation of the OCP sensitivity to changes in foreign currency exchange rates of 1 RUB and 1%;
- Capital to cover the currency risk of structural OCP.

Market risk of trading operations

VTB Group is exposed to market risk regarding its trading book and its treasury debt securities portfolio associated with a negative revaluation of instruments due to changes in the values of various risk factors, including bond prices, stocks, commodity instruments, exchange rates, interest rates, credit spreads, risk volatility factors and correlations between them.

Although the treasury bond portfolio is separate from the trading book due to the different objectives in conducting transactions involving these portfolios, market risk management for treasury debt instruments is carried out in the same way as for the trading book.

To limit market risk within VTB Group, a set of limits is used. All limits can be divided into the following two groups: portfolio limits (VaR limits, stop-loss limits and stress limits) and operational limits that limit the concentration of individual indicators or types of assets in the portfolio (DV01, FX delta, etc.).

The Risk Department (since 20 November 2018, the Integrated Risk Management Department) performs the following market risk management functions for trading operations:

- evaluates and reports on the Group's market risk profile, reviews the structure of limits and prepares proposals for reducing and managing market risk for the trading book and the treasury debt securities portfolio;
- monitors on a weekly basis compliance with Group market risk limits; local market risk limits are monitored by the risk divisions of subsidiary banks on a daily basis;
- informs business units on a weekly basis about compliance with Group limit discipline, provides the ALMC with a monthly report on compliance with limits.

The results of stress testing are used to assess the market risk of the trading book and the treasury securities portfolio. The methodology used to assess these risk metrics is submitted to the Risk Management Committee for consideration and is communicated to VTB Group companies.

Stress testing: the result of the revaluation of the Group's trading book and Treasury debt securities portfolio is modelled on the basis of historical changes in risk factor values (observed under conditions of significant changes in macroeconomic indicators), as well as hypothetical changes in risk factors.

A scenario analysis showed that, in 2018, the greatest impact on market risk would have corresponded with a significant increase in risk-free rouble-denominated interest rates and the widening of credit spreads.

VaR: VaR is calculated based on the following parameters:

- historical period: two years;
- forecasting horizon: one trading day;
- confidence interval: 95%
- method used: historical modelling.

OPERATIONAL RISK

Operational risk is the risk of loss resulting from flaws in the type and scale of the Group's operations, internal processes and procedures for carrying out banking operations and other transactions, the violation thereof by staff or other individuals (due to unintentional or intentional acts or omissions), the inadequacy or lack of functionality of IT and other systems and/or the failure (breakdown) thereof, as well as damaging external events. Operational risk includes legal risks but does not include strategic or reputational risks.

VTB Bank's operational risk management system is designed to minimise incidents of operational risk, including reducing the likelihood of business process failures, the inability to provide high-quality services to the Bank's clients caused by staff errors, system breakdowns, internal or external fraud, breaches of client obligations or violations of contractual obligations, and incurring possible losses from taking on such risk.

In managing operational risk, the Bank adheres to the Bank of Russia's regulations, as well as the recommendations of the Basel Committee on Banking Supervision. To implement its operational risk strategy, VTB carries out regular procedures to identify, assess, monitor, control and minimise operational risk. All significant deficiencies from a risk perspective that are identified within the internal control system are subjected to detailed analysis. Based on this analysis, mitigation measures are taken in order to eliminate the causes and sources of the risk.

To manage operational risk, the Bank has implemented the following unified mechanisms to identify, assess and monitor the level of operational risk: a centralised process to collect information on incidents of operational risk and related consequences; control over the level of key indicators related to operational risk, and procedures to minimise operational risk. The application of the above-mentioned mechanisms makes it possible to carry out a quantitative assessment of operational risk indicators in relation to the Bank's products, processes and systems, including in the context of individual risk categories and the Bank's activities, the identification of sources of risk, the development and adoption of mitigating measures and the generation of management reports.

The Bank uses the following methods to respond to operational risks:

- Minimising risk: developing and implementing the necessary corrective measures to reduce identified risks;
- Taking risk: questions related to whether or not to take a certain risk are subject to approval by the authorised bodies/individuals within the Bank in the event that measures aimed at minimising the risk are not economically feasible;
- Avoiding risk: refusal to carry out a business operation subject to an identified risk if the potential losses as a result of the risk would be critical for the Bank and/or if carrying out the operation in question could jeopardise the economic feasibility of the activity associated with the risk, and if measures aimed at minimising the risk are not economically feasible;
- Transferring risk (risk insurance): risk insurance involves those operational risks that the Bank is unable to manage and that exceed the Bank's direct control (including the risk of the loss of collateral pledged to the Bank to secure credit, the risks associated with the transportation and storage of valuables and cash, property risks, etc.).

The Bank uses the following key methods to reduce and limit its operational risk:

- Maintaining an integrated system of ongoing and follow-up internal controls that cover all of the Bank's divisions and operations;
- Regulating all key operations using internal standards and codes of practice;
- Registering and documenting banking operations and transactions, and maintaining consistent control over primary documents and operating accounts;

- Applying the principles of dividing and limiting employees' functions, authority and responsibilities; implementing dual controls; collective decision-making; setting limits on the terms and scale of operations;
- Automating banking operations using high-performance IT systems that are constantly monitored and repaired promptly in case of breakdown;
- Operating a well-managed HR policy, good staff training and education;
- Taking preventive steps to ensure the continuity and recovery of activities related to banking operations and transactions by setting up alternative communications channels; geographically distributed server rooms; independent sources of power, heat and water supply; and by taking fire protection measures.

The insurance programmes covering risks related to the Bank's professional activities in 2018 were provided by insurance against crime under the Financial Institution's Blanket Bond scheme (including electronic and computer crimes), liability insurance for directors and officers of the Group's companies, insurance for funds and valuables while in storage and during transit, ATM insurance, etc. VTB Bank also insures against risks related to business activities (including buildings, equipment and vehicles).

In 2018, the Group took the following steps to develop its system for managing operational risk:

- Development and implementation of mechanisms to monitor the level of operational risk at the level of the Bank and the Group's companies as part of the management of risk appetite;
- Unification of methodological approaches to operational risk management at the Group level, including risk management of fraud and IT risks;
- Development of the methodology for a unified system of tools to be used for operational risk management at the VTB Group level (collection of data on the occurrence of operational risks and related consequences, self-assessment, key risk indicators, corrective action plans to reduce risks and the consequences thereof, scenario analysis);
- Improving regular reporting on the Group's operational risks.

Operational risk did not have a significant impact on the Bank's performance in 2018.

4.6. TECHNOLOGICAL TRANSFORMATION

Modern financial markets have entered the digital era, which means new standards for interaction with the Bank's customers and employees. There are certain features that all popular banking products have in common. First of all, they are as personalised as possible. By knowing customer preferences and anticipating the wishes of banking consumers, it is possible to create personalized products and services. To meet this challenge, tools are used to analyse data from a variety of sources.

In addition, competitive banking services include broad functionality in terms of mobile access—a determining factor in just how user-friendly a particular product is.

The digital transformation is having an impact on both the external and internal business processes of the Bank. Predictive analytics support the creation of high-quality products at just the right time. The move to electronic document flow is increasing labour productivity and reducing costs.

INFORMATION STRUCTURE

Since the merger of VTB Bank and VTB24 in January 2018, VTB is now the second-largest universal bank in Russia, with about 360 information systems that support large, medium-sized and investment businesses.

The Bank's information structure includes more than **3,700 physical servers**, more than **3,000 communication channels** and more than **2,300 databases** that store **26 petabytes of information**.

The Bank is developing its IT infrastructure in several areas:

- The development of a private cloud: 163 systems have been migrated to the cloud, and resource usage has been optimised;
- Server infrastructure operation: the “Laboratory” partnership programme has been launched (involving servers, data storage systems, virtualisation systems, network equipment and video conferencing) in cooperation with the Technoserv Group. RBS 2.1 infrastructure has been implemented (371 servers, five contours with the installation of open-source software). The merged Bank's servers used a Linux-based operating system and are updated centrally. The merged Bank's servers used a Linux-based operating system and are updated centrally.

ENSURING STABILITY AND RELIABILITY

The merger increased the load on the Bank's IT systems from two to four times. In 2017, an average of 2.8 million transactions were conducted through the Bank's primary systems. In 2018, this increased to 3.5 million transactions. The load on peak days in 2018 was four times higher than the average for the year for card transactions and 11 times higher for non-card transactions.

Immediate and medium-term measures were taken that enabled the Bank to make it through the peak New Year season (2019) with no failures, while ensuring the availability of twice as much bandwidth as was needed. Measures are being taken to reduce process windows, e.g., the introduction of DevSecOps will reduce periods of partial or complete unavailability of the Bank's IT systems for customers by 30-70% (from 16 to 8 hours). Work is under way to fully implement the service level agreement for each parameter for critical services.

Throughout 2018, the Bank's clients experienced temporary restrictions when using the VTB mobile application, including while conducting various operations. To prevent similar situations in the future, technical steps were taken to increase the traffic capacity of the Bank's IT systems. In addition, a plan was developed for further measures to improve the fault tolerance and performance of software. In particular, the plan provides for the distribution of information load across various domains depending on the service provided: sales and assistance for Bank products or the provision of customer services. The purchase of additional equipment is also planned.

In 2018, information security issues were the subject of close scrutiny. The adoption of timely measures enabled the Bank to avoid the possible ramifications of both global cyberattacks and attacks aimed specifically at VTB Bank, as well as to pass an inspection on compliance with information security requirements.

As a result, the Bank **fended off 100% of cyberattacks: 68,509 cyberattacks** (malware attacks on the site and emails). Of these, **759 attacks used modified malware not detected by anti-virus tools**.

Key achievements in 2018 in the area of information security:

- The creation of a closed perimeter that ensures a high degree of protection for critical banking systems.
- The introduction of “sandboxes”, i.e., software and hardware packages that analyse incoming information flows and protect the system against phishing e-mails and e-mails that contain viruses before they get beyond the Bank’s firewall.
- The creation of project support services, which made it possible to involve information security at all stages of project work.
- Ensuring compliance with the regulatory requirements of the Bank of Russia; the Federal Security Service of the Russian Federation; the Federal Service for Technical and Export Control; the Federal Service for Supervision of Communications, Information Technology, and Mass Media (Roskomnadzor); the SWIFT code system; and others in the field of information security.

Key objectives of the technological transformation within VTB

- **Transformation of the IT landscape of the unified Bank**
- **Formation of the unified Bank's branch network**
- **Increasing the number of foresight projects**
- **Development of remote service channels (mobile-first strategy)**

MAIN IT PROJECTS IN 2018 IN RETAIL AND CORPORATE BUSINESS

VTB Group Target Vision



Profitable Bank

Retail business

Rapid development of remote channels and product improvement

- Sales of a new product called the Universal Card got under way.
- Privilege-Multicard package created
- Finconsulting product created for “Prime” customers.
- New package for insurance products developed (“Personal Lawyer”).
- Salary projects were launched, as were special products related to the “Detsky Mir” and “Public-sector employees” segments.
- A unified system for fraud prevention and monitoring of suspicious transactions is being created.
- New products launched for various target audiences: Escrow (for clients who have taken out a mortgage), MIR accounts, large-scale repayment holidays implemented.

Corporate business

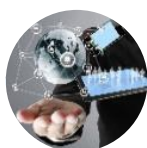
Improving tools for remote service and introducing new solutions

- General Agreement registered; guarantees within the Agreement implemented (in essence, framework guarantees were implemented similar to lines of credit).
- A unified information platform called the Corporate Business Portal created.



Long-term client relations

- Individuals' deposits from ABS M-Bank were migrated to the target systems of the former VTB24 as part of the planned consolidation of retail business products .
- Recipients of budget funds transferred to MIR cards.
- Real-time data uploading into a CRM system implemented to generate personal offers for customers in real time.
- Display case created that includes all information about a client's bonus account, including information about future bonuses and about the movement and amount of bonuses in the context of each operation.
- Service implemented that verifies Sim card changes (IMSI).
- Process for providing non-standardised online documents automated.
- The functionality of VTB Front was expanded: completion of cashier transactions involving former Bank of Moscow accounts; a service for law enforcement agencies; ensuring that the Bank can work with MIR card accounts.
- New mortgage products created: pre-approved mortgages, refinancing of housing under construction, children's mortgages.
- Automobile loan product launched.
- Transfers linked to mobile phone numbers launched for clients of third-party banks with no commission when making transactions worth more than RUB 5,000 per month.
- Process of submitting loan applications through former VTB24 systems improved: it now takes 25 minutes instead of 60 .
- New business card product with a ATM collection function developed.
- ContactEvent, a tool for registering and monitoring activities with clients, is being implemented.
- A task assignment/reminder tool was created.
- A new technology called Export Manager was developed, expanding the possibilities of the Business Connect e-commerce platform in terms of online integration with eBay, Amazon, AliExpress and Alibaba.
- Sales Manager module developed, expanding the capabilities of the existing Business Connect platform in terms of integration with ERP systems and the possibility of automating the process of completing corporate orders .
- Bank's access to the online tax monitoring system improved.



Integrated group

- Partnership channel launched for mortgage lending, the purpose of which is to improve interaction between the Bank and partner companies, such as developers and realtors.
- Merger of VTB and VTB24 completed
- Sales of investment products through VTB Front launched.
- Paperless office technology launched (taking into account the requirements of the unified Bank).
- Functionality added to connect new external and internal data sources to the Bank's Retail Loan Pipeline: Yandex, Mail.ru, RTO (real-time offering).
- Functionality added to send online mini-questionnaires and documents from partners' CRM systems and the Bank's website.
- Extended Business Day functionality launched for the former VTB24 systems for Corporate-Investment and MSB clients.
- Process to prepare electronic client and product dossiers on legal entities and individual entrepreneurs carried out
- Advanced data analysis toolkit made available.
- Pilot project called Robot Collector (first call to debtors) completed.
- Automatic typification for the documents that are scanned at



High-tech bank

- Project to implement a unified biometric platform launched. Collection of biometric data at points of sale.
- Unified VTB Front interface introduced at all points of sale.
- Transition to individualised scoring for individuals (assessment of the borrower's solvency on the basis of data from their credit history).
- Pilot project launched on unified cards for residents of Saint-Petersburg.
- Service launched for opening brokerage accounts and/or individual investment accounts.
- Corporate knowledge management system called Business Wikipedia introduced for the front line of the Retail business line (named Project of the Year 2018 in a competition for IT directors).
- Client product profile added, making it possible to obtain information about client service at the Bank.
- points of sale added.
- Functionality added to enable the use of previously submitted documents.
- System for managing the quality of client data is being implemented: creating a client profile according to a single requisite based on records from the Unified State Register of Legal Entities/Unified State Register of Individual Entrepreneurs as part of the process of optimising the reservation and opening of accounts.
- Operation of the remote banking service system for corporate clients accelerated.

IT achievements in retail business in 2018

- ✓ VTB was the winner in the **Breakthrough of the Year** category at the Retail Finance Awards for achievements in the finance business in Russia
- ✓ 14 days → online: **automating the issuance of non-standardised documents**
- ✓ Business Wikipedia: knowledge management system for the front line of the Retail Business global business line, **winner of Project of the Year 2018** (Global CIO competition)

IT achievements in corporate business in 2018

- ▼ reduction from 60 to **25 minutes** in the time needed to submit a loan application in former VTB24 systems
- ▼ **12 times** the time needed to update records for all of the Bank's corporate customers
- ▲ from 13 to **23 thousand** increase in the number of payroll clients
- ✓ **My Investments** application was the winner of **a Retail Finance Award**

KEY TECHNOLOGICAL PROJECTS IMPLEMENTED BY VTB GROUP IN 2018

The work of the Supervisory Council was digitised. This has enabled the Bank to optimise the processes involved in preparing and holding meetings of the Supervisory Council by creating a unified communication space in accordance with all security requirements.

The IT infrastructure from the former Bank of Moscow's automated banking system (ABS) was migrated into VTB's private cloud platform. The migration has resulted in a reduction of RUB 10 million in operating costs per month due to no longer having to provide technical support for obsolete equipment. In addition, the time needed to carry out the most important background processes was reduced by three times, as was the operational window for backing up data. Annual savings will amount to RUB 120 million.

Next-generation remote banking service platform. Advanced containerisation and traffic management technologies were used for its design, thus increasing the availability and fault tolerance of systems. The distributed capacity of the Bank's private cloud is used as the basic technological infrastructure.

VDI (virtual desktop infrastructure) technology was implemented, and 14 thousand employees were transferred to virtual work stations. This is part of a large-scale programme to centralise and improve the quality of IT services and provide a common IT platform as part of the integration of former VTB BM and VTB24 structures with VTB.

Corporate Business Portal unified information platform. This project introduces tools for cross-functional interaction among employees and a work platform for the Bank's corporate business call centre, and it also involves the use of intelligent information processing algorithms.

Advanced data analysis toolkit. This will help specialists from the Big Data and Modelling Centre, the Retail Credit Risk Department and the Retail CRM and Sales Department. The service will improve the accuracy of forecasts and analytics through the use of a new class of models based on neural networks.

VTB FORESIGHT PROJECTS

Work on the Bank's digital transformation is being carried out in the form of foresight projects. Each project is aimed at the creation and development of digital products based on the most advanced technologies available: big data, blockchain, artificial intelligence, biometrics, and the Internet of things. Five foresight projects were launched in 2017, and the Digital Transformation team from the Information Technology Department developed 17 new products in 2018, while also continuing to develop earlier products.

Foresight projects

2018 results



Common identification system: client authentication using biometric technology. Launched in 2017.

- The first stage of the pilot project on biometric authentication of clients in the Corporate-Investment Business's Client Support Centre was successfully completed. Using a special application, operators can identify corporate clients based on biometric voice data.



VTB's common multichannel biometric platform. Project launched in 2018.

- The business requirements and platform functionality were determined;
- Requirements from departments involved were collected and analysed. Options for the use of a biometric platform for VTB Group were identified;
- The high-level architecture was developed and approved;
- Compliance of the Bank's information systems with

		the requirements presented for information systems that process biometric personal data was ensured.
	Contactless and biometric authentication system. Project launched in 2018.	A fast, easy-to-use authentication system was created for shareholders at annual and other meetings.
	Data monetisation service: a big data analytics system for building predictive and advisory models with the application of machine learning. Project launched in 2017.	- A monitoring system for corporate clients regarding the risk of loan defaults is being put into operation; - A platform for analysing big data was created that is connected to internal and external data sources to enrich the internal analytics and improve the quality of predictive models; connections are in place to the most advanced libraries for data analysis and machine learning available, including using neural networks; - A pilot project was completed to predict loan defaults by corporate clients based on an analysis of news feeds; - A pilot project (pilot cross-organisational model) was completed for predicting the acquisition of financial products and services of partner companies by Bank clients based on an analysis of customer transactions; - A hyperdata project is at the implementation stage: a big data platform for analysing customer data.
	Geoanalytics Project launched in 2018.	A pilot project was launched to create a service that uses data from geo-coordinates and map visualisation.
	Common digital transaction service: support for paperless transactions based on blockchain technology. Launched in 2017.	- A prototype for the Digital Banking Guarantee System was developed; - The first test transactions for the issuance of digital bank guarantees were conducted.
	Open API. Project launched in 2018/	A pilot project was launched to create a portal for developers and open interfaces for the bank's partners within MSB global business line.
	Omnichannel communications system: communications system based on advanced communication platforms. Project launched in 2017.	Prototype for a Unified Digital Communications System developed.
	Augmented reality platform: integration of real objects (brochures, leaflets and other VTB advertising media) into a virtual environment in order to obtain more extensive information about Bank products and services through smartphones. Project launched in 2018.	Prototype platform developed.
	Intelligent personal assistants for clients (using the Yandex Alice smart speaker system). Project launched in 2018.	A working prototype was created based on Yandex's Alice smart speaker system service to advise clients.
	Intelligent robot collector. Project launched in 2018.	A pilot project was completed with testing of the functionality for making first call to clients with overdue loans. The result of this communication is automatically recorded in the Bank's systems.
	Corporate-Investment Business chat	Additional functionality implemented within the

service. Project launched in 2018.	digital communication platform, improving interaction between the Bank and its Corporate-Investment clients; ▪ Preliminary research conducted.
 VR Mortgage. Project launched in 2018.	▪ The concept for an immersive remote service was developed to help the Bank's clients choose real estate.
 Digital payment service: a blockchain-based payment system. Project launched in 2017.	▪ A patent was received for technology used to create blockchain-based multi-issuer payment systems; ▪ A tool for blockchain-based p2p transfers was developed: the Digital Payment Service.
 Blockchain-based multi-issuer loyalty system. Project launched in 2018.	▪ The concept for a blockchain-based multi-issuer loyalty system was developed. The system takes into account the interests of all potential participants: the city, its inhabitants and businesses.
Short-module training platform. Project launched in 2018.	▪ A mobile application was developed that enables call centre employees to acquire new knowledge more efficiently and to maintain it; ▪ Content for the application is being developed.
Internet of things Project launched in 2018.	▪ Prototype tested for automatic data collection from housing and public utilities meters.

Expected impact

At the end of 2018, several developments with a proven impact were being piloted at the bank:

- An intelligent robot collector that allows the Bank to save up to RUB 18 per minute per call, which is 7 times cheaper than a call from an ordinary operator;
- Voice biometrics for servicing corporate clients, making it possible to reduce operational risks and provide improved service quality. The overall impact of the introduction of these technologies is estimated at RUB 392 million over five years.

VTB CORPORATE ACCELERATOR

For the first time in the Bank's history, a corporate accelerator was launched in 2018 to work with startups. Its objectives include not only searching for and integrating breakthrough technologies from the open market into the Bank's internal processes, but also creating an internal culture of working with innovations within VTB. Projects are being considered in priority areas determined in conjunction with the Bank's business units, including big data and analytics, blockchain, artificial intelligence, biometrics, cybersecurity, etc. Some 190 startups from Russia, Finland, Georgia, Armenia and Belarus submitted applications for participation in the accelerator, and the Bank selected 12 projects to take part in the programme. Various divisions of the Bank launched pilot projects with seven of the participants, including on solutions for collecting, analysing and managing data, process robotisation, speech analytics, etc.

Development of remote service channels (mobile-first strategy)

Today, consumers of financial services prefer virtual services that offer convenience, efficiency, availability and security. Responding to requests and anticipating the needs of customers, the Bank offers digital products that are focused as much as possible on the individual needs of each customer. Improving the processes of interaction with retail and corporate clients requires the transformation of the Bank's internal business processes. Automation of routine operations, optimisation of the performance of business divisions, improving the quality and speed of business analytics—all of this helps reduce costs and increase productivity.

The following initiatives have been implemented in the interests of retail customers:

- client registration and account reservation with VTB Business Online LITE;
- introduction of Apple Pay;
- adaptation and introduction of Samsung Pay; daily payments through Samsung Pay have exceeded RUB 20 million;
- scanning functionality added for QR codes and barcodes;
- VTB My Investments mobile application launched;
- Robo Advisor, the first service for choosing an investment portfolio in the Russian market, was created; designed for the VTB My Investments application, the service supports a unique rebalancing functionality;
- VTB Front for tablets;
- a push inbox was launched, allowing customers to receive SMS notifications about transactions through the application, along with a properly formatted receipt for each operation;
- a virtual Bank branch was created: this system enables interaction between customers and the Bank's call centre using chat and collaboration tools through a web interface. An online chat option is currently available for contacting the Bank. This allows customers to exchange text messages and images with operators.

Business clients received new opportunities for process optimisation, including:

- an online business registration service (the first certified myDSS application using CryptoPro DSS technology for signing legal documents through a smartphone);
- functionality that allows customers to access the Bank's mobile service and confirm operations with a short code/touch/face ID;
- functionality was added that enables customers to obtain documents through the Bank's mobile service;
- functionality was added that allows customers to change their bonus category through the Bank's mobile service;
- upon request, remote paperless voting is available through the Bank's mobile service.

5. CORPORATE GOVERNANCE

5.1. OVERVIEW OF THE CORPORATE GOVERNANCE SYSTEM

VTB GROUP CORPORATE GOVERNANCE

VTB Group is structured as a strategic holding. This model entails a common single growth strategy for all Group companies, as well as a single brand, centralised management of financial performance and risk, and unified control systems.

Under its current management model, the Group is governed along two key lines:

- Administrative management – executing the rights of the parent bank as the main shareholder by allowing its representatives to participate in the management bodies of subsidiary companies;
- Functional management – managing the Group's business, support and control lines within VTB Group as a whole. Functional coordination is a supplementary governance mechanism that provides early-stage expert review of management decisions.

To achieve key strategic objectives, the following business lines have been established within the Group: Corporate-Investment Banking, Medium and Small Banking, Retail Banking (for more information on the global business lines and their performance see "Results overview").

The Group's Corporate Centre sets the Group's overall strategic direction and promotes best practices within the Group.

The management system established by the Group enables the Bank to develop a global mechanism for client service, to closely coordinate the work of every business line in all of the Bank's regions of operation, to increase profitability through synergies between business lines and best practices, and to reduce costs by sharing infrastructure and resources more extensively among Group companies. Furthermore, this management model is a platform for the effective integration of assets acquired by VTB Group.

VTB Group pays significant attention to improving its governance system, which is designed to comply fully with corporate and antimonopoly legislation in countries where the Group operates.

As of the beginning of 2018, as part of the project to establish a unified Bank, VTB Bank was restructured through a merger with VTB24, which will enable more efficient and more effective interaction both among the Bank's global business lines and in terms of the support and control functions in accordance with the Group's management model. Since the beginning of January 2018, all divisions of the parent organisation, as well as departments and branches that were previously part of the structure of VTB24, have been operating within the merged Bank as part of all customer segments. Throughout 2018, proactive efforts were made to integrate the former divisions and regional offices of VTB24 into the structure and processes of the merged Bank. In particular, the following actions were taken:

- completed the rebranding of all VTB ATMs and sales points;
- established unified, cross-cutting models for work within the framework of the merged Bank, including in the areas of support and oversight;
- achieved key objectives of the merger's financial model.

One of VTB Bank's key priorities in accordance with its development strategy for 2017-2019 (hereinafter, the "Strategy"), approved by the Bank's Supervisory Council on 14 December 2016 (Minutes No. 21), is strengthening the positions of VTB Group banks in the retail banking market and attracting customer funds.

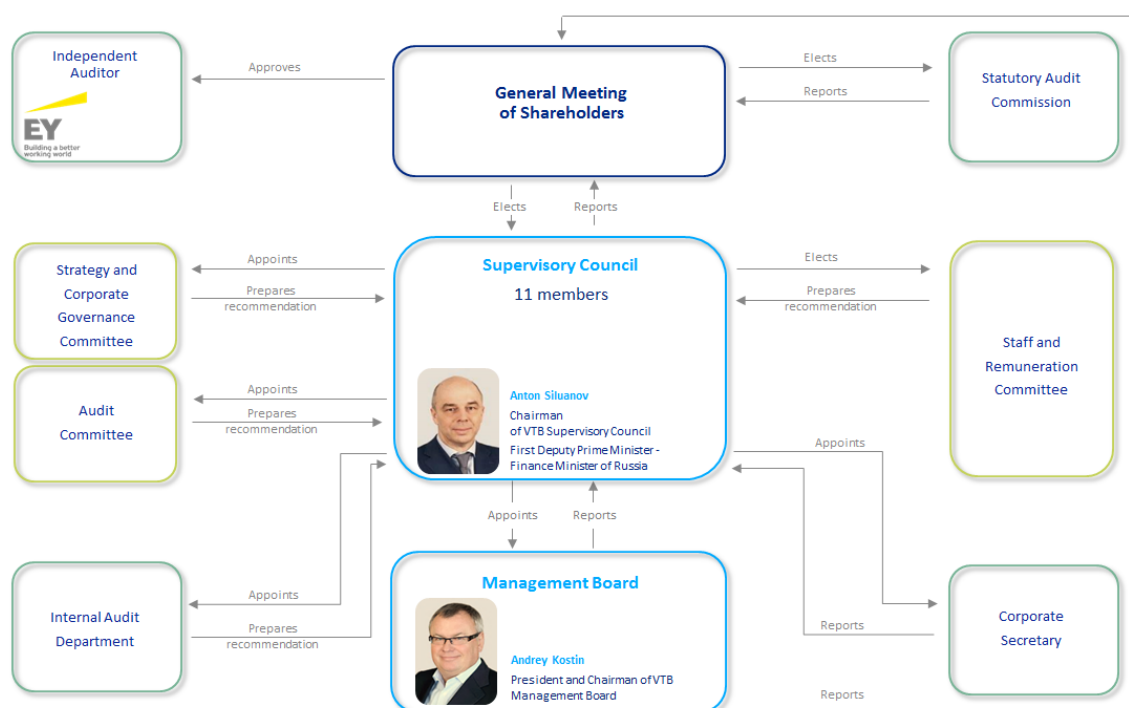
As part of this initiative, in 4Q 2018 and 1Q 2019, VTB Bank completed the acquisition of controlling stakes in Vozrozhdenie Bank, Sarovbiznesbank and Zapsibkombank. The acquisition of these banks will significantly expand the presence of VTB Bank in the Moscow, Nizhny Novgorod and Tyumen regions.

Further steps are currently being developed to integrate the banks into the Group's management system, which is expected to be completed in 2020, when they will have finished the transition to the VTB brand.

VTB BANK'S CORPORATE GOVERNANCE SYSTEM

Corporate governance at VTB Bank is a system of interactions between the executive bodies, the Supervisory Council, shareholders and other stakeholders aimed at realising the rights of shareholders and investors, increasing the investment attractiveness and transparency of the Bank's operations, creating effective risk assessment mechanisms that can have an influence on the Bank's value, and the effective use of funds provided by shareholders (investors).

VTB Bank's corporate governance system



The Bank's corporate governance system is based on the principle of unconditional compliance with legislative requirements and the requirements of stock exchanges in Russian and abroad. It is also focused on the recommendations of the Corporate Governance Code ("the Code") approved by the Central Bank of the Russian Federation, the recommendations of the Basel Committee on Banking Supervision and of the Financial Stability Board that are applicable to financial institutions, as well as international best practices and standards of corporate governance. The Bank is a public joint-stock company whose securities are listed and traded on the Moscow Exchange's Level 1 list (its highest quotation list), and on the London Stock Exchange, where they are traded as global depository receipts (GDRs).

The General Meeting of Shareholders is the supreme governing body of VTB Bank. Regardless of where their shareholdings are registered, all shareholders of VTB Bank have access to the electronic voting system developed by the Bank's registrar, VTB Registrar. Electronic voting is possible online at www.vtbreg.com, as well as through the VTB Shareholder application.

The Supervisory Council, elected by the shareholders and accountable to them, provides strategic management of, and oversight over, the Bank's executive bodies, namely the President and Chairman of the Management Board and the Management Board itself. The Supervisory Council approves the Bank's strategy and long-term development programme and its policy on remuneration and reimbursement for expenses for executive bodies and other key executives of the Bank, plays a key role in the Bank's significant corporate events, and determines the key principles and overall approach to risk management and the internal control system.

The executive bodies are responsible for the day-to-day management of the Bank and carry out the tasks entrusted to them by the shareholders and the Supervisory Council.

The following committees function under the Bank's Supervisory Council:

- The Staff and Remuneration Committee drafts recommendations on key appointments and incentives for members of the Supervisory Council and the Bank's executive and control bodies;
- The Audit Committee, whose main activity is to analyse and support an effective and adequate system of internal control;
- The Strategy and Corporate Governance Committee considers and makes recommendations on strategic development issues and on improving VTB's corporate governance, as well as on refining management of the Bank's capital.

The Bank has established a special structural unit, the Supervisory Council Administration, headed by the Bank's Corporate Secretary, who is elected by the Bank's Supervisory Council.

The Bank's financial and economic affairs are monitored by the Statutory Audit Commission and also by the Internal Audit Department, an independent structural unit of VTB Bank that operates under the direct supervision of the Supervisory Council. It verifies and assesses the effectiveness of the Bank's internal control and risk management systems; verifies the reliability, completeness, objectivity and timeliness of accounting and management reports; establishes uniform approaches to the organisation of internal control systems in companies controlled by the Bank; gathers information about their status; and develops recommendations for improvement. The Supervisory Council approves the Internal Audit Department's work plans and monitors their implementation.

In order to reduce management risks, liability insurance is purchased for the Bank, as well as for members of the Bank's Supervisory Council and executive bodies (D&O insurance).

A Shareholders Consultative Council functions within the Bank. This is an independent expert consultative and advisory body that consists of minority shareholders, and whose meetings are attended by members of the Bank's Supervisory Council and executive bodies. Members of the Shareholders Consultative Council play an active part in VTB Bank's activities, discussing with the Group's top management the most pressing issues concerning the interests of shareholders, including issues related to strategy development and implementation, as well as improving corporate governance practices.

VTB adheres to a policy of full and timely disclosure of reliable information, giving shareholders, investors and counterparties the opportunity to make properly informed decisions. Information is disclosed in compliance with Russian legislation and the requirements of the UK financial regulator, the Financial Conduct Authority. The Bank's Supervisory Council has approved the VTB Bank Regulation on Information Policy, which is posted on the Bank's website and specifies the ways in which information may be disclosed, as well as the time frame for such disclosure and the forms such disclosure may take; it provides a list of information that the Bank has taken on a duty to disclose in addition to what is required by law, as well as measures to ensure compliance with the Bank's Information Policy.

The Bank regularly publishes its financial results in accordance with both Russian and international standards. In order for all stakeholders to obtain the most up-to-date information on VTB Group's activities as quickly as possible, the Bank publishes information from its IFRS management reporting on a monthly basis in addition to quarterly and annual reports.

DEVELOPMENT OF CORPORATE GOVERNANCE IN 2018

The Bank views improving its corporate governance system as an integral part of its overall work to improve the efficiency and effectiveness of its activities; the corporate governance system is also subject to constant monitoring by the Bank's Supervisory Council and executive bodies.

At the Annual General Meeting of Shareholders held on 23 May 2018, a new Supervisory Council was elected that includes, for the first time, five directors not connected with the principal shareholder, including four representatives of minority shareholders, which, according to the Bank, maximises the Supervisory Council's independence and also enables it to represent the interests of a wide range of shareholders.

Shareholders also elected a new Statutory Audit Commission, which retained a place for a representative of minority shareholders.

In 2018, the Bank continued to implement the action plan adopted by the Supervisory Council on the implementation of provisions of the Corporate Governance Code, which is the main source of guidance for improving the Bank's corporate governance system:

- the Bank has introduced a practice whereby the Bank's shareholders are provided with the conclusions (opinions) of the members of the Supervisory Council on the independence of each candidate to the Supervisory Council concerning their compliance with the established independence criteria prepared by the Bank's Staff and Remuneration Committee. Previously, the Committee considered the issues of candidates' compliance with the requirements of the Bank's Supervisory Council without providing the relevant conclusions;
- regarding all significant issues included on the agenda of General Meetings of Shareholders, shareholders are provided with the detailed position of the Bank's Supervisory Council, prepared in accordance with best practices and expert recommendations;
- The Bank's annual reports disclose additional information of interest to the Bank's shareholders, including:
 - ✓ on the procedures for electing the Bank's external auditor;
 - ✓ reports on internal assessments of the corporate governance system and the work of the Bank's Supervisory Council;
 - ✓ detailed information on the distribution of the Bank's net profit;
 - ✓ on the remuneration of key executives of VTB Group.

During the reporting year, the Bank's General Meeting of Shareholders approved a new version of the Regulation on the Procedure for Preparing, Convening and Holding General Meetings of Shareholders. In particular, the new version of the Regulation expands the list of materials (information) provided to shareholders in preparation for the Annual General Meeting of Shareholders.

The Bank's performance in the area of corporate governance enabled it to maintain a high position in the National Corporate Governance Rating, where it was accorded a score of 7++, corresponding to "well-developed corporate governance practice". The Russian Institute of Directors provides the annual rankings, which are based on an independent review. A rating of 7++ is assigned to companies that comply with the requirements of Russian legislation in the field of corporate governance, and it denotes fairly low risk to shareholders of losses associated with corporate governance.

In order to further develop the corporate governance system in 2019, the Bank plans to conduct its first-ever external assessment of the Supervisory Council. To be carried out by an independent consultant, the assessment will be aimed at, among other things, determining the effectiveness of the work of both the Supervisory Council as a whole and of the individual members of the Council. The results of the assessment will identify areas in which the activities of the Supervisory Council can be improved.

As part of the Bank's ongoing work to improve its system for regulating conflicts of interest, amendments of the Bank's bylaws are planned, including to enshrine the obligation of members of the Bank's executive bodies to refrain from actions that lead to a conflict of interest.

5.2. GENERAL MEETING OF SHAREHOLDERS

The General Meeting of Shareholders is the supreme governing body of VTB Bank. Any holder of ordinary shares may exercise the right to participate directly in the management of the Bank by voting on the agenda of the General Meeting of Shareholders. Preference shares carry voting rights only in special cases, as stipulated by law.

Shareholders may take part in a meeting of shareholders either in person (in the event that an in-person meeting is held) or through absentee voting. On 1 July 2016, legislative amendments entered into force concerning the procedure for nominee shareholders to provide information to the issuer on the identities of the ultimate owners of shares. In accordance with these amendments, the distribution of ballots by post is restricted to those individuals whose rights to securities are recorded directly with the registrar.

Regardless of where their shareholdings are registered, all shareholders of VTB Bank have access to the e-voting system developed by the Bank's registrar, VTB Registrar. E-voting is possible online at www.vtbreg.com, as well as through the VTB Shareholder application.

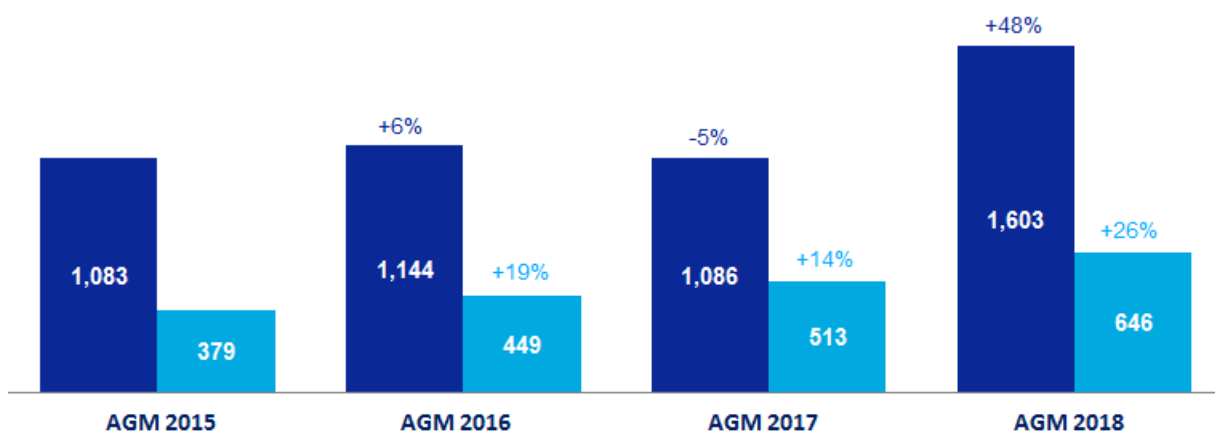
The decision to convene a General Meeting of Shareholders is taken by the Supervisory Council. In accordance with applicable Russian law and the Bank's Charter, information about the date and venue of the General Meeting of Shareholders, as well as the record date for shareholders eligible to participate, is published on VTB's website. During the time frame specified by law, shareholders can review materials for the General Meeting of Shareholders on the Bank's website or at Shareholder Liaison Centres in Moscow, St Petersburg and Yekaterinburg. When voting electronically, the materials for meetings are also available through the mobile application and in each user's personal account on VTB Registrar's website.

2018 Annual General Meeting of Shareholders

VTB's Annual General Meeting of Shareholders in 2018 was attended by 646 shareholders and their representatives.

The Annual General Meeting of Shareholders (AGM) of VTB Bank was held on 23 May 2018 at the Oktyabrsky Grand Concert Hall in St Petersburg. The meeting was attended by 646 shareholders and their representatives (compared to 513 in 2017). In total, 1,603 shareholders took part, including through voting by proxy, which accounted for 10,529,499,664,253 votes, or 81.2427% of the total votes.

1,603 participants in 2018



| Overall number of participants

| Number of participants with in-person attendance

Shareholders' growing interest in annual meetings can be seen not only in the 26% increase in the number of shareholders who personally attended the meeting, but also in the more than twofold increase in the number of views of the traditional webcast of the meeting. For the convenience of minority shareholders, they were given an opportunity to ask the members of the presidium questions via videoconference at Shareholder Liaison Centres.

At the Oktyabrsky Concert Hall, the Bank's shareholders were able to familiarise themselves with materials for the meeting and could obtain information about products and services offered by subsidiaries. In addition to traditional paper and flash cards, meeting materials were made available electronically on stands in the foyer of the Oktyabrsky Concert Hall.

The e-voting system was again available for the annual meeting, which meant that any shareholder could participate in the meeting regardless of where they live or were located at the time of the meeting. Some 1,170 shareholders voted through the e-voting system, which significantly increased the total number of shareholders who took part in the meeting. An e-voting system using biometrics and NFC technology was tested during the annual meeting. Ninety-nine per cent of the participants at the AGM expressed a high opinion regarding the quality of the electronic services and the possibilities provided.

The voting results on agenda items and all decisions taken can be seen in the "Investor Relations" section on the Bank's website at: <https://www.vtb.com> (see the "General Meeting of Shareholders" subsection).



Thirteen agenda items were considered at the meeting:

1. Approval of VTB Bank's Annual Report;
2. Approval of VTB Bank's annual financial statements;
3. Approval of VTB Bank's profit allocation for 2017;
4. The amount, terms and form of the 2017 dividend payment and the record date to determine eligibility to receive dividends;
5. The remuneration of Supervisory Council members who are not state employees, in accordance with VTB Bank's bylaws;
6. Remuneration of Statutory Audit Commission members who are not state employees, in accordance with VTB Bank's bylaws;
7. The number of VTB Bank Supervisory Council members;

8. The Election of VTB Bank Supervisory Council members;
9. The number of VTB Bank Statutory Audit Commission members;
10. The election of VTB Bank Statutory Audit Commission members;
11. Approval of the VTB Bank auditor;
12. Approval of a new edition of the Regulation on the Procedure for Preparing, Convening and Holding General Meetings of Shareholders of VTB Bank;
13. The termination of VTB Bank's participation in the Association of Russian Banks.

Meeting participants supported the proposed draft decisions on all 13 agenda items.

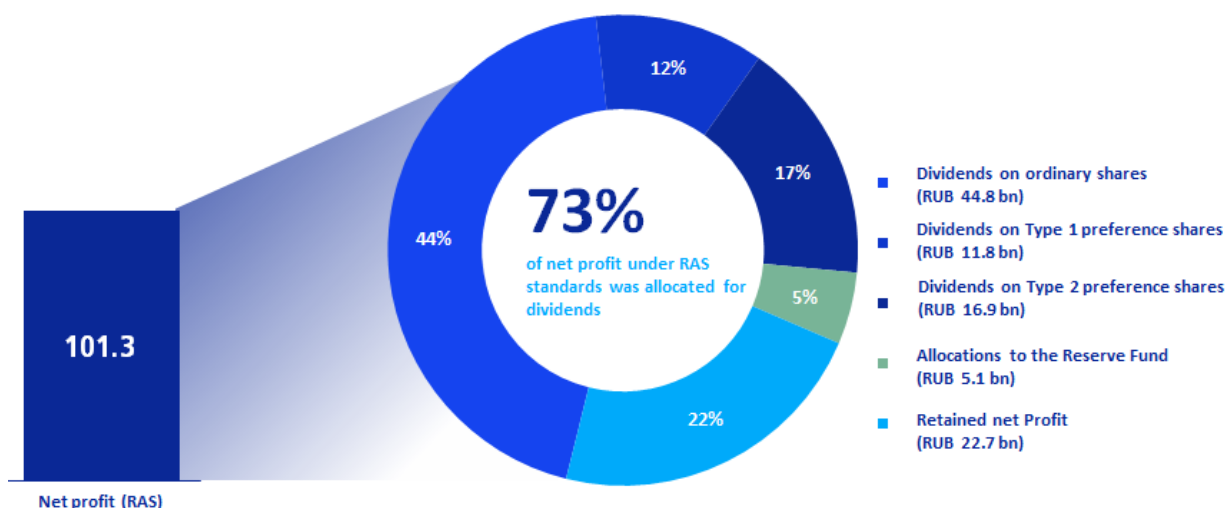
In addition, shareholders agreed to the following distribution of the Bank's profits from 2017 in accordance with the recommendations of the Bank's Supervisory Council:

- net profit to be allocated: RUB 101,268,176,223.47;
- allocations to the Reserve Fund: RUB 5,063,408,811.17;
- dividend payment allocations on ordinary shares: RUB 44,759,117,915.11;
- dividend payment allocations on Type 1 registered preference shares: RUB 11,804,188,555.41;
- dividend payment allocations on Type 2 registered preference shares: RUB 16,952,578,170.61;
- retained net profit: RUB 22,688,882,771.17.

Shareholders approved a dividend payment of RUB 0.00345349138975912 per ordinary share, which is three times as much as the year before. Detailed information on dividend payments for 2017 is available in Section "Dividends".

Grounds for the distribution of VTB Bank's profit for 2017

Distribution of VTB Bank profit for 2017 in accordance with RAS, RUB billion



The total amount of dividend payments amounted to RUB 73.5 billion, or 61.2% of the Group's consolidated IFRS net profit for 2017 (72.6% of the Bank's net profit under RAS), while dividends on ordinary shares amounted to 37% of the Bank's consolidated net profit under IFRS (or 44% of the Bank's net profit under RAS).

The amount of dividend payments for 2017 complies with the Bank's Regulation on the Dividend Policy, approved by the Bank's Supervisory Council (Minutes No. 2 of 29 January 2016), which provides for the payout in dividends of at least 25% of the Bank's consolidated net profit under IFRS.

Dividend payments for each type of Bank share for 2017 were calculated based on the principle of the equalisation of returns for all three types of Bank shares; the dividend yield for each type of share was 5.51% (for each ordinary share, this was calculated based on their average market value on Moscow Exchange for 2017; for preference shares, it was based on the par value of each type of share).

A portion of the net profit was allocated to the Reserve Fund, since in accordance with the Federal Law on Joint-Stock Companies and the Charter, the Bank must make annual payments to the Reserve Fund in the amount of at least 5% of net profit until the Reserve Fund reaches 5% of the charter capital. As a result of the increase in the Bank's charter capital in 2015, it became necessary to make contributions to the Bank's Reserve Fund in the amount of 5% of the Bank's net profit for the relevant reporting year. Contributions to the Bank's Reserve Fund for 2017 amounted to RUB 5.1 billion (compared to RUB 3.5 billion for 2016).

The Bank's retained net profit, which amounted to RUB 22.7 billion as of the end of 2017, is used to ensure the growth of the Bank's business and to cover finance capital expenditures and other goals as part of the implementation of VTB Group's strategy for 2017–2019.

5.3. SUPERVISORY COUNCIL

SCOPE OF RESPONSIBILITIES

The Supervisory Council is one of the most important elements of VTB's corporate governance system. The Council is guided in its activities by the interests of the Bank and its shareholders. Acting in accordance with Russian legislation, the Bank's Charter, the Regulation on the Supervisory Council and the Corporate Governance Code, it provides general oversight over the Bank's operations.

The main tasks of the Supervisory Council are the elaboration and adoption of the Bank's development strategy, as well as the formation of the Bank's executive bodies and oversight over their activities, organising assessments of the performance of the internal control and risk management system, determining the Bank's personnel policy, including remuneration of executive bodies and Bank management, and participation in decision-making on issues pertaining to Bank management.

The Supervisory Council determines the rules for the functioning of the Bank's corporate governance system through the adoption of bylaws that regulate the principles and procedures of its individual elements and oversight over the effectiveness of the corporate governance system as a whole.

The Supervisory Council is entrusted with the function of managing conflicts of interest between the Bank's management bodies, shareholders and employees.

Members of the Supervisory Council are elected by the General Meeting of Shareholders for a term of one year. Shareholders holding at least 2% of the Bank's voting shares have the right to nominate candidates to the Supervisory Council. Members of the Supervisory Council are elected by means of a cumulative ballot at the General Meeting of Shareholders.

The Supervisory Council in place at the end of 2018 was elected at the AGM on 23 May 2018. As of 31 December 2018, the Supervisory Council consisted of 11 members, 10 of whom were non-executive directors, and three were independent directors. This combination of directors is in line with international best practices and ensures that all shareholders' interests are represented on the Supervisory Council. The composition of the Supervisory Council is reviewed annually to ensure the right level of professionalism, experience and effectiveness, and to ensure that it is in line with VTB's strategic objectives.

VTB places great importance on the appointment of independent directors. These directors' effective work on the Supervisory Council strengthens shareholders' and investors' trust in the Bank and ensures a high level of transparency for its governance system and the objectivity of the Supervisory Council's decision-making. The independent directors play an active role in Supervisory Council discussions and the decision-making process. Together, they monitor the Bank's performance and its competitive

position, analyse the performance of the management team, assess mechanisms and systems of internal control and risk management, and settle corporate conflicts.

According to the Bank's Corporate Governance Code, the Supervisory Council should include at least three directors who meet the independence criteria established by the listing rules of the exchange whose quotation list includes the Bank's securities. The independent members of the Supervisory Council must not have any relationship with the Bank that would prevent them from fairly and impartially making decisions with regard to VTB's strategy and ongoing activities. In determining the independence criteria for the members of the Supervisory Council, VTB Bank is guided by the requirements of current legislation, the listing rules of the stock exchange whose quotation list includes the Bank's securities and the Bank's Charter.

The Regulation on the Supervisory Council of the Bank specifies the rights and obligations of members of the Supervisory Council.

The Regulation can be viewed here.



LIABILITY INSURANCE FOR SUPERVISORY COUNCIL MEMBERS

Supervisory Council members are insured under the director's liability insurance programme (Director's and Officer's Liability, D&O). In accordance with the D&O insurance programme, compensable losses (including legal expenses) incurred due to unintentional wrongful acts, negligence or omission on the part of members of the Supervisory Council related to the Bank's financial operations are reimbursed in relation to claims filed during the insurance period by investors, shareholders or government bodies. The grounds for a claim may be the personal liability of members of the Supervisory Council for mistakes made during the decision-making process, shortfalls in financial control and risk management leading to losses, a reduction in share price or asset value or damages caused to third parties.

In 2018, a contract for directors' liability insurance was signed for a new term. The feasibility of the extension was approved by VTB Bank's Committee on Operational and Regulatory (Compliance) Risks, as well as by VTB Group's Risk Management Committee.

COMPOSITION OF THE SUPERVISORY COUNCIL

The Supervisory Council provides strategic direction; determines VTB's long-term priorities; approves its development strategy and long-term development programme; determines the key principles and overall approach to risk management and internal control, remuneration policy and compensation paid to members of the Supervisory Council, executive bodies and other key executives; and exercises oversight over the activities of executive bodies and corporate governance. The Supervisory Council plays a key role in the Bank's main corporate activities.

The main functions of the Supervisory Council are specified in the Charter and the Regulation on VTB Bank's Supervisory Council.

These documents can be viewed on the Bank's website at:

https://www.vtb.com/akcionery-i-investory/raskrytie-informacii/ustav-i-vnutrennie-dokumenty/#tab_0_1#



CHAIRMAN OF THE SUPERVISORY COUNCIL

The Chairman of the Supervisory Council is elected by majority vote of the members of the Supervisory Council. The Supervisory Council has the right to re-elect its Chairman at any time by majority vote.

The Chairman is not permitted to combine this role with the position of President and Chairman of the Management Board. The Chairman of the Supervisory Council may not also be a member of the VTB Bank Management Board, nor may he or she have any type of employment relationship with the Bank.

The Chairman organises the work of the Council, convenes and chairs its meetings, ensures that minutes are kept and presides over General Meetings of Shareholders. In the absence of the Chairman, his or her duties are assumed by a Supervisory Council member as decided by the Supervisory Council.

Anton Siluanov has been the Chairman of VTB's Supervisory Council since 28 April 2017.

SUPERVISORY COUNCIL COMPOSITION

On 23 May 2018, the AGM elected Mikhail Zadornov, Alexander Sokolov, Igor Repin and Mukhadin Eskindarov as new members of the Supervisory Council. Sergey Galitsky, Valery Petrov, Nikolai Podguzov and Andrey Sharonov left the Supervisory Council.

Corporate governance in partially state-owned companies differs as a result of the special status of their major shareholder, the Russian Federation. VTB Bank's Supervisory Council includes one representative of state interests who is a civil servant—Anton Siluanov—as well as several other representatives of the state: Sergei Dubinin, Matthias Warnig, Andrey Kostin, Vladimir Chistyukhin and Mukhadin Eskindarov.

In carrying out their functions on the Supervisory Council, the representatives of state interests must take into account the position of the shareholder and vote on certain issues as directed by the shareholder on the basis of the directives of the Russian Federation.

The Supervisory Council includes representatives of minority (institutional and individual) shareholders (professional directors): Mikhail Zadornov, Alexander Sokolov, Shahmar Movsumov (independent director) and Igor Repin (independent director).

In accordance with the Regulation on the Supervisory Council of the Bank, a Senior Independent Director has been elected since 2015 from among the members of the Council serving as independent directors. The Senior Independent Director acts as an adviser to the Chairman of the Supervisory Council and coordinates interactions between the independent directors. The Senior Independent Director also interacts with Bank's shareholders. If a dispute arises, the Senior Independent Director should undertake measures to resolve the dispute through cooperation with the Supervisory Council Chairman, the other members of the Supervisory Council and the Bank's shareholders to ensure the smooth operation of the Supervisory Council.

Yves Thibault de Silguy has been the Senior Independent Director since 23 May 2018.

The Staff and Remuneration Committee regularly assesses the independence of candidates for the Supervisory Council and considers issues related to the independence of independent directors.

Structure of the Bank's Supervisory Council



Members of the Supervisory Council as of 31 December 2018



Anton Siluanov, born in 1963
Chairman of the Supervisory Council, civil servant

Holds no shares of the Bank's charter capital as of 31 December 2018.



Matthias Warnig, born in 1955
*Representative of the state
 Member of the Strategy and Corporate Governance Committee*

Holds no shares of the Bank's charter capital as of 31 December 2018.



Yves Thibault de Silguy, born in 1948
*Senior Independent Director
 Chairman of the Audit Committee*

Holds no shares of the Bank's charter capital as of 31 December 2018.



Sergey Dubinin, born in 1950
Representative of the state, Chairman of the Staff and Remuneration Committee

Holds no shares of the Bank's charter capital as of 31 December 2018.



Mikhail Zadornov, born in 1963
Non-executive director, representative of institutional shareholders

Holds 0.00024613% of ordinary shares of the Bank as of 31 December 2018.



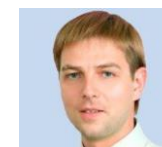
Andrey Kostin, born in 1956
President and Chairman of the Management Board, Executive director, representative of the state, Chairman of the Strategy and Corporate Governance Committee

Holds 0.00183% of ordinary shares of the Bank as of 31 December 2018.



Shahmar Movsumov, born in 1972
Independent director, representative of institutional shareholders, member of the Audit Committee, member of the Staff and Remuneration Committee

Holds no shares of the Bank's charter capital as of 31 December 2018.



Alexander Sokolov, born in 1979
Non-executive director, representative of institutional shareholders, member of the Strategy and Corporate Governance Committee

Holds no shares of the Bank's charter capital as of 31 December 2018.



Igor Repin, born in 1966
Independent director, member of the Strategy and Corporate Governance Committee, member of the Audit Committee, member of the Staff and Remuneration Committee, representative of individual shareholders

Holds 0.00000023% of ordinary shares of the Bank as of 31 December 2018.



Vladimir Chistyukhin, born in 1973
*Representative of the state
 Member of the Strategy and Corporate Governance Committee*

Holds no shares of the Bank's charter capital as of 31 December 2018.



Mukhadin Eskindarov, born in 1951
*Representative of the state
 Member of the Strategy and Corporate Governance Committee*

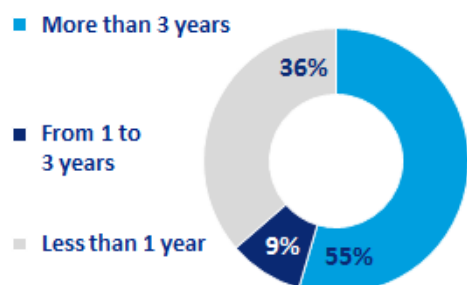
Holds no shares of the Bank's charter capital as of 31 December 2018.

Professional competencies of members of the Supervisory Council ¹

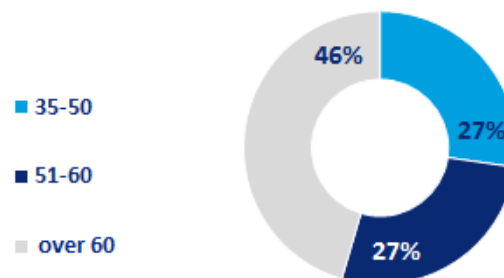
Member of VTB Bank's	Supervisory Council	Strategy	Finance and economics	Risk management, audit	Corporate governance, legal issues	Business administration
Anton Siluanov	Since 2017	✓	✓	✓		✓
Matthias Warnig	Since 2007	✓	✓	✓		✓
Yves Thibault de Silguy	Since 2007	✓		✓	✓	✓
Sergey Dubinin	Since 2011	✓	✓	✓		
Mikhail Zadornov	Since 2018	✓	✓	✓		✓
Andrey Kostin	Since 2002	✓	✓	✓	✓	✓
Shahmar Movsumov	Since 2013	✓	✓	✓		✓
Igor Repin	Since 2018			✓	✓	
Alexander Sokolov	Since 2018	✓	✓	✓		✓
Vladimir Chistyukhin	Since 2014		✓	✓	✓	
Mukhadin Eskindarov	Since 2018	✓	✓			✓

¹ Competencies are established on the basis of information on the education and experience of the members of the Supervisory Council in professional fields and are not a complete list of competencies that the members of the Bank's Supervisory Council possess.

Continuous service time as a member of the Bank's Supervisory Council



Members of the Bank's Supervisory Council, by age



Biographies of VTB Bank's Supervisory Council members as of 31 December 2018

Anton Siluanov

Chairman of the Supervisory Council since 28 April 2017

From May 2018 – First Deputy Prime Minister of the Russian Federation, Minister of Finance of the Russian Federation.

Chairman of the Supervisory Council of Alrosa. Governor from the Russian Federation to the BRICS New Development Bank. Member of the Supervisory Councils of the Russian Direct Investment Fund, the Organising Committee of the Autonomous Non-Profit Organisation Russia 2018 and VEB.RF. Member of the Boards of Trustees of the Skolkovo Foundation and the Charitable Foundation for the Restoration of the Voskresensk Stavropegial Resurrection (New Jerusalem) Monastery. Member of the Academic Council of the Financial University. Authorised representative of the Russian Federation in the Eurasian Development Bank. Governor from the Russian Federation to the International Monetary Fund.

Chairman of the Board of the Eurasian Fund for Stabilisation and Development. Chairman of the National Financial Council of the Central Bank of the Russian Federation.

Class 1 Full State Counsellor of the Russian Federation

Previous positions:

1992–2018 – Deputy Head of Section, Deputy Department Manager-Head of Section, Deputy Department Manager, Deputy Head of Department, Head of Department, Department Manager, Deputy Minister, Director of Department, Deputy Minister, acting Minister of Finance of the Russian Federation, Minister of Finance of the Russian Federation, acting Minister of Finance of the Russian Federation, Minister of Finance of the Russian Federation.

Born in 1963. In 1985, graduated from the Moscow Financial Institute, majoring in Finance and Credit. In 2007 and 2010, completed professional development programmes at the National State Tax Academy of the Ministry of Finance of the Russian Federation and the Financial University under the Government of the Russian Federation. PhD in Economics.

Holds no shares of the Bank's charter capital as of 31 December 2018.

Conducted no transactions for the acquisition or disposal of shares of the Bank.

Matthias Warnig

Member of the Supervisory Council since 28 June 2013

Independent member of the Supervisory Council from 4 April 2007 to 28 June 2013

Member of the Strategy and Corporate Governance Committee

Since September 2015 – Executive Director of Nord Stream 2 (Switzerland); since 2008 – Director of Interatis (Switzerland).

Also serves as a member of the Board of Directors of Transneft, Deputy Chairman of the Board of Directors of Rosneft, member of the Administrative Board of Gazprom Schweiz (Switzerland), Chairman of the Administrative Council of Gas Project Development Central Asia AG (Switzerland) and Interatis Consulting (Switzerland).

Previous positions:

2006–2016 – Managing Director of Nord Stream (Switzerland);

2005–2006 – Chairman of the Board of Directors of Dresdner Bank;

2004–2005 – Chairman of the Management Committee of Dresdner Kleinwort for Russia and the CIS;

2002–2005 – President of Dresdner Bank.

Born in 1955. In 1981, graduated from the Bruno Leuschner Higher School of Economics in Berlin and Karlshorst, majoring in National Economics. In 1995, received additional professional training at Dresdner Bank AG, Bad Homburg (Germany) and London (United Kingdom) through the Lending and Risk Management programme.

Holds no shares of the Bank's charter capital as of 31 December 2018.

Conducted no transactions for the acquisition or disposal of shares of the Bank.

Yves-Thibault de Silguy

Senior Independent Director since 23 May 2018

Independent member of the Supervisory Council since 28 June 2013 and also from 4 April 2007 to 26 June 2008

Chairman of the Audit Committee

Since May 2010 – Vice President of the Board of VINCI SA (France), Senior Director of the Board of Directors VINCI Group (France).

Also serves as President of YTSeuropaconsultants SARL (France) , member of the Supervisory Council of VTB (France), member of the Board of Directors of SOLVAY SA (Belgium) and of Louis Vuitton Moët Hennessy SA (France).

Previous positions:

2005–2012 – Member of the Council for Foreign Affairs, French Foreign Ministry;
2004–2011 – Member of the Board of Directors of SMEG (Société Monégasque de l'Electricité et du Gaz);
2004–2006 – Vice President of Suez Environnement (Belgium);
2003–2006 – Acting General Director, Member of the Executive Committee of Suez (Belgium), President of Aguas Argentinas (Argentina);
2002–2010 – Member of the Economic Council, French Defence Ministry;
2001–2002 – General Director, SUEZ (Belgium);
2000–2006 – President, Sino-French Holdings (Hong Kong).

Born in 1948. In 1971, graduated from University of Rennes II in Upper Brittany and from the University of Paris 1 (Pantheon-Sorbonne) with degrees in Law, from the Paris Institute of Political Studies (Sciences Po) in 1972, and from the École nationale d'administration (ENA) in 1976, Guernica class.

Holds no shares of the Bank's charter capital as of 31 December 2018.

Conducted no transactions for the acquisition or disposal of shares of the Bank.

Sergey Dubinin

Member of the Supervisory Council since 3 June 2011

Chairman of the Supervisory Council from 16 June 2011 to 25 June 2015 and from 14 December 2016 to 26 April 2017

Chairman of the Staff and Remuneration Committee

Since February 2014 – Head of the Finance and Credit Department at the Lomonosov Moscow State University Faculty of Economics.

Advisor and member of the Board of Directors of VTB Capital. Member of the Board of Directors of VTB Capital IB Holding and VTB Capital Holding.

Previous positions:

2005–2008 – Member of the Board of Directors, Chief Financial Officer of RAO UES;
2004–2005 – Member of the RAO UES Management Board;
2001–2004 – Deputy Chairman of the RAO UES Management Board.

Born in 1950. In 1973, graduated from Lomonosov Moscow State University, majoring in Political Economy. Higher Doctorate in Economics, Associate Professor.

Holds no shares of the Bank's charter capital as of 31 December 2018.

Transactions conducted in 2018: disposal on 18 June 2018 of 212,800,000 ordinary shares of the Bank sold through Moscow Exchange.

Mikhail Zadornov

Member of the Supervisory Council since 23 May 2018

Since January 2018 – President and Chairman of the Management Board of Bank Otkritie Financial Corporation.

Member of the Supervisory Councils of Trust Bank, Bank Otkritie Financial Corporation and the Higher School of Economics, member of the Board of Directors of the Otkritie private pension fund, Chairman of the Board of Directors of the Rosgosstrakh insurance company.

Previous positions:

2005-2017 – President and Chairman of the Management Board and member of the Management Board of VTB24.

Born in 1963. In 1984, he graduated from the Plekhanov Russian University of Economics with a major in National Economic Planning. PhD in Economics.

Holds shares equivalent to 0.000049% of the Bank's charter capital as of 31 December 2018.

Holds 0.00024613% of ordinary shares of the Bank as of 31 December 2018.

Conducted no transactions for the acquisition or disposal of shares of the Bank.

Andrey Kostin

President and Chairman of the Management Board since 11 June 2002

Member of the Supervisory Council since 29 November 2002

Chairman of the Strategy and Corporate Governance Committee

Chairman of the Supervisory Council of the Russian Gymnastics Federation. Member of the Supervisory Councils of Post Bank and of the Russian Volleyball Federation. Member of the Board of Directors at VTB Capital, VTB Capital Holding, VTB Capital IB Holding. Member of the Bureau of the Board of the Russian Union of Industrialists and Entrepreneurs and of the Employers Association of the Russian Union of Industrialists and Entrepreneurs. Chairman of the Board of Trustees of the Bolshoi Theatre. Member of the Board of Trustees of the Foundation for Supporting and Developing Physical Culture and Sport, the Sports Federation Dynamo Hockey Club, the Financial University under the Government of the Russian Federation, Lomonosov Moscow State University, St Petersburg State University, Friends of the Russian Museum Development Fund, the Moscow State Institute of International Relations, the Russian Orthodox Church Charitable Foundation for the Restoration of the Voskresensk Stavropegial Resurrection (New Jerusalem) Monastery, the State Mariinsky Academic Theatre, the associations I.K.O. Centre, the State Primorsky Opera and Ballet Theatre, the Deaf-Blind Support Fund, the Russian Geographical Society, the Doctors, Innovation, Science for Children Foundation for Support and Development in the Field of Pediatric Hematology, Oncology and Immunology. Member of the Supreme Council, United Russia political party. Member of the Management Board of the non-profit partnership National Council on Corporate Governance. Professor in the Department of Finance and Accounting, Director of the Graduate School of Management, St Petersburg State University. Member of the Council of the Association of Russian Banks and of the I Am a Professional Association. Member of the Public Council under the Russian Finance Ministry.

Previous positions:

1996–2002 – Chairman of the State Corporation Bank for Development and Foreign Economic Affairs (Vnesheconombank);

Born in 1956. In 1979, graduated with Honours from the Economics Department of Lomonosov Moscow State University. PhD in Economics.

Holds shares equivalent to 0.00036% of the Bank's charter capital as of 31 December 2018.

Holds 0.00183% of ordinary shares of the Bank as of 31 December 2018.

Conducted no transactions for the acquisition or disposal of shares of the Bank.

Shahmar Movsumov

Independent member of the Supervisory Council since 28 June 2013

Member of the Staff and Remuneration Committee, member of the Audit Committee

Since May 2006 – Executive Director of the State Oil Fund of the Republic of Azerbaijan.

Chairman of the National Committee on the Extractive Industries Transparency Initiative (Azerbaijan), Chairman of the Supervisory Council of the International Bank of Azerbaijan, Deputy Chairman of the Supervisory Council of the Azerbaijan Investment Company, member of the Supervisory Council of the Southern Gas Corridor, member of the Board of Trustees of the ADA University Foundation, member of the Management Board of the International Forum of Sovereign Wealth Funds, member of the Council of Financial Stability of the Republic of Azerbaijan.

Previous positions:

2005–2006 – General Director of the National Bank of Azerbaijan.

Born in 1972. In 1995, graduated from the Moscow State Institute of International Relations with a degree in International Economic Relations, and in 2004 from the John F. Kennedy School of Government at Harvard University with an MBA in Public Finance.

Holds no shares of the Bank's charter capital as of 31 December 2018.

Conducted no transactions for the acquisition or disposal of shares of the Bank.

Igor Repin

Member of the Supervisory Council since 23 May 2018

Member of the Strategy and Corporate Governance Committee, Audit Committee, Staff and Remuneration Committee, Chairman of the Shareholders Consultative Council

Since September 2001 – Deputy Executive Director of the Professional Investors Association.

Chairman of the Board of Directors of the Federal Centre for Geoecological Systems.

Born in 1966. In 1988, graduated from Lomonosov Moscow State University with a major in Land Hydrology.

Holds shares equivalent to 0.00000005% of the Bank's charter capital as of 31 December 2018.

Holds 0.00000023% of ordinary shares of the Bank as of 31 December 2018.

Conducted no transactions for the acquisition or disposal of shares of the Bank.

Alexander Sokolov

Member of the Supervisory Council since 23 May 2018

Member of the Strategy and Corporate Governance Committee

Since July 2018 – Chairman of the Management Board of Trust Bank.

Chairman of the Supervisory Council of Avtovazbank, the Head of the Risks and Collection Department at Bank Otkritie Financial Corporation.

Previous positions:

2017–2018 – Member of the Management Board of Bank Otkritie Financial Corporation;

2008–2017 – Member of the Management Board of VTB24.

Born in 1979. In 2002, graduated from the MATI Russian State University of Aviation Technology with a major in Economics and Enterprise Management.

Holds no shares of the Bank's charter capital as of 31 December 2018.

Conducted no transactions for the acquisition or disposal of shares of the Bank.

Vladimir Chistyukhin

Member of the Supervisory Council since 19 June 2014

Member of the Strategy and Corporate Governance Committee

Since February 2014 – Deputy Governor of the Central Bank of the Russian Federation.

Member of the Board of Directors of the Central Bank of the Russian Federation and of the Deposit Insurance Agency.

Previous positions:

2013–2014 – First Deputy Head of the Financial Markets Service, Central Bank of the Russian Federation;

2011–2013 – Director of the Financial Stability Department, Central Bank of the Russian Federation;

2004–2011 – Deputy Director of the Banking Regulation and Supervision Department, Central Bank of the Russian Federation;

2002–2004 – Deputy Director of the Department of Foreign Exchange Regulation and Control, Central Bank of the Russian Federation.

Born in 1973. In 1995, graduated from Lomonosov Moscow State University with a degree in Law.

Holds no shares of the Bank's charter capital as of 31 December 2018.

Conducted no transactions for the acquisition or disposal of shares of the Bank.

Mukhadin Eskindarov

Member of the Supervisory Council since 23 May 2018

Member of the Strategy and Corporate Governance Committee

Since October 2006 – Rector of the Financial University under the Government of the Russian Federation.

Chairman of the Supervisory Council of the National Payments Council and of the Treatment and Rehabilitation Centre of the Russian Health Ministry, Chairman of the Board of Directors of MInBank, Member of the Supervisory Council of the Russian Agricultural Bank, Member of the Board of Directors of SKB-Bank.

Previous positions:

2002–2006 – First Pro-rector of the Finance Academy under the Government of the Russian Federation.

Born in 1951. In 1976, graduated from the Moscow Financial Institute with a degree in Finance and Credit. PhD in Economics, Professor.

Holds no shares of the Bank's charter capital as of 31 December 2018.

Conducted no transactions for the acquisition or disposal of shares of the Bank.

Members of the Supervisory Board of VTB Bank until 23 May 2018 (elected by decision of the Annual General Meeting of Shareholders of 26 April 2017)

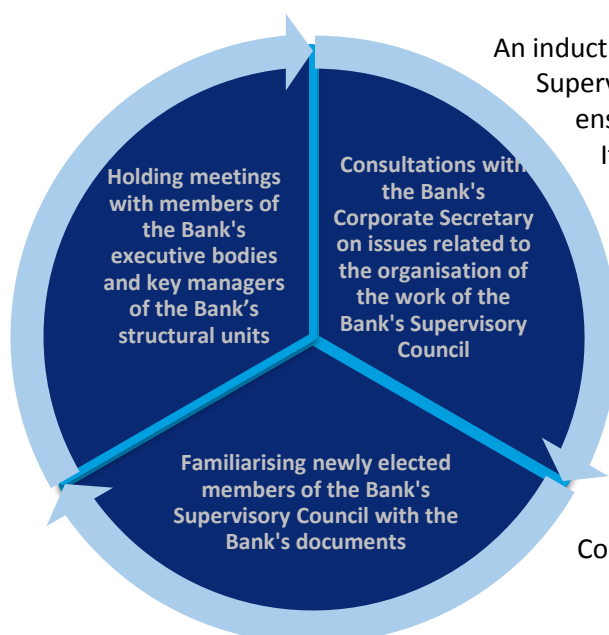
Item No.	Full name	Position at the time of election	Year of birth	Education	Share in the charter capital/percentage of ordinary shares of VTB Bank owned
1	Anton Siluanov	Minister of Finance of the Russian Federation	1963	1985 — Moscow Financial Institute, major in Finance and Credit	none
2	Matthias Warnig	Executive Director of Nord Stream 2 (Switzerland)	1955	1981 — Bruno Leuschner Higher School of Economics in Berlin and Karlshorst majoring in National Economics	none
3	Sergey Galitsky	Director General of Magnit	1967	1992 — Kuban State University, degree in Finance and Credit	none
4	Yves-Thibault de Silguy	Vice President, delegated administrator of VINCI SA (France)	1948	1971 — University of Rennes II in Upper Brittany, Law degree 1972 — University of Paris 1 (Pantheon-Sorbonne), degree in Public Law;	none

				1972 - Paris Institute for Political Studies (Sciences Po), degree in Public Law; 1976 — École nationale d'administration, Guernica class	
5	Sergey Dubinin	Head of the Department of Finance and Credit at the Lomonosov Moscow State University Faculty of Economics	1950	1973 — Lomonosov Moscow State University, majoring in Political Economy; Higher Doctorate in Economics, Associate Professor.	0.00033%/0.00164 %
6	Andrey Kostin	President and Chairman of the VTB Bank Management Board	1956	1979 — Lomonosov Moscow State University, major in Teaching Political Economy PhD in Economics.	0.00036%/0.00183 %
7	Shahmar Movsumov	Executive Director of the State Oil Fund of the Republic of Azerbaijan	1972	1995 — Moscow State Institute of International Relations with a degree in International Economics; 2004 — John F. Kennedy School of Government at Harvard University, MBA in Public Finance	none
8	Valery Petrov	Deputy CEO of the Institute of Financial Markets Development	1966	1988 — Alexander Mozhaisky Military Space Academy (previously the Alexander Mozhaisky Military Engineering Institute), majoring in Radio Engineering and Automatic Control Systems Programming; 1999 — Chernomyrdin Moscow State Open University, majoring in Law; PhD in Economics.	0.00000002%/0.00000008%
9	Nikolai Podguzov	Deputy Minister of Economic Development of the Russian Federation	1974	1997 — St. Petersburg State Institute of Technology (technical university) with a degree in Applied Physics and Mathematics; 2000 — Russian Foreign Ministry's Moscow State Institute of International Relations (MGIMO), majoring in International Economics	none
10	Vladimir Chistyukhin	Deputy Governor of the Central Bank of the Russian Federation	1973	1995 — Lomonosov Moscow State University, degree in Law	none
11	Andrey Sharonov	President of the Skolkovo Moscow School of Management	1964	1986 — Ufa Aviation Institute, majoring in Aviation Engineering; 1996 — Russian Presidential Academy of Public Administration with a degree in Law; PhD in Sociology.	none

In 2018, no conflicts of interest were identified involving members of the Supervisory Council.

INTRODUCTION TO MEMBERSHIP OF THE SUPERVISORY COUNCIL

The induction programme consists of the following activities:



An induction programme for first-time members of the Supervisory Council of VTB Bank was introduced in order to ensure the efficient operation of the Supervisory Council. It will also improve the Bank's corporate governance practices in accordance with the best international corporate governance principles, including those provided by the Corporate Governance Code approved by the Board of Directors of the Central Bank of the Russian Federation, the Regulation on the Staff and Remuneration Committee of the Bank's Supervisory Council and the Bank's Corporate Governance Code. The induction programme was created by decision of the Staff and Remuneration Committee of the Bank's Supervisory Council on 7 October 2016.

REPORT ON THE ACTIVITIES OF THE SUPERVISORY COUNCIL

Meetings of the Supervisory Council are convened at the initiative of its Chairman or at the request of a Council member, the Statutory Audit Commission, the Auditor, the Management Board or the President and Chairman of the Management Board. A quorum is formed by the attendance of half of the elected members.

Decisions are taken by a majority vote of participating members unless otherwise provided in the Charter and the Regulation on the Supervisory Council. For decision-making purposes, each member of the Council has one vote at meetings.

When considering agenda items, the members of the Supervisory Council assess possible conflicts between their interests and the Bank's interests and do not participate in voting on any issue (and, if necessary, do not take part in discussions of the issue) that may, in the opinion of a member of the Supervisory Council, lead to such a conflict of interest.

Meetings of the Supervisory Council are held on a scheduled basis, although, if necessary, they may be held outside the schedule through absentee voting. The format of each Supervisory Council meeting is decided based on the importance of its agenda. The most significant matters are brought before in-person meetings.

At every Supervisory Council meeting, a report is provided to update members on the implementation of previously-approved decisions and programmes, as well as on directives and assignments stipulated by the Russian Government.

Members are able to review materials for meetings in advance, as well as recommendations and conclusions of the Council's Committees on each agenda point. The schedule for the Council is compiled for the period between AGMs and is approved by the Supervisory Council. Meetings are scheduled in advance based on the Bank's business cycle and may be held in person or through absentee voting. Any member unable to attend a meeting can still participate via video conference (including voting on agenda items); they can also submit a written opinion on agenda items.

Depending on the results of in-person meetings or absentee ballots, minutes are drawn up reflecting the position of each member of the Supervisory Council based on his or her vote on the agenda items. In 2018, the Supervisory Council held 17 meetings, including seven in-person meetings and 10 through absentee voting.

Statistics on the meetings of the Supervisory Council

Year	Number of in-person meetings and meetings held by absentee voting	In-person	By absentee voting	Number of matters considered
2018	17	7	10	147
2017	19	7	12	205
2016	21	8	13	240
2015	28	8	20	197
2014	26	8	18	207

The Supervisory Council actively engaged with the Bank's minority shareholders and also considered the Report on Cooperation with the Bank's Shareholders and an action plan for working with shareholders in the upcoming calendar year.

Independent members of the Supervisory Council took part in meetings with minority shareholders.

Participation of members of the Supervisory Council and its committees in meetings/absentee voting in 2018

Members of the Supervisory Council	Status	Number of meetings (absentee voting) of the Supervisory Council with the member's participation			Number of meetings (absentee voting) of the Supervisory Council's Audit Committee with the member's participation			Number of meetings (absentee voting) of the Supervisory Council's Staff and Remuneration Committee with the member's participation			Number of meetings (absentee voting) of the Supervisory Council's Strategy and Corporate Governance Committee with the member's participation		
		in-person meetings, personal participation	in-person meetings, written opinion	absentee ballot	in-person meetings, personal participation	in-person meetings, written opinion	absentee ballot	in-person meetings, personal participation	in-person meetings, written opinion	absentee ballot	in-person meetings, personal participation	in-person meetings, written opinion	absentee ballot
Anton Siluanov	Chairman of the Supervisory Council civil servant	17 of 17											
		6/86%	1/14%	10/100%									
Matthias Warnig	Representative of the state	13* of 17									8 of 13*		
	Member of the Strategy and Corporate Governance Committee	3/43%	4/57%	6/60%							0	2/100%	6/55%
Sergey Galitsky (until 23 May 2018)	Senior Independent Director, Member of the Audit Committee, Member of the Staff and Remuneration Committee, Member of the Strategy and Corporate Governance Committee	6 of 6			9 of 9			4 of 4			6 of 6		
		4/100%	0	2/100%	1/33%	2/66%	6/100%	1/50%	1/50%	2/100%	0	1/100%	5/100%
Yves-Thibault de Silguy	Senior Independent Director	13* of 17			16 of 16								
	Chairman of the Audit Committee	4/57%	3/43%	6/60%	5/100%	0	11/100%						
Mikhail Zadornov	Non-executive director, representative of institutional shareholders	11 of 11											
		2/67%	1/33%	8/100%									
Sergey Dubinin	Representative of the state	17 of 17						9 of 9					
	Chairman of the Staff and Remuneration Committee	6/86%	1/14%	10/100%				4/100%	0	5/100%			
Andrey Kostin	President and Chairman of the Management Board, executive director, representative of the state, Chairman of the Strategy and Corporate Governance Committee	17 of 17									13 of 13		
		7/100%	0	10/100%							2/100%	0	11/100%
Shahmar Movsumov	Independent director, representative of institutional shareholders, Member of the Audit Committee, Member of the Staff and Remuneration Committee	17 of 17			7 of 7 (since 23 May 2018)			5 of 5 (since 23 May 2018)			6 of 6 (until 23 May 2018)		
		4/57%	3/43%	10/100%	1/50%	1/50%	5/100%	1/50%	1/50%	3/100%	0	1/100%	5/100%
Valery Petrov (until 23 May 2018)	Independent Director, Member of the Audit Committee, Member of the Staff and Remuneration Committee, Member of the Strategy and Corporate Governance Committee	6 of 6			9 of 9			4 of 4			4 of 6		
		4/100%	0	2/100%	3/100%	0	6/100%	2/100%	0	2/100%	1/100%	0	5/100%
Nikolai Podguzov (until 23 May 2018)	Representative of the state, Member of the Strategy and Corporate Governance Committee	6 of 6									4 of 6		
		4/100%	0	2/100%							1/100%	0	3/60%
Igor Repin (since 23 May 2018)	Independent director, Member of the Strategy and Corporate Governance Committee, member of the Audit Committee, Member of the Staff and Remuneration Committee, representative of minority shareholders	11 of 11			7 of 7			5 of 5			7 of 7		
		3/100%	0	8/100%	1/50%	1/50%	5/100%	2/100%	0	3/100%	1/100%	0	6/100%
Alexander Sokolov (since 23 May 2018)	Non-executive director, representative of institutional shareholders, Member of the Strategy and Corporate Governance Committee	10 of 11									4 of 7		
		3/100%	0	7/88%							1/100%	0	3/50%
Vladimir Chistyukhin	Representative of the state	17 of 17									12 of 13		
	Member of the Strategy and Corporate Governance Committee	6/86%	1/14%	10/100%							2/100%	0	10/91%

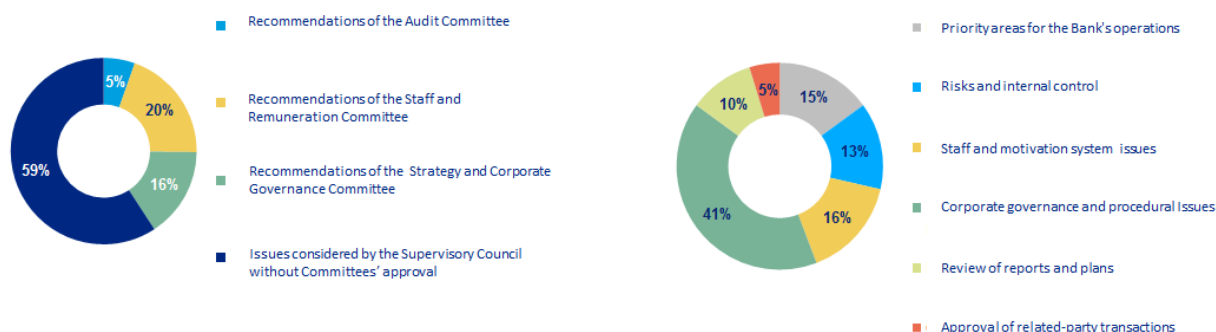
	Governance Committee							
Andrey Sharonov (until 23 May 2018)	Representative of the state	6 of 6					5 of 6	
	Member of the Strategy and Corporate Governance Committee	2/50%	2/50%	2/100%			1/100%	0
Mukhadin Eskindarov (since 23 May 2018)	Representative of the state	11 of 11					7 of 7	
	Member of the Strategy and Corporate Governance Committee	3/100%	0	8/100%			1/100%	0

* Did not participate in meetings (absentee voting) whose agenda items could have involved him in a legal or business-related conflict of interest.

Key issues considered by the Supervisory Council in 2018

The Bank's Supervisory Council considered a total of 147 issues in 2018, and the Supervisory Council committees prepared recommendations on 60 of these issues.

Issues considered by the Supervisory Council in 2018



Priority areas for the Bank's operations:

- approval of VTB Bank's business plan and financial plan (budget) for 2019;
- approval of VTB Bank's Long-Term Development Programme for 2014-2019;
- the Bank's participation in Dynamo Management Company, VTB Registrar, VTB Bank, VTB Bank's Kazakhstan subsidiary, VTB Bank (Belarus), VTB Bank (Armenia), Banco VTB Africa, as well as the acquisition of stakes in Vozrozhdenie Bank, Cordex, Sarovbiznesbank and Zapsibkombank.
- termination of participation in VTB Banka a.d. Beograd, VTB ECP Finance Designated Activity Company and VTB Insurance;
- approval of an action plan for the sale of the Bank's non-core assets and for (quarterly) registration of the Bank's non-core assets;
- restructuring of the Bank's corporate branch network.

Corporate governance and procedural Issues:

- calling, and determining the agenda for, the AGM of 23 May 2018, establishing the record date for eligibility to participate in the General Meeting of Shareholders, consideration of issues proposed by Bank shareholders for inclusion on the agenda of the AGM, consideration of candidates proposed by Bank shareholders for election to the Supervisory Council and Statutory Audit Commission, and other issues related to the preparation and conduct of the General Meeting of Shareholders;
- recommendations on the distribution of profits and the amount of dividends on Bank shares;
- preliminary approval of the Bank's Annual Report;
- proposals of candidates for the Bank's auditor;
- review of the results of the evaluation of the corporate governance system for 2017;

- new editions of the Regulation on Remuneration and Key Performance Indicators for the Activities of the Executive Bodies of VTB Bank and of the Regulation on the Procurement of Goods, Works, and Services by VTB Bank were approved; the Regulation on the Bank's Sponsorship and Charitable Activities Committee, the Regulation on the Procedure for Carrying Out Sponsorship Activities within the Bank and the Regulation on the Procedure for Carrying Out Charitable Activities within the Bank were approved.

Staff issues:

- election of the Chairman of the Supervisory Council (Anton Siluanov);
- election of the Senior Independent Director (Yves-Thibault de Silguy);
- approval of the Supervisory Council to allow the President and Chairman of the Management Board and members of the Management Board to hold management positions in other organisations;
- election of Andrey Puchkov and Dmitriy Olyunin to the post of First Deputy Chairman and President of the Management Board, as well as Valery Chulkov, Dmitriy Pianov and Oleg Smirnov as members of the Management Board, while also establishing their remuneration and compensation.

Risks and internal control:

- new editions were approved of the Bank's Risk and Capital Management Strategy and Procedure for Managing the Most Significant Risks;
- review of reports on the activities of the Internal Audit Department for H2 2017 and H1 2018, and approval of its work plan for 2019;
- review of a report on the results of the implementation in 2017 of the Rules on Internal Monitoring in Respect of the Prevention of Money Laundering and Terrorist Financing (AML/CTF) and recommended measures to improve the AML/CTF system;
- review of the quarterly reports by inspectors on the Bank's professional activities in the securities market and specialised depositary;
- review of quarterly reports on significant risks and capital adequacy of VTB Bank, as well as on the results of stress testing at VTB Bank; approved/amended key parameters of quantitative indicators of the risk appetite of VTB Bank and VTB Group.

Review of reports and plans:

- reports on the activities of the Supervisory Council's committees;
- report on the Bank's sponsorship and charitable activities for 2017 and the plan for VTB Bank's sponsorship and charitable activities in 2019;
- report on the work of the Corporate Secretary in 2017;
- report on interaction between VTB Bank and its shareholders in 2017 and plans to work with shareholders in 2018;
- report on the financial results and performance of VTB Group companies (quarterly);
- progress report on the implementation of the Bank's Programme for the Divestment of Non-core Assets (quarterly);
- the work plan of VTB Bank's Supervisory Council for 2018–2019.

In addition, the Supervisory Council also approved a number of related-party transactions in 2018.

Information technology in the work of the Supervisory Council

In 2018, VTB Bank introduced a paperless system for the work of the Supervisory Council through the BoardMaps information and communication system. This software enabled the Bank to optimise the processes involved in preparing and holding meetings of the Supervisory Council by creating a unified communication space that meets all security requirements.

The system gives members of the Supervisory Council access to the materials from current and past meetings of the Supervisory Council, as well as information about decisions adopted, participants and other information required for the work of Supervisory Council members (financial reports, press reviews, Bank bylaws, etc.).

EVALUATION OF THE WORK OF THE SUPERVISORY COUNCIL

Since 2012, VTB Bank has conducted an annual assessment of its corporate governance system (including assessments of the work of the Supervisory Council and its committees).

The assessment methodology was developed on the basis of the provisions of the Russian Law on Joint-Stock Companies and the recommendations of the Russian Federation Central Bank and was approved by a decision of the Supervisory Council's Strategy and Corporate Governance Committee. The assessment also includes a self-evaluation of the activities of the Supervisory Council based on a questionnaire completed by the members of the Council.

In accordance with the methodology approved by the Supervisory Council's Strategy and Corporate Governance Committee, the Bank's corporate governance system is assessed with respect to nine components:

- the division of powers between management bodies;
- organisation of the activities of the Supervisory Council;
- approval of the Bank's development strategy and oversight over its implementation;
- coordination of risk management;
- prevention of conflicts of interest on the part of shareholders, members of the Supervisory Council, the Bank's executive bodies and its employees;
- relations with affiliated parties;
- determination of rules and procedures ensuring compliance with the principles of professional ethics;
- coordination of the disclosure of information about the Bank;
- monitoring the internal control system.

Based on the results of the corporate governance assessment conducted in 2018, the members of the Supervisory Council continue to give it a high rating. The average score of the corporate governance assessment was 3.91 points (97.8% of the maximum value). Two components received the maximum score of 4 points: prevention of conflicts of interest among shareholders, members of the Supervisory Council, the Bank's executive bodies and its employees; and monitoring of the internal control system. At the same time, the other assessed components of the Bank's corporate governance were also highly rated, receiving 3.8–3.9 points out of a possible 4.

Members of the Supervisory Council had an attendance rate of 79.2% at in-person meetings in 2018, while written opinions on the issues under consideration were received from members who were not able to personally attend these meetings. The share of members of the Supervisory Council participating in absentee voting was 91.8%.

Based on the results of the assessment, the Bank prepared a report on the results of its assessment of the corporate governance system, including, among other things, the Bank's planned measures to improve its corporate governance system. The report was provisionally reviewed at a meeting of the Supervisory Council's Strategy and Corporate Governance Committee, after which it was taken under advisement by the Supervisory Council.

COMMITTEES OF THE SUPERVISORY COUNCIL

The Supervisory Council has standing committees that support the effective implementation of the Council's managerial and supervisory functions and that provide preliminary detailed analysis and recommendations regarding the issues that the Council deems most important.

At the end of 2018, the Supervisory Council had the following committees:

- Audit Committee;
- Staff and Remuneration Committee;
- Strategy and Corporate Governance Committee.

The Supervisory Council committees are not governing bodies of the Bank and cannot act in the name of the Supervisory Council.

Supervisory Council Committees and their members (as of 31 December 2018)



Audit Committee

The Audit Committee performs an analytical and support function to ensure that internal control systems work effectively. The Committee's remit includes general oversight over the preparation of financial reports and the functioning of the Bank's risk management and internal control procedures, as well as the appraisal of candidates for external auditor, review of the audit report, review of the effectiveness of the internal control procedures and the drafting of proposals to improve them. The Audit Committee is made up of independent members of the Supervisory Council.

In 2018, 16 meetings (five in-person meetings and 11 through absentee voting) were held by the Audit Committee. Considerable focus was placed on analysis and improvement of internal controls at the Bank and within VTB Group, including the effectiveness of managing various types of risks, the development of internal audit procedures in the context of the merger and consolidation of business within VTB Group.

In 2018, the following key areas were addressed by the Audit Committee:

- strategic issues related to development and risk management within the Bank and VTB Group; including changes in the quality of corporate and retail loan portfolios, and the results of the management of market, operational and compliance risks;
- review of information on the compliance of VTB Bank's incentive programme with legal requirements, as well as on the areas of functional coordination on personnel management issues within the Group;
- discussion of the results of the merger of VTB and VTB24;
- analysis of initiatives implemented by VTB aimed at maintaining the effectiveness of the internal control system in combating money laundering and the financing of terrorism;
- oversight over the annual open tender for the selection of an external auditor;
- providing recommendations to the Bank's Supervisory Council on the candidacy of the external auditor;
- coordinating with the external auditor, assessment of the external auditor's report and recommendations provided as part of the audit process and of the review of the Bank and Group's interim and annual RAS and IFRS financial statements;
- regular review of the consolidated financial statements of VTB Bank in compliance with IFRS and quarterly monitoring of the financial results of VTB Group;
- preliminary review of matters related to the Bank's Internal Audit Department: analysis of the schedule for internal auditing, discussion of reports of the Internal Audit Department on significant violations and shortcomings discovered at VTB Bank and its subsidiaries, recommendations by internal audit and external supervisory bodies to further improve the procedures involved in internal and external auditing;
- discussion of issues related to the development of internal auditing both at the Bank and within VTB Group;
- review of other matters related to the Bank's activities, including pursuant to particular assignments from the Supervisory Council.

Staff and Remuneration Committee

The Staff and Remuneration Committee assists the Supervisory Council in resolving matters within its remit in accordance with the Regulation on the Staff and Remuneration Committee of the Supervisory Council of VTB Bank.

The Committee comprises members of the Supervisory Council who have relevant expertise and experience in this area.

In 2018, nine Committee meetings (four in-person meetings and five through absentee voting) were held. The meetings considered issues such as the composition of the Supervisory Council and the Statutory Audit Commission, including consideration of the status of independent members, determination of the remuneration for the members of the Supervisory Council and the Statutory Audit Commission, the selection and remuneration of members of the Bank's Management Board, consideration of a new version of the Regulation on Remuneration of the Executive Bodies of VTB Bank and key performance indicators for assessing their work, determining the criteria for classifying remuneration as "significant" and considering the procedure for the establishment and payment thereof, considering the issue of assessing the compliance of members of the Supervisory Council of VTB Bank with the issuer's criteria for the independence of the members of the Board of Directors (Supervisory Council) provided for by the Listing Rules of Moscow Exchange, as well as other issues within the Committee's remit.

Strategy and Corporate Governance Committee

The Strategy and Corporate Governance Committee assists the Supervisory Council on matters of strategy and corporate governance. The Committee's main tasks are to set the Bank's short-, medium- and long-term strategic objectives and priorities and to monitor progress towards achieving them, to support and improve corporate governance and to assist in the effective strategic management of the Bank's capital.

In 2018, the Strategy and Corporate Governance Committee held 13 meetings (two in-person meetings and 10 through absentee voting). The following matters were considered at these meetings:

Strategic objectives and priorities

- VTB Bank's business and financial plans for 2019;
- termination of the Bank's participation in VTB ECP Finance special purpose vehicle;
- termination of the Bank's participation in VTB Insurance and the acquisition of shares in Cordex;
- termination of the Bank's participation in VTB Bank a.d. Beograd;
- the Bank's participation in Vozrozhdenie Bank;
- the Bank's participation in Sarovbiznesbank;
- the Bank's participation in Zapsibkombank;
- report on the implementation of VTB Bank's Long-Term Development Programme for 2014–2019 based on the results of 2017;
- report on the implementation of the IT strategy for 2017–2019.

Managing the Bank's capital

- distribution of profits for 2017 and determination of the amount of dividends to be paid out;
- VTB Bank's risk and capital management strategy;
- increasing the capital levels of subsidiaries.

Corporate governance:

- results of the evaluation of VTB Bank's corporate governance system;
- procedures for managing VTB Bank's most significant risks.

More information about the Supervisory Council and its committees can be found on the Bank's website at: <https://www.vtb.com/o-banke/bank-vtb/nablyudatelnyj-sovet/>



CORPORATE SECRETARY

VTB Bank established the position of Corporate Secretary in 2011 while introducing measures to improve its corporate governance system.

The Corporate Secretary is a Bank official who oversees compliance on the part of the Bank's management and employees with applicable legislation, the Charter and bylaws ensuring shareholders' interests and their ability to exercise their legal rights. The Corporate Secretary also provides a liaison between the Bank and its shareholders, promotes the development of corporate governance practices and supports the smooth operation of the Bank's Supervisory Council. Functionally, the Corporate Secretary is elected by, and reports to, the Supervisory Council and, administratively, to the President and Chairman of the Bank's Management Board. The Corporate Secretary is subordinate to the Supervisory Council and is appointed and dismissed by decision of the Supervisory Council. The report on the work of the Corporate Secretary is reviewed and approved on an annual basis by the Bank's Supervisory Council. The administration of the Supervisory Council operates under the guidance of the Corporate Secretary. The Corporate Secretary is secretary to the Supervisory Council and also serves as secretary for the General Meeting of Shareholders.

The Staff and Remuneration Committee reviews candidates for the position and provides recommendations to the Supervisory Council.

The Corporate Secretary acts on the basis of the Regulation on the Corporate Secretary of VTB Bank, approved by the Bank's Supervisory Council (minutes No. 22 of 7 September 2015), which takes into account the requirements of the Listing Rules of Moscow Exchange, the recommendation of the Corporate Governance Code approved by the Board of Directors of the Central Bank of the Russian Federation and the guidelines of the Federal Property Management Agency.

The Regulation on VTB Bank's Corporate Secretary is available on the Bank's website: <https://www.vtb.com/akcionery-i-investory/raskrytie-informacii/ustav-i-vnutrennie-dokumenty/>



Evgeny Ignatiev

Biography:



Since June 2013 – Chief of Staff of VTB Bank Supervisory Council and Corporate Secretary.

2011–2013 – Corporate Secretary of VTB Bank;

2010–2011 – Director of the Shareholder Relations Service at VTB Bank;

2008–2010 – Senior Manager of the Debt Origination and Investor Relations Department at VTB Bank;

2004–2008 – Chief Consultant, Deputy Director (acting director) of the Corporate Governance Department at VTB Bank North-West (former Industrial Construction Bank);

2003–2004 – Lawyer, Investtorg;

2002–2003 – Assistant Lawyer, Exchange Complex (St Petersburg).

Born in 1981. In 1999, graduated from the St Petersburg Social Services School, majoring in Law, with a qualification to practise as a lawyer. In 2002, received a Law degree from St Petersburg State University of Maritime and Inland Shipping. In 2017, received an international certificate as a Certified Director from the British Institute of Directors, as well as the title "Cert IoD".

Winner of the Corporate Governance Director–Corporate Secretary category at the Director of the Year awards held by the Independent Directors Association and the Russian Union of Industrialists and Entrepreneurs. Member of the Board of the National Association of Corporate Secretaries. Member of the Moscow Exchange Committee of Issuers.

Holds no shares of VTB Bank's charter capital.

Has no family ties to other members of the governing or supervisory bodies of VTB Bank.

Information on the Corporate Secretary can be found on the Bank's website at: <https://www.vtb.com/akcionery-i-investory/korporativnoe-upravlenie/korporativnyi-sekretar/>



5.4. MANAGEMENT BOARD

The Management Board is the collective executive body of VTB Bank. The Management Board reports to the General Meeting of Shareholders and the Supervisory Council.

The Management Board acts in accordance with Russian legislation, the Bank's Charter and the Regulation of the Management Board as approved by the General Meeting of Shareholders.

The Supervisory Council is responsible for determining the size and composition of the Management Board, for electing its members and for pre-term termination of their powers, if necessary. Members of the Management Board are appointed by the Supervisory Council. The term of an employment contract with a member of the Management Board may be no more than five years before it must be reviewed for renewal.

The Management Board is in charge of the day-to-day operations of VTB that fall within its area of expertise and is responsible for implementing decisions of the General Meeting of Shareholders and the Supervisory Council.

More detailed information on the powers of the Management Board is provided in the Regulation on the Management Board, available on the Bank's website at:

<https://www.vtb.com/akcionery-i-investory/raskrytie-informacii/ustav-i-vnutrennie-dokumenty/>



Composition of the Management Board as of 31 December 2018



Andrey Kostin, born in 1956
President and Chairman of the Management Board

Holds 0.00183% of ordinary shares of the Bank as of 31 December 2018.



Dmitriy Olyunin, born in 1968
First Deputy President and Chairman of the Management Board

oversees the financial function (financial and accounting departments), risk management, and is also responsible for strategic and corporate development, business process transformation

Holds no shares of the Bank's charter capital as of 31 December 2018.



Andrey Puchkov, born in 1977
First Deputy President and Chairman of the Management Board

oversees the legal and administrative areas, as well as work with non-core and bad assets

Holds 0.0003% of ordinary shares of the Bank as of 31 December 2018.



Yuri Soloviev, born in 1970
First Deputy President and Chairman of the Management Board

oversees the Corporate-Investment Business global business line

Holds 0.01819% of ordinary shares of the Bank as of 31 December 2018.



Denis Bortnikov, born in 1974
Deputy President and Chairman of the Management Board

oversees the Medium and Small Banking global business line

Holds no shares of the Bank's charter capital as of 31 December 2018.



Olga Dergunova, born in 1965
Deputy President and Chairman of the Management Board

oversees the Information Technology Department

Holds 0.00000147% of ordinary shares of the Bank as of 31 December 2018.



Valery Lukyanenko, born in 1955
Deputy President and Chairman of the Management Board

oversees the work with clients from backbone industries

Holds 0.00046% of ordinary shares of the Bank as of 31 December 2018.



Anatoly Pechatnikov, born in 1969
Deputy President and Chairman of the Management Board

oversees the Retail Business global business line

Holds 0.00001135% of ordinary shares of the Bank as of 31 December 2018.



Maxim Kondratenko, born in 1973
Member of the Management Board

oversees the risk management divisions, the Big Data and Modelling Centre

Holds no shares of the Bank's charter capital as of 31 December 2018.



Erkin Norov, born in 1954
Member of the Management Board

oversees issues related to internal control and audit

Holds no shares of the Bank's charter capital as of 31 December 2018.



Dmitriy Pianov, born in 1977
Member of the Management Board

oversees the finance department

Holds no shares of the Bank's charter capital as of 31 December 2018.



Valery Chulkov, born in 1960
Member of the Management Board

курирует департамент операционной поддержки бизнеса

Holds no shares of the Bank's charter capital as of 31 December 2018.

Andrey Kostin

President and Chairman of the Management Board, Member of the Supervisory Council

Term of office in accordance with employment contract: 10 June 2017 to 9 June 2022.
(For a detailed biography, see the Supervisory Council section.)

Dmitriy Olyunin

First Deputy President and Chairman of the Management Board

Term of office in accordance with employment contract: 29 May 2018 to 9 June 2022.

Has worked at VTB Bank since April 2018, and was Vice President from 2004 to 2006; Vice President and Head of the Coordination and Analysis Office of the Investment Division of Vneshtorgbank. Since May 2018 – First Deputy President and Chairman of the Management Board.

Is also a member of the Board of Directors of VTB Capital Holding and a Category B Director at Commonwealth Group SA.

Previous positions:

2013–2018 – Chairman of the Board, Rosbank;

2011–2013 – First Vice President, President and Chairman of the Management Board of TransCreditBank;

2006–2011 – First Deputy Chairman of the Management Board of Industrial and Construction Bank (later renamed VTB North-West Bank) until 2007; after 2007, Chairman of the Management Board of VTB North-West Bank).

Born in 1968. In 1993, graduated from the Lomonosov Moscow State University Faculty of Economics. In 1994, graduated from the Paris Institute of Political Studies. Holds a master's degree in Economics, Banking and Finance (Paris Dauphine University).

Holds no shares of the Bank's charter capital as of 31 December 2018.

Andrey Puchkov

First Deputy President and Chairman of the Management Board

Term of office in accordance with employment contract: 10 June 2017 to 9 June 2022.

Joined VTB Bank in 2002. Since February 2018 – First Deputy President and Chairman of the Management Board. Before February 2018, held the following positions in the Bank's legal department: Deputy Head of Department, Head of Department, Vice President (Head of Department), Senior Vice President (Head of Department), Senior Vice President, member of the Management Board, Deputy President and Chairman of the Management Board.

Is also the Chairman of the Board of Directors of VTB Debt Centre, Hals-Development, BM Bank and Dynamo Management Company.

Previous positions:

1999–2002 – Member of the Moscow City Bar Association;

1997–1999 – Assistant Lawyer; Lawyer at the ALM law firm;

1996–1997 – Legal consultant in the Central Economic Department of the Central Bank of the Russian Federation.

Born in 1977. In 1998, graduated from the Law Department of Lomonosov Moscow State University.

Holds shares equivalent to 0.00006% of the Bank's charter capital as of 31 December 2018.
Holds 0.0003% of ordinary shares of the Bank as of 31 December 2018.

Yuri Soloviev

First Deputy President and Chairman of the Management Board

Term of office in accordance with employment contract: 10 June 2017 to 9 June 2022.

Joined VTB Bank in April 2008. Since May 2011 – First Deputy President and Chairman of the Management Board.

Is also the Chairman of the Board of Directors of VTB Capital, VTB Capital Holding, VTB Capital IB Holding, VTB Leasing, T2 RTK Holding, member of the Board of Directors of VTB Capital Investment Management Holding AG and VTB Capital Equity Holding AG.

Previous positions:

2008–2011 – Senior Vice President of VTB Bank; President of VTB Capital;

2006–2008 – Head of Investment Banking, First Deputy Chairman of the Management Board, Deutsche Bank Russia;

2002–2006 – Director, Head of Eastern European Operations at Deutsche Bank, London.

Born in 1970. In 1994, graduated from the Plekhanov Russian University of Economics. In 2002, received an MBA from the London Business School.

Holds shares equivalent to 0.00362% of the Bank's charter capital as of 31 December 2018.

Holds 0.01819% of ordinary shares of the Bank as of 31 December 2018.

Denis Bortnikov

Deputy President and Chairman of the Management Board

Term of office in accordance with employment contract: 10 June 2017 to 9 June 2022.

Joined VTB Bank in January 2006. Since November 2011 – Member of the Management Board. Before November 2011 – Head of North-Western Regional Centre. Senior Vice President, Chairman of the Management Board, First Deputy Chairman of the Management Board, Deputy Chairman of the Management Board of VTB Bank North-West. Deputy Head of Vneshtorgbank branch, St Petersburg.

Is also the Chairman of the Board of Directors of VTB Bank (Belarus) and of VTB Bank (Kazakhstan). Member of the Board of Directors of VTB Capital Holding. Chairman of the Supervisory Council of VTB Bank (Azerbaijan). Member of the Leningrad Regional Chamber of Commerce and Industry. Member of the Board of Trustees of the Board of the Federal State Budget Institution of Higher Professional Education St Petersburg State University of Economics.

Previous positions:

2004–2006 – Advisor to the General Manager and Deputy General Manager of GUTA-BANK, North-West branch;

1996–2004 – Consultant with the Liquidity Management Department, Consultant with the Transfer Operations Department, Consultant with the Department of Financial Instruments, Senior Consultant with the Brokerage Department, Chief Acquiring and Authorisation Expert, Head of the Acquiring and Authorisation Department at Industry and Construction Bank.

Born in 1974. In 1996, graduated from St Petersburg State University of Economics and Finance, majoring in National Economy.

Holds no shares of the Bank's charter capital as of 31 December 2018.

Olga Dergunova

Deputy President and Chairman of the Management Board

Term of office in accordance with employment contract: 10 June 2017 to 9 June 2022.

Joined VTB Bank in 2016, and previously employed at VTB Bank from 2007 to 2012. Since July 2016 – Deputy President and Chairman of the Management Board. From 2007 to 2012 – Member of the Management Board.

Is also a member of the Supervisory Council of the Association for the Development of Financial Technologies. Member of the Board of Trustees of the Graduate School of Management at the Federal State Budget Institution of Higher Professional Education St Petersburg State University and of the Target Capital Fund of the National Research University Higher School of Economics. Member of the Board of the non-profit foundation Forum Analytical Centre. Member of the presidium of the non-commercial partnership National Council on Corporate Governance. Member of the Board of Directors of the IT services company IBS.

Previous positions:

2012–2016 – Deputy Minister of Economic Development of the Russian Federation – Head of the Federal Agency for State Property Management;

2007–2012 – Member of the Management Board of VTB Bank;

1994–2007 – General Director of Microsoft Rus, President of Microsoft Russia and CIS countries.

Born in 1965. In 1987, graduated from the Plekhanov Russian University of Economics.

Holds shares equivalent to 0.00000029% of the Bank's charter capital as of 31 December 2018.

Holds 0.00000147% of ordinary shares of the Bank as of 31 December 2018.

Valery Lukyanenko

Deputy President and Chairman of the Management Board

Term of office in accordance with employment contract: 10 June 2017 to 9 June 2022.

Joined VTB Bank in 2002. Since August 2016, Deputy President and Chairman of the Management Board. Since December 2008 – Member of the Management Board. Before 2008 – Head of the First Corporate Business Division and Senior Vice President; Senior Vice President and Head of Mid-Size Business in the First Corporate Business Division; Senior Vice President of the First Corporate Business Division; Vice President and Head of Large Corporate Business in the Fourth Corporate Business Division; Vice President; Counsellor to the President and Chairman of the Management Board of VTB.

Previous positions:

2001–2002 – Chairman of the Council of Experts in Project Financing and Forecasting at Lanta-Bank;

1994–2002 – Head of the State Programmes Division, Head of the Foreign Economic Relations Division at the Office of the President of the Russian Federation.

Born in 1955. In 1982, graduated from the Novosibirsk Agricultural Institute. In 2005, graduated from the Russian Academy of Public Administration under the President of the Russian Federation, majoring in State and Municipal Administration. In 2013, received an MBA from Lomonosov Moscow State University.

PhD in Economics, Professor.

Holds shares equivalent to 0.00009% of the Bank's charter capital as of 31 December 2018.

Holds 0.00046% of ordinary shares of VTB Bank as of 31 December 2018.

Anatoly Pechatnikov

Deputy President and Chairman of the Management Board

Term of office in accordance with employment contract: 14 July 2017 to 9 June 2022.

Joined VTB Group in 2003. Since July 2017 – Deputy President and Chairman of the Management Board. From 2010 to 2017 – Deputy President and Chairman of the Management Board of VTB24. From 2006 to 2010 – Senior Vice President, Director of the Mortgage Lending Department at VTB24. From 2003 to 2006 – Head of the Mortgage and Consumer Lending Department at Vneshtorgbank.

Is also the Chairman of the Supervisory Council of VTB Debt Centre, Chairman of the Board of Directors of VTB Pension Fund, Member of the Supervisory Council of Post Bank, and Member of the Supervisory Council's Strategic Planning Committee at the Agency for Housing Mortgage Lending.

Previous positions:

2001–2003 – Head of the Credit Department, Deputy Chairman of the Management Board at DeltaCredit Bank.

Born in 1969. In 1992, graduated from the Moscow Engineering Physics Institute.

Holds shares equivalent to 0.00000226% of the Bank's charter capital as of 31 December 2018.

Holds 0.00001135% of ordinary shares of the Bank as of 31 December 2018.

Maxim Kondratenko

Member of the Management Board

Term of office in accordance with employment contract: 10 June 2017 to 9 June 2022.

Joined VTB Bank in August 2013. Until November 2015 – Head of the Risk Department and Senior Vice President. Since November 2015 – Member of the Management Board.

Is also a member of the Supervisory Council of VTB Bank Georgia, Member of the Board of Directors of BM Bank, Member of the Board of VTB Bank Armenia.

Previous positions:

2009–2013 – First Vice President, Director of the Strategic Risk Department, Director of the Restructuring and Bad Loan Department, UniCredit Bank;

2008–2009 – Member of the Management Board, Russian Standard Bank;

1999–2008 – Executive Director of the Retail Sales and Private Banking Services Department, Head of the Department for Legal Entities, UniCredit Bank (until 26 December 2007, International Moscow Bank; until 28 September 2001, Bank Austria CreditAnstalt (Russia)).

Born in 1973. In 1996, graduated from Lomonosov Moscow State University. In 1999, graduated from the Russian Foreign Trade Academy. In 2000, graduated the Russian Academy of Foreign Trade; in 2000, completed graduate school at the Institute of World Economy and International Relations of the Russian Academy of Sciences. PhD in Economics. In 2007, received an MBA from the London Business School. 26.12.2017 – CJSC International Moscow Bank, up to 28.09.2001 – Bank Austria Creditanstalt AG

Holds no shares of the Bank's charter capital as of 31 December 2018.

Erkin Norov

Member of the Management Board

Term of office in accordance with employment contract: 10 June 2017 to 9 June 2022.

Joined VTB Bank in 2002. Member of Management Board from 2002 to 2007 and since September 2009.

Is also a member of the Board of Directors of BM Bank.

Previous positions:

2007–2009 – Senior Vice President, member of the Management Board JSC Nomos-Bank;

2002–2007 – Vice President, Senior Vice President, member of the Management Board of the Bank for Foreign Trade of the Russian Federation (Vneshtorgbank);

1999–2002 – Development Director, Development and Strategic Planning Director, USSR Bank for Foreign Economic Activities;

1999 – Department Head, Calculation of Taxable Base and Tax Revenue Planning Department, Russian Ministry of Taxes and Duties;

1992–1999 – Deputy Chairman of the Management Board for Development of AvtoVAZservicing – Lada Service; Marketing and Trade Director, General Director of the Economy and Finance Department at AvtoVaz Corporation.

Born in 1954. In 1976, graduated from Lomonosov Moscow State University and in 2001 from the Academy of National Economy under the Government of the Russian Federation. PhD in Economics.

Holds no shares of the Bank's charter capital as of 31 December 2018.

Dmitriy Pianov

Member of the Management Board

Term of office in accordance with employment contract: 26 May 2018 to 9 June 2022.

Joined VTB Bank in 2010. Since November 2018 – Member of the Management Board. Prior to November 2018, Deputy Head of the Finance Department; Senior Vice President, Head of the Finance Department; Senior Vice President.

Is also a member of the Board of Directors of BM Bank. Member of the Supervisory Councils of Post Bank, VTB Bank (Europe) and Eurofinance Mosnarbank. Member of the Board of VTB Bank Armenia.

Previous positions:

2004–2010 – Head of the Chief Executive Directorate of Economics and Finance, Head of the Department of Economics and Finance of the Chief Executive Directorate for Financial Management, Head of the Controlling and Information Security Department of the Internal Control Service, Head of the Controlling and Information Security Division of the Internal Control Service of Uralsib.

Born in 1977. In 2000, graduated from Omsk State University with a degree in Economic Theory. In 2000, received an MBA from the Technical University of Munich.

Holds no shares of the Bank's charter capital as of 31 December 2018.

Valery Chulkov

Member of the Management Board

Term of office in accordance with employment contract: 29 May 2018 to 9 June 2022.

Joined VTB Bank in March 2008. Since May 2018 – Member of the Management Board.

Is also a member of the Board of Directors of Multicard.

Previous positions:

2006–2008 – Corporate Director and Head of the Banking Services Operations Department, ABN AMRO Bank;

2005 – Director of the Retail Operations Centre at Alfa-Bank;

1995–2005 – Lead Economist, Senior Economist in the Foreign Currency Security and Control Department, Head of the Foreign Currency Dealing Department at KredoBank, and later Deputy Chairman of the Management Board.

Born in 1960. In 1982, graduated from the St Petersburg Naval Institute. In 2002, qualified as an economist at the Financial Academy under the Government of the Russian Federation.

Holds no shares of the Bank's charter capital as of 31 December 2018.

5.5. COMPENSATION OF THE MEMBERS OF THE SUPERVISORY COUNCIL AND THE MANAGEMENT BOARD

COMPENSATION OF THE MEMBERS OF THE SUPERVISORY COUNCIL

The amount of remuneration and compensation paid to the members of the Supervisory Council and the procedure for determining the amount thereof is determined in accordance with the Regulation on Remuneration and Compensation Paid to the Members of the Supervisory Council of VTB Bank, approved pursuant to the recommendation of the Supervisory Council's Staff and Remuneration Committee at the Bank's AGM (Minutes No. 47 of 24 June 2016) and posted in the "Charter and bylaws" section on the Bank's website at:

<https://www.vtb.com/o-banke/gruppa-vtb/dokumenty/>

The Regulation can be viewed here.



In accordance with a resolution of the General Meeting of Shareholders, the members of the VTB Bank Supervisory Council may receive remuneration and compensation for expenses incurred in the course of their duties during their term in office.

In case of early termination, as well as the re-election of members of the Supervisory Council at an Extraordinary General Meeting of Shareholders, the remuneration of a newly elected (former) member of the Supervisory Council is determined proportionate to the time spent as a member of the Supervisory Council, as Chairman of the Supervisory Council, a member of a Supervisory Council committee or the Chairman of a Supervisory Council committee during the corporate year.

The total remuneration paid to a Supervisory Council member for the performance of their duties during the corporate year includes:

- their base payment: for performing the functions of a member of the Bank's Supervisory Council;
- bonus: for the performance of additional duties.

Remuneration of members of the Supervisory Council of VTB Bank for a full working year

Base for work on the Supervisory Council		RUB 4,600,000
Bonuses		
For chairmanship of the Supervisory Council	+ 30% of the base remuneration	
For chairmanship of a Supervisory Council Committee	+ 20% of the base remuneration	
For membership in a Supervisory Council committee	+ 10% of the base remuneration	
Payment conditions: attendance in person or participation via video conferencing in at least half of the meetings held, as well as participation in at least half of absentee votes held by the Supervisory Council or of a Supervisory Council committee		

The total amount of remuneration paid to a member of the Supervisory Council for work during the corporate year depends on his or her participation in the work of the Supervisory Council and is determined based on actual participation in the work of the Supervisory Council and Supervisory Council committees.

In accordance with applicable Russian legislation, members of the Supervisory Council who are state employees do not receive any remuneration.

Remuneration is paid by the Bank through bank transfers; no other forms of remuneration are stipulated.

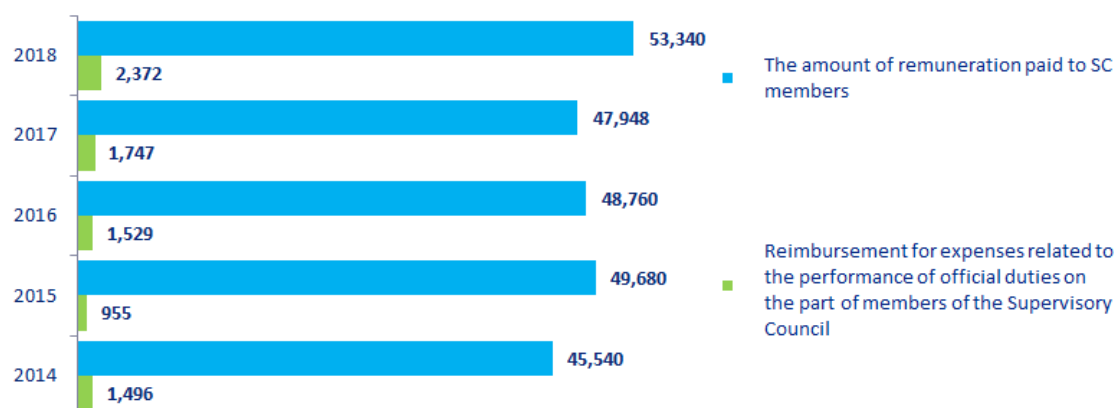
Remuneration paid to members of the Supervisory Council for 2013–2017

		Remuneration (in RUB)				
		2013	2014	2015	2016	2017 ¹⁹
Base	For work on the Supervisory Council	4,600,000 each	4,600,000 each	4,600,000 each	4,600,000 each	4,600,000 each
	For chairmanship of the Supervisory Council	1,380,000	1,380,000	1,380,000	1,380,000	1,380,000
Bonuses	For chairmanship of a Supervisory Council committee	920,000 each	920,000 each	920,000 each	920,000 each	920,000 each
	For membership in a Supervisory Council committee	460,000 each	460,000 each	460,000 each	460,000 each	460,000 each

Supervisory Council members who are not state employees are compensated for expenses they incur while carrying out their duties, namely: accommodation, food, travel expenses (including VIP lounge services), other duties and fees for air and rail transport.

¹⁹ The decision on the payment of remuneration to members of the Supervisory Council based on 2017 results was taken at VTB Bank's AGM on 23 May 2018.

Total remuneration for the members of the Supervisory Council, RUB thousand



REMUNERATION FOR MEMBERS OF THE MANAGEMENT BOARD

The Supervisory Council is responsible for determining the amount of the remuneration and compensation paid to members of the Management Board. Salaries, including compensation and incentive payments, are fixed in the employment contracts of the Management Board members.

Total remuneration (salary, bonuses) for members of the Management Board, RUB thousand

Period	Amount of remuneration
2018	1,615,834
2017	1,399,794
2016	361,805
2015	399,031
2014	1,597,668

In accordance with the policy of awarding bonuses to key Group executives, the Management Board of VTB Bank receives 60% of the annual bonus in cash, and 40% is deferred for a period of three years. The deferred amount is paid in three equal instalments one, two and three years after the grant date, subject to the achievement of certain non-vesting conditions. Half of the deferred amount is paid in cash, and the other part is paid through a cash-settled, share-based payment plan. The share-based payment expense for 2018 was RUB 0.4 billion (compared to RUB 0.3 billion in 2017). As of 31 December 2018, the liability arising from cash-settled, share-based payment transactions amounted to RUB 0.6 billion.

5.6. CONTROL AND AUDIT

INTERNAL CONTROL AND AUDIT

VTB Group's internal control and audit functions operate in compliance with international best practices and applicable legislation in the countries where the Group operates. The system is guaranteed the necessary independence by the way its parts function together and by its reporting structure.

VTB Group's internal control system ensures:

- efficiency of VTB Group's and VTB Bank's activities;
- effective management of assets and liabilities (including asset integrity) and risks;
- reliable, complete and timely financial and management information and reporting;

- compliance with legislation, regulatory acts, rules and standards; non-involvement of the Group and its employees in unlawful activities.

The VTB Group Management Committee established an Internal Audit Coordination Committee, as well as a Coordination Committee for Compliance and Internal Control aimed at preventing money laundering and the financing of terrorism.

The main objectives of VTB Group's internal control functions include:

Internal audit	Compliance control	Combating money laundering and the financing of terrorism
- independently assessing the effectiveness of the internal control and risk management systems, accounting reports, business processes and the activities of departments and individual employees, as well as assessing the economic expediency and effectiveness of operations and transactions; - verifying the reliability of internal control over automated information systems, as well as verifying methods used to secure property; - monitoring key risk areas and risk control mechanisms, with a view to identifying shortcomings in the internal control system and emerging risks, and to create mechanisms to prevent these risks; - developing recommendations to improve the efficiency of systems, processes, procedures, transactions and activities by the Group's structural units and employees; - organising efficient communications with external regulatory bodies and auditors.	- ensuring compliance of the activities of the credit and non-credit financial institutions included within VTB Group with the legislation of the country of registration, internal regulations, standards of self-regulatory organisations and common business practices; - effective management of regulatory (compliance) risks; - creation and maintenance of an effective system of governance information and reporting; - preventing the involvement of participants or employees of VTB Group in unlawful activities (including corruption, improper use of insider information and market manipulation); - maintenance of VTB Group's strong reputation and raising its investment appeal in financial markets.	- ensuring compliance with the requirements of legislation in the sphere of combating money laundering and the financing of terrorism; - effective internal control for AML/CFT purposes as a means of ensuring the Bank's stability, reliability and solid reputation, as well as a way of safeguarding the interests of creditors and depositors; - minimising the risk of customer transactions involving money laundering or terrorist financing, as well as the risk of non-compliance with international sanctions; - avoiding involving Group employees in money laundering or terrorist financing.

The Bank's internal control system includes:

- governing bodies (General Meeting of Shareholders, Supervisory Council, Management Board and the President and Chairman of the Management Board as the sole executive body);
- Statutory Audit Commission;
- Chief Accountant (and his or her deputies);
- Branch managers (and their deputies) and branch chief accountants (and their deputies);
- Structural units (responsible managers) in charge of internal control.

Monitoring of the internal control system is carried out on an ongoing basis by management and employees of the Bank's structural units, as well as by the Internal Audit Department.

Audit Committee The Audit Committee operates as part of the structure of the Supervisory Council in order to facilitate the effective performance of the functions of the Supervisory Council in the area of control over the Bank's financial and economic activities. More detailed information on the composition and activity of the Audit Committee can be found in the Section "Corporate Governance/Supervisory Council/Supervisory Council committees".

Internal Audit Department The Internal Audit Department provides direct support to the Bank's governing bodies to ensure that VTB Group works efficiently and effectively. The Internal Audit Department monitors internal control systems, conducts audits and provides impartial recommendations for improving banking operations and control procedures.

The Internal Audit Department is an independent structural unit of VTB Bank and operates under the direct supervision of the Supervisory Council. The Supervisory Council approves the Internal Audit Department's work plans and monitors their implementation, reviews the Internal Audit Department's reports on the results of audits and on monitoring of the internal control system, as well as reports on the implementation of the Internal Audit Department's recommendations to address previously identified issues.

The Internal Audit Department's organisational structure comprises a number of units responsible for auditing the credit process, non-credit business processes, regional divisions, digital auditing of processes and information technologies, as well as for coordinating the Group's internal control systems. To increase the effectiveness of the monitoring of the internal control system at the Bank's regional branches, the structure of the Internal Audit Department includes dedicated internal control teams at the branch level.

The Internal Audit Department is responsible for:

- verifying and assessing the effectiveness of the Bank's internal control system;
- verifying the effectiveness of the Bank's risk management system;
- verifying the reliability, completeness, objectivity and timeliness of the preparation of accounting and management reports;
- verifying compliance with Russian legislation and the requirements of regulatory and supervisory authorities;
- verifying the adequacy and reliability of systems of internal control for the use of automated information systems;
- establishing uniform approaches to the organisation of VTB's internal control systems.

The Internal Audit Department liaises with the Audit Committee and independent auditors, providing information on the internal control system and reporting any shortcomings during the audit period.

In 2018, the Internal Audit Department conducted 56 audits, including 10 audits of business processes at the Bank's parent company and 46 audits of branch activities. In addition, as part of its ongoing monitoring, Internal Audit Department staff members conducted 755 thematic audits at the branch level.

Taking into account systemic trends in the banking sector, the main challenges facing the Internal Audit Department include: more focus in the auditing process on the efficiency and competitiveness of business processes, ensuring that audits are closely linked to the technological changes taking place within the Bank, and developing remote and thematic auditing formats for individual processes.

In addition to conducting audits and monitoring the Bank's internal control system, the Internal Audit Department's priority is to monitor the activities of subsidiaries. In 2018, the Internal Audit Department conducted 10 audits related to the activities of the Bank's subsidiaries.

The Internal Audit Department also regularly analyses reports on the work of Group companies' internal audit services. To enhance the level of professionalism and exchange of experience, on-the-job training is provided for staff from the internal audit services within Group companies, including with the involvement of VTB Group functional coordinators.

The Department of Compliance Control and Financial Monitoring assists the Bank's governing bodies with the effective management of regulatory (compliance) risks resulting in losses due to non-compliance with the legislation of the country of registration, the Bank's Charter, standards for self-regulatory organisations, and also as a result of the application of sanctions and/or the impact of other measures on the part of the supervisory authorities.

Regulatory risks also include the risks of money laundering and the financing of terrorism (AML/CFT), as well as the proliferation of weapons of mass destruction (WMD).

Within VTB Group, the Department of Compliance Control and Financial Monitoring is responsible for ensuring a unified approach to internal (compliance) control, AML/CFT and preventing the spread of WMD within VTB Group's credit and non-credit financial institutions.

In the context of measures aimed at the effective development of the systems of internal (compliance) control and AML/CFT and preventing the spread of WMD within VTB Group, the Department of Compliance Control and Financial Monitoring interacts with the Coordination Commission on Compliance and Internal Control for the Purpose of Preventing Money Laundering and the Financing of Terrorism, which includes the following tasks:

- development of common principles and standards;
- introducing best practices within VTB Group companies;
- sharing information among VTB Group companies;
- improving the general professional capacity of experts.

STATUTORY AUDIT COMMISSION

The Statutory Audit Commission is responsible for providing financial control over the Bank's financial and economic activities. The Statutory Audit Commission checks VTB Bank's compliance with regulations established by the laws of the Russian Federation on accounting procedures, compiling and reporting, the reliability of the information contained in reports and other financial documents of VTB Bank, the organisation of the Bank's internal control system, the execution by the Bank of instructions from the President and the Government of the Russian Federation. The Statutory Audit Commission is elected at the AGM, which determines its size and composition for the period until the next AGM.

At the AGM on 23 May 2018, shareholders re-elected the Statutory Audit Commission as follows:



Sergei Platonov – Chairman of the Statutory Audit Commission, Deputy Director of the Financial Policy Department of the Ministry of Finance of the Russian Federation, member of the Statutory Audit Commission of Gazprom, member of the Audit Commission of the Agency for Housing Mortgage Lending, member of the Statutory Audit Commission of the Russian Agricultural Bank.

A more detailed biography is available here:

<https://www.vtb.com/akcionery-i-investory/korporativnoe-upravlenie/revizionnaya-komissiya/platonov-sergej-revazovich/>



Yevgeny Gontmakher – Deputy Director of the Dialogue Foundation for the Development of Civic Initiatives, member of the Management Board of the Institute for Contemporary Development.

A more detailed biography is available here:

<https://www.vtb.com/akcionery-i-investory/korporativnoe-upravlenie/revizionnaya-komissiya/gontmaher-evgenij-shlemovich/>



Mikhail Krasnov – Member of the Statutory Audit Commission of Rostelecom.

Until November 2018, he served as Chairman of the Supervisory Council of Vervsell Industrial Automation Systems.

A more detailed biography is available here:

<https://www.vtb.com/akcionery-i-investory/korporativnoe-upravlenie/revizionnaya-komissiya/krasnov-mikhail-petrovich/>



Anastasia Olshanova – Head of the Department for the Privatisation of Market Organisations at the Office of Property Relations and the Privatisation of Large Organisations of the Federal Agency for State Property Management, member of the Statutory Audit Commission of Rosneftegaz.

A more detailed biography is available here:

<https://www.vtb.com/akcionery-i-investory/korporativnoe-upravlenie/revizionnaya-komissiya/olshanova-anastasiya-sergeevna/>



Zahar Sabantsev – Head of the Division for Financial Sector Monitoring, Organisational Support and Consolidated Work of the Financial Policy Department of the Ministry of Finance of the Russian Federation, member of the Statutory Audit Commission of Rosneft, member of the Statutory Audit Commission of Rosneftgas.

A more detailed biography is available here:

<https://www.vtb.com/akcionery-i-investory/korporativnoe-upravlenie/revizionnaya-komissiya/sabancev-zahar-borisovich/>



Vadim Soskov – Managing Director at Sistema Capital, Member of VTB's Shareholders Consultative Council.

A more detailed biography is available here:

<https://www.vtb.com/akcionery-i-investory/korporativnoe-upravlenie/revizionnaya-komissiya/soskov-vadim-viktorovich/>

In 2018, the Statutory Audit Commission elected by the AGM on 26 April 2017, in accordance with the Work Plan for VTB Bank's Statutory Audit Commission for 2017–2018, audited VTB Bank's financial and economic activities for 2017, as a result of which the Statutory Audit Commission reached the following conclusions:

- no substantial violations of legal acts of the Russian Federation on accounting and reporting procedures or violations of legal acts of the Russian Federation in conducting financial and economic activities were found that could have had a significant impact on VTB Bank's financial results for 2017;
- VTB Bank's annual accounting records and financial statements for 2017, as well as other financial documents, are accurate and provide an objective picture of the financial position of VTB Bank as of 1 January 2018;
- VTB Bank's 2017 annual report was prepared in accordance with the applicable legislation of the Russian Federation;
- the information contained in the report on interested-party transactions completed by the Bank in 2017 is accurate;
- the Bank complies with the statutory requirements established by the Central Bank of the Russian Federation;
- the Bank's systems of corporate governance, risk management and internal control meet the requirements established by the laws of the Russian Federation and regulations of the Central Bank

of the Russian Federation and are in accordance with the nature and scale of the Bank's operations;

- The tasks in the area of IT set out in the Bank's Development Strategy for 2017-2019 and planned for 2017 were successfully completed. The merger of VTB and VTB24 was carried out without any IT failures. Mobile applications and other digital services are developing at a fast pace. Recent advancements have led to growth in the Bank's retail business, as well as improvements in the quality of customer service and the Bank's overall performance.

In 2018, VTB Bank's Statutory Audit Commission held two in-person meetings.

In 2018, the Statutory Audit Commission was provided with information necessary to monitor the financial and economic activities of VTB Bank on a regular basis, including information concerning indicators related to financial statements prepared in accordance with RAS, consolidated financial statements prepared in accordance with IFRS, information on the implementation of the directives issued by the government of the Russian Federation and the programme for selling non-core assets.

Since 2016, the Regulation on Remuneration and Compensation Paid to the Members of the Statutory Audit Commission has been in force at the Bank. The Regulation was approved in accordance with the recommendations of the Bank's Supervisory Council Committee on Staff and Remuneration at the Annual General Meeting of Shareholders (Minutes No. 47 of 24 June 2016) and is posted on the Bank's website at: https://www.vtb.com/akcionery-i-investory/raskrytie-informacii/ustav-i-vnutrennie-dokumenty/#tab_0_1#



According to this document, the basic part of the remuneration paid to members of the Statutory Audit Commission is 20% of the average remuneration paid to a member of the Supervisory Council who is an independent director or representative of the state.

The actual amount of remuneration paid to a member of the Statutory Audit Commission during the reporting period is determined based on the number of days in the corporate year during which said member of the Statutory Audit Commission performed their duties.

For chairing the Statutory Audit Commission, the Regulation on Remuneration and Compensation Paid to the Members of the Statutory Audit Commission establishes a bonus of 30% of the basic remuneration for members of the Bank's Statutory Audit Commission. Remuneration is paid by the Bank through bank transfers; no other forms of remuneration are stipulated.

Members of the Statutory Audit Commission who miss more than half of the meetings of the Statutory Audit Commission during the time in which they are members of the Committee are not paid any remuneration, nor are members of the Statutory Audit Commission who are civil servants.

At VTB Bank's AGM on 23 May 2018, on the matter of the payment of remuneration to members of the Statutory Audit Commission who are not civil servants in the amount established by the bylaws of VTB Bank, it was decided:

to pay remuneration to members of the Statutory Audit Commission of PJSC VTB Bank who are not civil servants:

- for work as part of the Statutory Audit Commission of VTB Bank: RUB 920,000 each;
- for chairing the Statutory Audit Commission of VTB Bank: RUB 276,000.
- to compensate members of the Statutory Audit Commission of VTB Bank who are not civil servants, during the performance of their duties, for all expenses associated with the performance of their duties as members of the Statutory Audit Commission of VTB Bank, namely: accommodations, travel and other fees and charges for various types of transport.

Amount of remuneration paid to members of the Statutory Audit Commission

	Amount of remuneration		
	2016	2017	2018
For work in the Statutory Audit Commission	RUB 2,760,000	RUB 3,680,000	RUB 1,840,000
Compensation for expenses related to the performance of their duties as members of the Statutory Audit Commission		Not paid	

Information on VTB Bank's Statutory Audit Commission can be found in more detail on the Bank's website at:

<https://www.vtb.com/akcionery-i-investory/korporativnoe-upravlenie/revizionnaya-komissiya/>



EXTERNAL AUDITOR

In order to audit and confirm the reliability of its annual financial statements, VTB Bank engages an independent, professional external auditor.

In accordance with the legislation of the Russian Federation, the external auditor is approved on the basis of an open tender to conduct the Company's obligatory annual audit.

In March 2015, the Bank held an open tender to select an auditor to carry out its obligatory annual audit for the subsequent five years. The Bank published information on the tender and tender documentation on the official public procurement website: www.zakupki.gov.ru.

The tender procedure was governed by Federal Law No. 44-FZ of 5 April 2013 on the Contractual System for the Procurement of Goods, Works and Services for State and Municipal Needs.

Three auditors submitted tender bids: Ernst & Young LLC, KPMG CJSC and PricewaterhouseCoopers CJSC.

The selection of the auditor was carried out by a tender commission consisting of competent Bank employees, as well as a representative of the Federal Property Management Agency. The tender commission evaluated and compared the bids based on the following criteria:

- Contract price;
- The qualifications of each bidder.

The tender commission reviewed the bids and selected Ernst & Young as the winner, as it offered the best conditions for fulfilling the terms of the contract and was awarded the most points in the selection procedure.

Ernst & Young LLC is the Russian subsidiary of Ernst & Young, one of the four largest auditing companies in the world. Ernst & Young has more than 25 years of successful practice in Russia and the CIS countries. Over the years, the company has established itself as a leading expert in the provision of audit and consulting services in Russia and other CIS countries.

Information on the auditor's remuneration

Information on the auditor's remuneration paid for the compulsory annual audit of financial statements

Reporting period for which the audit was carried out	Procedure for determining the amount of the auditor's remuneration	Actual amount of remuneration paid by the Bank to the auditor (as of the date of this report), thousand of Russian Rubles (including VAT)
2015	Following an open tender for the selection of an auditor, as approved by the Supervisory Council	212.4
2016	Following an open tender for the selection of an auditor, as approved by the Supervisory Council	212.4
2017	Following an open tender for the selection of an auditor, as approved by the Supervisory Council	201.8
2018	Following an open tender for the selection of an auditor, as approved by the Supervisory Council	60.5

Information on the auditor's remuneration paid for audit services within confirmation of the profit received by the Bank for the first half of 2018

Reporting period for which the audit was carried out	Procedure for determining the amount of the auditor's remuneration	Actual amount of remuneration paid by the Bank to the auditor, thousand of Russian Rubles (including VAT)
2018	As a result of the purchase from a single counterparty	11,210.0

5.7. INVESTOR RELATIONS

Relations with shareholders and representatives of the investment community has traditionally been a high priority for VTB Group and extend beyond required corporate procedures. VTB has been recognised as one of the leaders in Russia in this area, which has allowed the Bank to maintain a consistently high national corporate governance rating of 7 ++.

VTB senior management and authorised units engage with investors on an ongoing basis. The Investor Relations Department is responsible for communications with institutional investors, and its Shareholder Relations Service is responsible for communications with individual shareholders.

In 2018, the Bank continued implementing its Plan (Roadmap) to improve the perception of VTB among Minority Shareholders. Despite the negative market situation, the number of VTB shareholders increased by almost a third.

In 2018, the key investor relations events were:

- the Annual General Meeting of Shareholders;
- the conversion of VTB24 shares into VTB Bank shares;

- the development of the Bank's electronic communication channels:
 - the launch of an online platform for communication with institutional investors and for organising meetings;
 - testing of the e-voting system at General Meetings of Shareholders with the use of biometrics and NFC technology;
- updating the VTB Shareholder mobile app;
- the launch of an updated programme of special offers for individual shareholders at branches of the merged Bank throughout the country.

129 thousand *individual shareholders*

The total number of shareholders of the Bank as of January 2019 was 129.6 thousand, including 128.6 thousand individuals. During 2018, the number of shareholders of the Bank increased by 37.3%, or by 35 thousand individuals.

Growth in the number of individual shareholders was observed throughout 2018. Among the Bank's individual shareholders, more than half are shareholders who bought shares on the secondary market.

- Some 5,855 shareholders received VTB shares in exchange for shares of Bank VTB North-West (formerly PromSroyBank) after its merger with VTB in 2011.
- Some 2,696 shareholders became holders of VTB shares as a result of the conversion of VTB24 Bank shares into VTB Bank shares after their merger.
- Less than 40% are shareholders of the Bank who participated in the initial public offering in 2007.

As of the end of 2018, there had been an increase in the number of shareholders in all age groups, without exception. At the same time, the most impressive growth was seen among 20–35-year-old shareholders, a group that increased by 70%, adding 11 thousand shareholders.

Merger with VTB24, redemption and conversion of shares

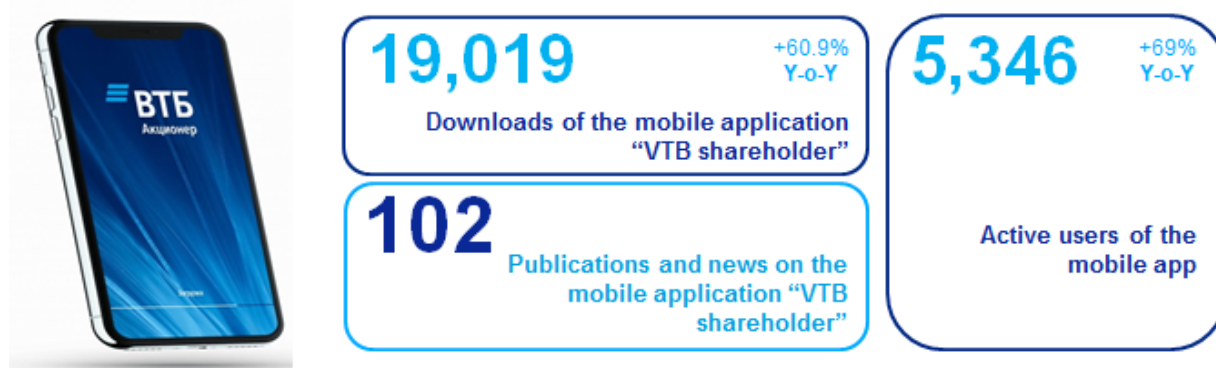
At the end of 2017 and the beginning of 2018, VTB Group underwent a large-scale reorganisation that saw the merger of VTB24 into VTB Bank. As a result, on 10 January 2018, ordinary shares in VTB24 were converted into ordinary shares in VTB Bank in accordance with Article 75 of the Federal Law on Joint-Stock Companies. The conversion ratio was 1/79 (1 share of VTB24 was converted into 79 shares of VTB Bank). The terms of the conversion were the same for all VTB24 shareholders. At the same time, shares of VTB24 owned by VTB24 and VTB Bank were not subject to conversion and were redeemed. After the completion of the merger, VTB Bank became the legal successor to VTB24, taking on all of its liabilities.

Changes to the register were made by the Bank's registrar, VTB Registrar, after the Bank made the relevant entries in the Unified State Register of Legal Entities and on the basis of the documents submitted to the registrar. As a result of the conversion of VTB24 shares into shares of VTB Bank, the number of VTB shareholders increased by 2,696, including 2,611 individuals.

Conversion ratio 1/79



Conversion conditions were similar for all VTB24 shareholders. VTB became a legal successor of all VTB24 liabilities



One of the key challenges facing the Bank in terms of developing its relations with minority shareholders in 2018 was to provide shareholders with new possibilities for communication, primarily remote channels of electronic communication. These faster, more convenient forms of electronic communication are gradually gaining more and more trust among users. For example, the VTB Shareholder mobile application, which was developed by VTB Bank and VTB Registrar specifically for the needs of private investors, is very popular. There was a significant increase in the number of users of the application in 2018.

Users of the application have access to information from leading analysts in VTB Group, online information on stock prices, the ability to maintain records of their investment portfolio and to stay up to date on current information about privileges for VTB shareholders.

In 2018, the VTB Shareholder mobile application added functionality that enables users to see all existing privileges for VTB Bank shareholders. In addition, shareholders can use the convenient feature of filtering the available privileges that they want to see. To do this, a user only needs to specify the number of shares they own. For active investors, a function was added that allows investors to connect to the trading system in the VTB My Investments application.

Through the VTB Shareholder mobile application, any shareholder, regardless of where they live or are currently located, can receive information on the activities of the Bank and VTB Group as a whole and on their investments, they can take part in the management of the Bank, vote at general meetings and not miss out on any important corporate actions. In 2018, the Bank also continued to develop its e-voting functionality, which has been firmly established as the main instrument used by the Bank's shareholders to express their will. For example, an e-voting system using biometrics and NFC technology was tested at the AGM on 23 May 2018.

Facebook and Twitter remained among the priority means of communication with shareholders, with engagement led through the accounts of the Shareholders Consultative Council. The number of Facebook followers increased by 26% over the year. These channels enable the Bank to quickly convey important information to shareholders and to attract a younger audience. In addition, social networks open up the possibility of hosting a wide range of additional media materials, such as videos and interviews, photo reports and live broadcasts.

MEETINGS WITH SHAREHOLDERS AND INVESTORS

One of the key elements of the roadmap to improve the Bank's image are meetings with shareholders and other interested parties (stakeholders).

Over the last eight years, VTB Bank has been organising events for its retail shareholders in more than 30 regions. There was a significant increase in public interest in such events in 2018. A total of 2,247

people took part, not including the participants in the 2018 AGM and events for other groups of stakeholders. This was an increase of 13% compared to 2017.

In 2018, the Bank prepared and hosted 27 events for retail shareholders, including three Investor Days, eight Open Doors Days, 13 stock market seminars, a webcast of the AGM, a meeting with major shareholders, as well as a round table with large private investors.

Events for retail shareholders in 2018



The biggest events in 2018 were the Investor Days in Moscow (20 October 2018) and St Petersburg (8 December 2018). In total, 1,158 people attended these events. The Investor Day event in Moscow received 635 visitors, an all-time record.

All these events included a consultation area, where products offered by VTB Group companies were presented. Consultations were provided by VTB Capital, VTB Registrar, VTB Pension Fund, VTB Insurance, experts from the retail unit and the Shareholder Relations Service of VTB Bank and members of the Shareholders Consultative Council. The most popular information stand was dedicated to discounted products and services for VTB shareholders. Visitors to Investor Days also had access to an interactive area using NFC authentication and other advanced information technologies.

In cities that are classified as priority regions in terms of developing relations with shareholders, VTB held seminars on the stock market with experts from Moscow Exchange. Guests included VTB shareholders and Group customers, primarily those with brokerage accounts. Seminars were held in 13 cities during the reporting year: Samara, Tomsk, Sochi, Nizhny Novgorod, Kazan, Novosibirsk, Vladivostok, Chelyabinsk, Krasnoyarsk, Khabarovsk, Irkutsk, Krasnodar and Tyumen. A total of 654 people took part in the seminars. The most popular events were those in Kazan and Irkutsk.

As has traditionally been the case, Open Doors Days were the most popular events, which were held in eight different cities in 2018 at Bank branches and operational offices. At these meetings, shareholders were able to discuss their questions in detail with VTB experts and also take part in individual consultations.

In addition, in those cities where Investor Days and seminars for shareholders were held during the year, VTB Bank experts met with representatives of investment and brokerage companies, analysts and journalists. Maintaining contact with these stakeholder groups is included in the roadmap to improve the perception of VTB and to make its shares more attractive to investors. During the meetings, topics discussed included the activities of VTB Group, as well as the concerns of private investors from investment companies and the readers of the regional business press. The meetings with journalists resulted in more than 55 publications in the media that showed VTB Group in a positive light.

As part of a programme to improve the financial literacy of existing and potential retail shareholders and also in order to develop business cooperation between Bank branches and regional universities, VTB has been organising workshops for students majoring in Finance and Economics at leading Russian universities since 2013. In 2018, similar events were held in Irkutsk, Nizhny Novgorod and Tomsk. They

were attended by over 450 students, who praised the quality of the presentations and the speakers, as well as the topics covered by the workshops.

In addition, in 2018, the Bank took part in 15 international investment conferences, during which 180 meetings with institutional investors were held. As part of the disclosure of the Group's IFRS financial results, four online audio conferences and question and answer sessions were held for investors and analysts.

SHAREHOLDERS CONSULTATIVE COUNCIL

The Shareholders Consultative Council (SCC) represents the interests of minority VTB shareholders in relations with the Bank's managing bodies. All SCC members are Bank shareholders. In Russian practice,



such shareholder councils are very rare. At the same time, the Central Bank considers such councils to be effective and useful for increasing the activity and involvement of shareholders. VTB's Shareholders Consultative Council has been in operation for almost 10 years and has been actively involved in the development of not only the Bank but also the Group as a whole.

At the AGM in 2018, shareholders once again elected representatives of the SCC into the Bank's management and oversight bodies. The head of the Consultative Council, Igor Repin, was elected to the Bank's Supervisory Council, and Vadim Soskov became a member of the Bank's Statutory Audit Commission.

Members of the Shareholders Consultative Council

Igor Repin – Deputy Executive Director of the Association of Professional Investors.



Chairman of the Board of Directors of the Ekologiya Federal Centre for Geoecological Systems, Member of the Supervisory Council of VTB Bank and a Member of VTB Bank's Strategy and Corporate Governance Committee, Audit Committee, and Staff and Remuneration Committee.

Graduated from Lomonosov Moscow State University, received a Category 1 certificate from the Moscow Federal Commission for the Securities Market.

Member of VTB's Shareholders Consultative Council since 2013.

Holds shares equivalent to 0.000000046% of the Bank's charter capital as of 31 December 2018.

Holds 0.000000231% of ordinary shares of the Bank as of 31 December 2018.



Vadim Soskov – Managing Director at Sistema, member of VTB Bank's Statutory Audit Commission. Winner of a Russia's Financial Elite award for Most Senior Player in the collective investment market. He is also included on the list of "Russia's top 1,000 managers". He was a TACIS expert for the World Bank on pension reform in Russia.

He graduated from Moscow Lenin State Pedagogical University. PhD in Economics.

Member of VTB's Shareholders Consultative Council since 2013.

Holds shares equivalent to 0.00000307% of the Bank's charter capital as of 31 December 2018.

Holds 0.0000154% of ordinary shares of the Bank as of 31 December 2018.



Sergey Gavrilov – Chairman of the Russian State Duma Committee on Civil Society, Public Associations and Religious Organisations.

Graduated from Lomonosov Moscow State University. PhD in Economics.

Member of VTB's Shareholders Consultative Council since 2009.

Holds shares equivalent to 0.000003358% of the Bank's charter capital as of 31 December 2018.

Holds 0.000016866% of ordinary shares of the Bank as of 31 December 2018.



Alexander Yenin – Head of Premier BCS projects at BCS.

Graduated from the Financial University under the Government of the Russian Federation and the Russian State Social University.

Member of VTB's Shareholders Consultative Council since 2017.

Holds shares equivalent to 0.000002458% of the Bank's charter capital as of 31 December 2018.

Holds 0.000012345% of ordinary shares of the Bank as of 31 December 2018.



Vladimir Znamensky – Lawyer for the United Metallurgical Company, specialising in corporate law. He completed undergraduate studies in Law and master's studies in Corporate Law at Lomonosov Moscow State University. He is a member of Young International Arbitration Group and the Russian Arbitration Association 25.

Member of VTB's Shareholders Consultative Council since 2017.

Holds shares equivalent to 0.000000614% of the Bank's charter capital as of 31 December 2018.

Holds 0.000003086% of ordinary shares of the Bank as of 31 December 2018.



Vladimir Zotov – Director of the Institute of Social Engineering at the Kosygin Russian State University and Assistant Professor in the Management Department. He holds a Ph.D. in Economics and is a Corresponding Member of the Russian Academy of Engineering. He graduated from Moscow State University of Design and Technology.

Member of VTB's Shareholders Consultative Council since 2017.

Holds shares equivalent to 0.00000000000154% of the Bank's charter capital as of 31 December 2018.

Holds 0.00000000000772% of ordinary shares of the Bank as of 31 December 2018.



Stanislav Kleshev – Head of the Analytics Division in VTB Bank's Brokerage Services Department. He completed undergraduate and graduate studies at Lomonosov Moscow State University. He is a member of the Moscow Exchange Index Committee and Listing Council.

Member of VTB's Shareholders Consultative Council since 2013.

Holds shares equivalent to 0.000001613% of the Bank's charter capital as of 31 December 2018.

Holds 0.000008102% of ordinary shares of the Bank as of 31 December 2018.



Valery Petrov – Vice President for Market Development and Regulation at the Russian Association for the Crypto-Industry and Blockchain. Deputy Chairman of the Management Board at the Institute of Financial Markets. He holds several university degrees, as well as a Chartered Financial Analyst (CFA) diploma. Has a PhD in Economics.

Member of VTB's Shareholders Consultative Council since 2013, was elected Chairman of the second Shareholders Consultative Council. He was a member of the Supervisory Council of VTB Bank from 2016 to 2018.

Holds shares equivalent to 0.000000015% of the Bank's charter capital as of 31 December 2018.

Holds 0.000000077% of ordinary shares of the Bank as of 31 December 2018.



Maxim Sergeyev – Engineer at the St Petersburg Alferov Academic University. Graduated from Ukhta State Technical University.

Member of VTB's Shareholders Consultative Council since 2013.

Holds shares equivalent to 0.000000968% of the Bank's charter capital as of 31 December 2018.

Holds 0.000004861% of ordinary shares of the Bank as of 31 December 2018.



Ilya Khersontsev – Advisor to the Chairman of the Management Board at Astramed-MS. A member of the Russian Association of Independent Directors. He graduated from the Urals State Technical University with a degree in IT Systems in Economics.

Member of VTB's Shareholders Consultative Council since 2017.

Holds shares equivalent to 0.000308740% of the Bank's charter capital as of 31 December 2018.

Holds 0.001550861% of ordinary shares of the Bank as of 31 December 2018.



Yelena Shafranskaya – Self-employed entrepreneur in the field of construction and real estate. She graduated from the Irkutsk Polytechnical Institute with a degree in Cybernetics.

Member of VTB's Shareholders Consultative Council since 2017.

Holds shares equivalent to 0.000001536% of the Bank's charter capital as of 31 December 2018.

Holds 0.000007716% of ordinary shares of the Bank as of 31 December 2018.



Elena Shtykanova – Advisor to the Senior Vice-President of Norilsk Nickel. PhD in Economics. She graduated from the Moscow State Institute of International Relations of the Russian Foreign Ministry with a degree in International Economic Relations.

Member of VTB's Shareholders Consultative Council since 2013.

Holds shares equivalent to 0.000000476% of the Bank's charter capital as of 31 December 2018.

Holds 0.000002390% of ordinary shares of the Bank as of 31 December 2018.

The Shareholders Consultative Council plays an increasingly important role in the work of the Group's subsidiaries. In January 2019, for example, three members of the SCC became independent members of the Board of Directors of Vozrozhdenie Bank.

In 2018 5 meetings of the Shareholders Consultative Council were held, as well as one online conference with the participation of SCC members

During Board meetings, members of the SCC meet with representatives of the Bank's top management, who oversee various operations. In 2018, meetings were held with the managers of the Information Technology Department, the Retail Products Department, the Human Resources Department and the Retail Business Development and Coordination Department. In addition, several officers holding the post of Deputy President and Chairman of the Management Board took part in the meetings. One was an expanded meeting that was attended by employees of the Central Bank of the Russian Federation, the Association of Professional Investors and the Russian Institute of Directors (RID). The RID representatives prepared a report on VTB's ratings in the field of corporate governance, commending

the Bank's consistent efforts to develop its corporate governance systems. They highlighted in particular the positive aspects of the Bank's practice in dealing with minority shareholders.

During the final meeting of the Shareholders Consultative Council in December 2018, the results of the Council's work in 2018 were summed up. In addition, the work plan for 2019 was discussed. In 2019, members of the SCC plan to pay attention to the further development of the programme of benefits for VTB shareholders, the advancement of a new development strategy, issues related to dividend payments and questions about key business areas.

SCC members play an active role in communication with shareholders, including at the AGM, Investor Days, seminars and online through electronic channels. Information and suggestions received are reflected in the SCC's proposals for VTB management. For example, strategy proposals were collected through an online conference with retail shareholders. The conference discussed the implementation of the current strategy and current financial indicators, and it also gathered ideas from shareholders regarding aspects of a new strategy.

During the collection of ideas and proposals, which lasted from 19 September 2018 to 25 October 2018, SCC members received more than 100 ideas, views and recommendations regarding the future strategy of VTB Group. Forty-nine of them were selected and submitted to the Bank's management for consideration.

During the year, the members of the SCC took part in various specialised forums and conferences devoted to corporate governance, interaction with private investors, development of the investment market and improvement of financial literacy:

- Moscow Exchange's FINFAIR on financial solutions;
- Exchange Forum;
- Moscow Exchange's "Retail Investor – 2018" conference;
- Moscow Exchange's "Corporate Governance in Russia – 2018" forum;
- Forum for Corporate Secretaries;
- An economic conference to mark the 100th anniversary of the Rostov University of Economics in Rostov-on-Don;
- The "Digital Ecosystem of Eastern Siberia" conference in Irkutsk.

Speaking at various events, the members of the Consultative Council shared best practices with VTB Bank minority shareholders and took part in panel discussions and workshops.

The Regulation on VTB's Shareholders Consultative Council can be found in the "Investor Relations" section on the Bank's website at:

<https://www.vtb.com/akcionery-i-investory/informaciya-dlya-akcionerov/konsultacionnyj-sovet-akcionerov/>



Rights of shareholders

Highly rated corporate governance by the regulator and the professional community
Increase in dividend payout
Expansion of the programme of shareholder privileges

Strategy and management

Shareholder participation in shaping VTB Group's strategy to VTB 2020-2022
Addition of representatives of retail shareholders to the Supervisory Council and the Statutory Audit Commission
Close interaction with subsidiaries
Joint work on the Corporate Governance Code

Communication

Development of the system of interaction with shareholders
Development of existing channels of communication
Improving electronic services
Increased shareholder trust in the Bank
Feedback on the results of test purchases and use of the Group's products

5.8. DISCLOSURE POLICY

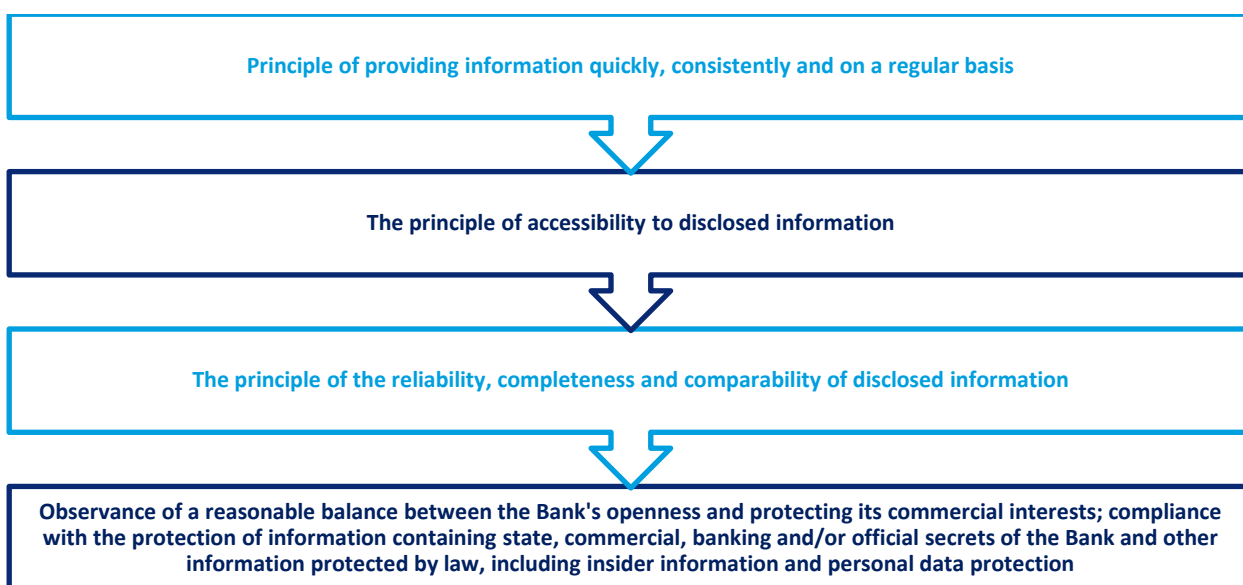
Information disclosure is one of the most important tools for the Bank's interaction with shareholders, investors, customers and other interested parties, contributing to the formation of long-term relationships with all stakeholders, while also increasing the Bank's investment attractiveness.

When disclosing information, VTB Bank is guided by the applicable legislation of the Russian Federation, the requirements of Moscow Exchange and the London Stock Exchange, the Regulation on the Bank's Information Policy and its Corporate Governance Code, as well as other requirements and regulations.

The Regulation on the Bank's Information Policy and the Bank's Corporate Governance Code can be found here.



Principles of information disclosure by the Bank



Information disseminated about the Bank's activities can be divided into three groups:

- information that must be disclosed in the prescribed manner and by the means specified in regulatory documents and by regulatory authorities;
- information disclosed by the Bank on a voluntary basis by any means chosen by the Bank;
- publicly available information that is freely provided at the request of stakeholders for informational purposes.



- the Interfax newswire and the Bank's dedicated page at:
www.e-disclosure.ru/portal/company.aspx?id=1210

According to Interfax, VTB Bank was ranked second in 2018 among leading companies in terms of **information disclosure**.

- ✓ **2,124** statements
- ✓ **1** annual report for 2017
- ✓ **2** accounting (financial) reports under RAS
- ✓ **4** consolidated financial statements under IFRS
- ✓ **4** quarterly issuer reports
- ✓ **4** lists of affiliates
- ✓ new versions of the Charter and the Regulation on the Procedure for Preparing, Convening and Holding General Meetings of Shareholders
- ✓ other documents in accordance with legislative requirement



- Information about VTB Bank on the website of the London Stock Exchange:
<https://www.londonstockexchange.com/exchange/prices-and-markets/stocks/summary/company-summary/US46630Q2021USUSDIOBE.html>

✓ **37** material facts/press releases regarding the disclosure of IFRS results on a quarterly and monthly basis, the results of the AGM and of voting at the AGM, including on dividend payments, management appointments (the Management Board and the Supervisory Council), publication of the annual report, PDMR transactions, M&A deals and sales of VTB Group companies, as well as other events that may be important for the investment and analytical community



- VTB Bank's corporate website, www.vtb.ru and www.vtb.com, which has the most complete information about the Bank's activities, is regularly updated in accordance with the requirements of legislation and the Bank's bylaws.

In addition to information published in accordance with the legislative requirements, the Bank also disclosed:

- ✓ monthly IFRS financial results
- ✓ a social report for 2017
- ✓ a presentation for investors
- ✓ 475 press releases

The site received 28,228,519 visits in 2018.



- the Company's account in the Unified Federal Register of Information about the Activities of Legal Entities, Individual Entrepreneurs and Other Economic Entities:
<https://fedresurs.ru/company/8365852f-517a-4f4f-a4ff-c779c25035bd>

- ✓ **147** statements

- with regard to ensuring corporate actions: web channels (web service in conjunction with Luch software or the web office of the National Settlement Depository)

- ✓ **16** statements



- the Bank's official social media accounts:
Group Facebook: <https://www.facebook.com/vtbgroup/>
Bank Facebook: <https://www.facebook.com/vtbrussia/>
Vkontakte: <https://vk.com/vtb>
Odnoklassniki: <https://ok.ru/vtb>
Twitter: <https://twitter.com/vtb>
Instagram: <https://www.instagram.com/bankvtb/>
YouTube: <https://www.youtube.com/user/vtbgroup>

- ✓ YouTube: **22,940,000** views
- ✓ Vkontakte: **80,000** subscribers
- ✓ Instagram: **22,600** subscribers
- ✓ Twitter: **18,300** followers
- ✓ Group Facebook: **210,000** followers

- informational seminars, conferences, press conferences, meetings, forums and other meetings with stakeholders

- ✓ **4** telephone conferences following the disclosure of IFRS statements
- ✓ **13** seminars for shareholders
- ✓ **3** Investor Days
- ✓ **8** Open Doors Days

6. SUSTAINABLE DEVELOPMENT

In its activities, VTB Group is guided by the principles of corporate social responsibility. VTB works not only for the benefit of its customers and shareholders, but it also contributes to improvements in the welfare of society and various sectors of the economy.

Since 2008, the Bank has been issuing annual social reports on VTB's interaction with stakeholders.

This section of the report presents VTB Group's main results and achievements in 2018 in the field of personnel development, the implementation of social projects and resource management.

More detailed information can be found in VTB Group's 2018 Sustainable Development Report on the Bank's website at <https://www.vtb.com/akcionery-i-investory/raskrytie-informacii/godovoj-i-socialnyj-otchet/>



6.1. PERSONNEL

In 2018, as part of the implementation of VTB Group's strategy for 2017–2019, work continued in all key areas of personnel management and on various strategic initiatives in the field of HR. A great deal of attention was paid to the construction of a single universal bank following the merger of VTB Bank and VTB24, as well as the merger of the Bank's corporate and retail networks into a single regional network.

77,211 employees work in VTB Group

VTB Group employees

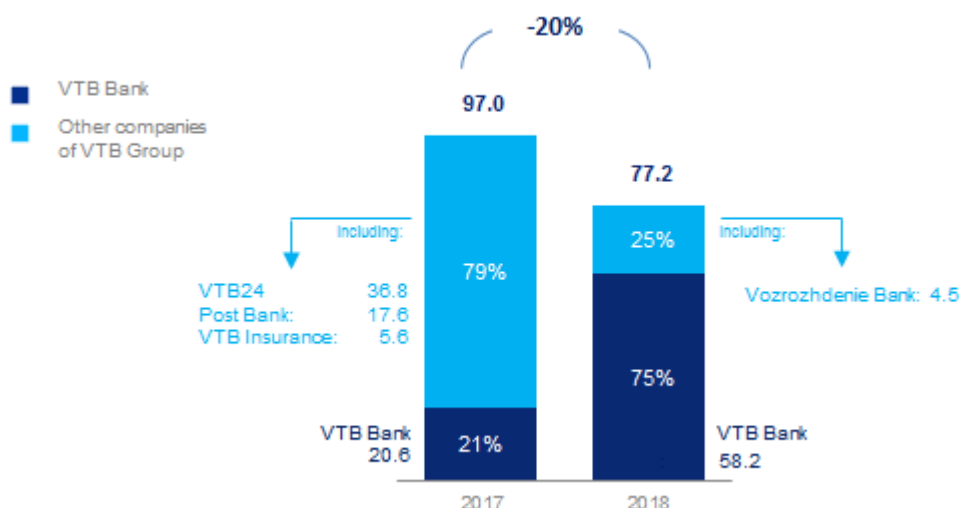
35
average age

73% women
27% men

6 years
average work experience within VTB Group

84% of employees
have higher education

Number of employees, thousand



Incentive and remuneration system

VTB's incentive and remuneration system is designed to motivate employees to be efficient and results-oriented. Incentives provided within the system reflect the results of the Group overall, as well as its business lines and divisions and the individual performance of employees.

In 2018, work continued on improving the remuneration and goal-setting system for the merged Bank in order to maintain the Group's competitive position in the labour market and to ensure that the salaries of executives and employees are linked to the achievement of business targets. Taking into account the merger of VTB and VTB24, as well as the merger of the Bank's retail and corporate networks, which was completed in 2018, a project is being implemented for the development and implementation of a grade system. The aim of the project is to further improve the effectiveness of the wage system and to ensure the establishment of competitive and fair pay grades.

Personnel assessment and staff reserve

In 2018, as part of the updated performance management process, which is designed to support the implementation of VTB Group's strategy and to get employees to set their sights on the achievement of results, individual goals and goals for developing behavioural competencies among Bank employees for the year were established through an automated system on the Corporate Training Portal. The formulation and subsequent evaluation of the achievement of individual goals allowed the Bank to form a clear picture of the results expected from each employee, to stimulate the process of delegating goals and an open dialogue between employees and managers on priority areas of activity and the criteria for evaluating results; the goal of developing general skills such as teamwork, taking responsibility for results, openness to change and a focus on customers helped promote the main messages of the Bank's corporate culture.

Evaluations of functional management teams were also carried out in 2018. Managers from a number of Bank departments were evaluated. The results of these evaluations enabled the Bank to identify strengths and areas for improvement for the effective solution of business problems, as well as to form individual development plans.

As part of the formation of a staff reserve for the merged universal bank, more than 650 employees took part in an assessment of their leadership potential, which made it possible to form a staff reserve for priority business areas and to determine career and professional growth opportunities for the best-performing high-potential employees. Through selection procedures, the Bank formed a functional and operational staff reserve for middle and line management positions.

Training and development

As part of the “Developing Leaders of Tomorrow” strategic initiative, an agreement was concluded

2018 between VTB Bank, VTB Capital and the INSEAD international business school for executive education. Courses on the following topics are taught online by international professors:

Cooperation with the INSEAD international business schoolⁱⁿ

- Business strategy and financial results
- Innovation in an era of change
- Effective leadership communication skills
- Leadership in the digital age
- Strategies for digital transformation

Each programme lasts from five to seven weeks, combining video lectures, remote sessions, practical tasks to apply the knowledge and skills gained, testing and feedback, while requiring daily involvement on the part of the trainees. The ultimate goal of the programme is to create opportunities for VTB Group managers to obtain systematic, cutting-edge knowledge in the field of management at the global level and to apply it in their daily work. In 2018, 54 managers representing all of the Bank's global business lines and most of the support and control functions of the merged Bank and VTB Group companies took part in INSEAD programmes. More than 200 managers have been nominated to take part in online programmes through the INSEAD business school in 2019.

To support the process of achieving individual development goals, the Bank has developed versatile training programmes aimed at improving managerial competencies through the use of a variety of distance and face-to-face training formats, including modules that have already been tested — the Negotiations Academy and Management Algorithms—as well as new programmes on team leadership, cross-functional interaction, personal effectiveness, change management and staff motivation and engagement.

Work continued on teaching Agile development management techniques (Agile/Scrum) for innovative project teams, a target model for training and developing Agile teams was developed and approved, including team inspections (an assessment of the team's maturity and practical case studies), beginning training sessions for all members of project teams, specialised role-based training on Scrum Masters and Product Owner skills, non-training formats and activities to support teams and build a professional community around this area of work at the Bank. To support the professional Agile community, an open platform was initiated with a conference on the subject of Agile contracting together with a leading provider in the field of Agile methodology, ScrumTrek.

In support of the Group's digital transformation strategy, work began on raising the level of employees' professional IT knowledge and on forming a technological community through a series of technology breakfasts. In 2018, 10 technology breakfasts were organised. Among the topics that saw the greatest interest were “management of digital transformation, or where technologies live at VTB”, “experience using biometric technologies in Post Bank Online” and “digital product design: How to listen to users”.

In 2018, VTB was the organising partner for the I Am a Professional competition, which is part of the Russia – Land of Opportunity forum. As part of the project, winter schools were organised by VTB and the Higher School of Economics in the areas of Finance and Credit and Business Informatics. The schools included workshops, lectures, business games and business simulations with speakers that included top managers from VTB Bank and leading instructors from the Higher School of Economics. Some of the participants underwent follow-up training at the Bank.

As part of the Bank's work with young specialists, a target model was developed for training interns at the Bank through the Junior and Growth programmes. The programme for the training and development of young specialists includes face-to-face and distance courses aimed at developing professional skills, as well as personal effectiveness and effective business communications.

6.2. RESPONSIBLE RESOURCE MANAGEMENT

One of VTB Group's main priorities is taking a responsible approach to the use of natural resources, with considerable attention paid to improving systems for managing the Group's own resource and power consumption.

In 2018, the Group continued to implement its Energy Conservation and Energy-Efficiency Programme. VTB Group companies adhere to a policy of renovating existing real estate, which is aimed at, among other things, increasing the resource and energy efficiency of the facilities, compliance with high environmental standards and minimising the negative impact on the environment.

As part of improving the resource and energy efficiency of VTB Group properties, resource- and energy-saving technologies are being introduced everywhere, and utility systems are being replaced or upgraded, which is having an impact on resource consumption and energy efficiency. The resource- and energy-saving technologies used by VTB Group companies have a twofold impact, as they also reduce the harmful impact on the environment and the formation of hazardous waste.

In addition to the use of resource- and energy-saving technologies aimed at reducing their environmental impact, VTB Group companies are constantly reducing their own fleet and freight traffic and are optimising routes for automobile traffic. Every year, more and more tires and automotive batteries are turned in for recycling.

In addition, the process of reducing office printing and the transition to paperless document management are still ongoing. Used batteries are constantly being collected, and waste paper is recycled. VTB Group employees also take part in voluntary environmental activities.

VTB Bank's main results in the area of resource management in 2018:

- optimisation of the placement of VTB Bank divisions following the merger with VTB24 – a reduction in the total area of occupied premises with an increase in the number of the Bank's own properties in operation;
- implementation of an Energy-Saving Programme, with the introduction of energy-saving technologies;
- introduction of resource-saving technologies: reduction of water consumption by 14%;
- reduction of the Bank's own fleet (passenger automobiles), a more than 4 times reduction in diesel fuel consumption;
- collection and transfer for processing/disposal of hazardous waste, recycling of waste paper: a more than 30% increase in the volume of paper sent for recycling.

VTB Bank's resource consumption

Resource type	2017		2018	
	Natural equivalent	Monetary equivalent, RUB million	Natural equivalent	Monetary equivalent, RUB million
Thermal energy, Gcal	45,918	59.1	137,110	241.8
Electricity, thousand kWh	80,817	356.5	456,426	1,041.2
Paper, tonnes	549	33.9	3,183	234.1
Fuel consumption, thousand litres	949	31.7	3,128	137.6

Resource consumption in 2017 is calculated for VTB Bank's head office and its branches in Moscow. VTB24 is not included in the calculations.

Data on resource consumption in 2018 is calculated for VTB Bank's head office and its branches in Russia. The main reason for the increase in resource consumption in 2018 was the merger of VTB24 with VTB Bank.

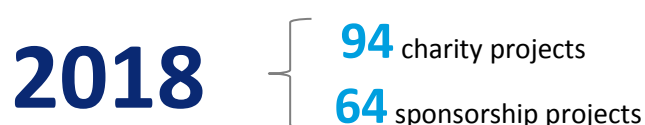
Monetary equivalents are calculated based on the average market value of resources for each reporting year. Monetary equivalents do not include VAT.

6.3. SOCIAL PROGRAMMES

In 2018, VTB Bank continued to support public-interest projects in the form of sponsorship and charitable assistance. In implementing sponsorship and charitable activities, an approach was approved that would see the implementation of six large-scale targeted programmes:

- A Sporting Country
- An Educated Country
- Patriotism and a Country of Traditions
- A Cultural Country
- A Country for Business
- A Healthy Country

As part of these targeted programmes, VTB Bank allocated RUB 7.9 billion during the reporting period for charity and sponsorship projects.



Programmatic financing allows the Bank to transmit its core values and social missions to the public. Each programme includes support for both sponsorship and charity projects.

Expenses for targeted sponsorship and charity programmes in 2018



	35%	A Sporting Country	RUB 2,798 million
	31%	Patriotism and a Country of Traditions	RUB 2,432 million
	17%	A Cultural Country	RUB 1,369 million
	7%	An Educated Country	RUB 552 million
	5%	A Country for Business	RUB 401 million
	4%	A Healthy Country	RUB 386 million

A Sporting Country

RUB 2,798 million

Funding aimed at supporting professional sports and the development of physical education among the population, a contribution to a healthy lifestyle among future generations. In 2018, VTB implemented 25 projects, from such large-scale events such as a Formula 1 race and the VTB Kremlin Cup to the Beringia 2018 traditional dog sledding competition in Kamchatka.

VTB Bank has been the general sponsor of the **Russian Gymnastics Federation** since 2006.

This financing is aimed at improving facilities, as well as supporting the preparation and participation of Russian national teams in international competitions.

During the reporting year in 2018, our athletes won 25 gold, 25 silver and 17 bronze medals in competitions at the European and world levels.

VTB Bank is the title sponsor of the **VTB United Basketball League**, which was created jointly with the Russian Basketball Federation in 2008. Fourteen clubs from six countries—Russia, Belarus, Poland, Latvia, Estonia and Kazakhstan—are taking part in the tournament in the 2018/2019 season.

In addition, VTB Bank is the general sponsor of the Student Basketball Association (SBA), Europe's largest student basketball league, which includes 800 men's and women's teams from 476 specialised secondary educational institutions in 70 regions of Russia. The top division of the SBA is called the VTB Student League.

Patriotism and a Country of Traditions

RUB 2,432 million

Support for projects aimed at promoting patriotism and an interest in the country's history, strengthening and reviving spiritual values, as well as helping veterans, charitable foundations and religious organisations.

In 2018, VTB Bank was the official sponsor of two feature films in the genre of military-historical drama, which were based on real events that took place during World War II. The subject of ***Tankers***, directed by Konstantin Maksimov, are the heroic deeds of the crew of a KV-1 tank. The film ***Sobibor***, Konstantin Khabenskiy's directorial debut, was timed to coincide with 75th anniversary of the uprising of prisoners in the eponymous death camp in Nazi-occupied Poland.

Of all the Orthodox Christian monasteries supported by VTB Bank, one of the most venerated is the Valaam **Monastery of the Transfiguration of the Saviour**. In 2018, funds were donated to renovate a cultural and historical heritage site, the building that houses the Valaam Monastery's Winter Hotel.

A Cultural Country

RUB 1,369 million

Traditional support for leading Russian theatres, museums, television programmes and other projects in the field of Russia's intellectual heritage.

VTB Bank was the general sponsor of a large-scale exhibition of works by **Vasily Vereshchagin** at the **State Tretyakov Gallery**. The exhibition included painting and graphic works, works of decorative and applied art, as well as archival documents and photographs. Some 320 thousand people attended the exhibition.

VTB supports a unique project called the *Blue Bird* Russian Open Competition for Young Talents. Participants include dancers, vocalists, gymnasts and musicians from all over the country from 5 to 15 years of age. The purpose of the competition is to show support for young talents on national television and to encourage teachers and inspire creativity in younger generations.

An Educated Country

RUB 552 million

Assistance for leading universities, the advancement of scientific capability and high technologies, the development of financial literacy and support for competitions, gifted children and students. In 2018, 80 educational institutions received financial support, and 30 students received individual scholarships.

Since 2007, VTB has been cooperating with the National Research University **Higher School of Economics (HSE)**, including financing research laboratories, paying for comparative research in the field of finance, supporting ICEF undergraduate and master's scholarship programmes, replenishing the target capital for the development of the HSE and other joint projects. The Bank acts as a partner for the **I Am a Professional** Russian national competition, and together with the HSE organises winter schools for competition finalists in the areas of Business Informatics and Finance and Credit. The goal of the project is to create a means of social mobility for talented students.

With VTB Bank's support in 2018, the “Languages without Borders” project was implemented: the first one-year programme took place in St Petersburg to train **deaf and hearing-impaired guides to work in Russian sign language in St Petersburg** museums. Since September 2018, the top graduates from the programme have been conducting excursions to museums such as the Pushkin Museum, the State Museum of the History of Religion and many others.

A Country for Business

RUB 401 million

Sponsoring participation in forums, conferences and business communities to maintain the Bank's business reputation and support business development. With VTB support in 2018, nine major international forums and around 10 industry events were held.

As it has traditionally done, VTB Bank was once again the general sponsor of the **2018 St Petersburg International Economic Forum**. The forum was attended by 17 thousand people from 143 countries. A total of 550 agreements were concluded worth nearly RUB 2.4 trillion.

In September 2018, the 4th **Eastern Economic Forum** was held in Vladivostok, with VTB Bank as the official sponsor. During the Forum, 220 agreements were signed worth a total amount of RUB 3.185 trillion, which was 1.3 times more than the previous year.

A Healthy Country

RUB 386 million

Charitable support of foundations, institutions and research projects in the field of health. Helping preserve Russia's environment and providing support for projects aimed at the conservation of biodiversity and regional ecosystems.

The corporate charity programme **A World Without Tears**, which is aimed at supporting domestic healthcare, completed its 15th year in 2018. In just one year, 24 children's hospitals in the capital and various regions of the Russian Federation received assistance valued at RUB 75 million. Events took place across the country from Kaliningrad to Khabarovsk.

In the framework of its long-term cooperation, the Bank donated funds to the **Amur Tiger Centre** to preserve the environmental integrity of the Far Eastern region and increase the population of the Amur tiger in the Russian Federation.

7. FINANCIAL STATEMENTS

7.1. RESPONSIBILITY STATEMENT

VTB Management is responsible for preparing the Annual Report and the Group's consolidated financial statements in accordance with applicable laws and regulations.

I confirm that to the best of my knowledge:

- the consolidated financial statements of VTB Bank and its subsidiaries (together "the Group"), prepared in accordance with IFRS, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group; and
- this Annual Report includes a fair review of the development and performance of the Group's business and position, together with a description of the principal risks and uncertainties that the Group faces.

VTB Bank President and Chairman of the Management Board

Andrey Kostin

7.2. CONSOLIDATED FINANCIAL STATEMENTS UNDER IFRS

The following table shows VTB group selected financial data for the year ended 31 December 2018. For a better understanding of the Group's financial position, its financial performance and its cash flows, these consolidated key financials should be read in conjunction with the audited consolidated financial statements of the Group.

VTB Bank consolidated financial statements and independent auditor's report for the year ended 31 December 2018 can be found on the Bank's website at: <https://www.vtb.com/akcionery-i-investory/finansovaya-informaciya/raskrytie-finansovoj-otchetnosti-po-msfo/>.



CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER (in RUB bn)

	2018	2017	Change
Interest income calculated using the effective interest method	967.6	1,016.6	-4.8%
Other interest income	66.4	39.6	67.7%
Interest expense	(542.6)	(581.3)	-6.7%
Payments to deposit insurance system	(22.8)	(14.7)	55.1%
Net interest income	468.6	460.2	1.8%
Provision charge for credit losses on debt financial assets	(160.6)	(169.2)	-5.1%
Net interest income after provision for credit losses	308.0	291.0	5.8%
Net fee and commission income	90.0	95.3	-5.6%
Losses net of gains arising from sale and revaluation of loans at fair value through profit or loss	(2.0)	n/a	n/a
Gains net of losses arising from other financial instruments at fair value through profit or loss	21.1	12.8	64.8%
Gains net of losses arising from sale of financial assets at fair value through other comprehensive income	6.3	n/a	n/a
Gains net of losses from investment financial assets available-for-sale	n/a	13.6	n/a
Gains net of losses/(losses net of gains) arising from foreign currencies and precious metals	21.4	(12.4)	272.6%
Other gains net of losses on financial instruments at amortised cost	1.4	39.1	-96.4%
Share in profit of associates and joint ventures	8.1	1.2	575.0%
Impairment of investments in associates	(11.8)	–	n/a
Gains/(losses) from disposal of subsidiaries and associates	40.8	(0.5)	8,260.0%
Losses net of gains arising from extinguishment of liabilities	(0.5)	(0.1)	400.0%
Provision charge for credit losses on credit related commitments and other financial assets	(8.3)	(3.2)	159.4%
Reversal of provision for legal claims and other commitments	1.8	0.5	260.0%
Excess of fair value of acquired net assets over cost	2.7	–	n/a
Other operating income	10.1	13.1	-22.9%
Non-interest gains	91.1	64.1	42.1%
Revenue from operating lease of equipment	26.5	22.5	17.8%
Expenses related to equipment leased out	(14.9)	(14.1)	5.7%
Revenues less expenses from operating leasing	11.6	8.4	38.1%
Net insurance premiums earned	121.8	82.6	47.5%
Net insurance claims incurred, movement in liabilities to policyholders and acquisition costs	(99.3)	(61.8)	60.7%
Revenues less expenses from insurance activity	22.5	20.8	8.2%
Revenue and other gains from other non-banking activities	71.3	61.4	16.1%
Cost of sales and other expenses from other non-banking activities	(66.3)	(61.5)	7.8%
Impairment of land, premises and intangible assets other than goodwill used in non-banking activities	(7.1)	(16.1)	-55.9%
Net loss from change in fair value of investment property recognised on revaluation or disposal	(14.4)	(23.1)	-37.7%
Gain from disposal of disposal group held for sale	–	0.8	-100.0%
Revenues less expenses from other non-banking activities	(16.5)	(38.5)	-57.1%
Impairment of land, premises and intangible assets other than goodwill	(9.4)	(3.7)	154.1%
Impairment of goodwill	(0.1)	(2.7)	-96.3%
Other operating expense	(23.0)	(14.1)	63.1%
Staff costs and administrative expenses	(259.8)	(260.9)	-0.4%
Non-interest expenses	(292.3)	(281.4)	3.9%
Profit before tax	214.4	159.7	34.3%
Income tax expense	(35.6)	(39.7)	-10.3%

Net profit after tax	178.8	120.0	49.0%
Profit after tax from subsidiaries acquired exclusively with a view to resale	–	0.1	-100.0%
Net profit	178.8	120.1	48.9%
Net profit/(loss) attributable to:			
Shareholders of the parent	179.2	120.3	49.0%
Non-controlling interests	(0.4)	(0.2)	100.0%
Basic and diluted earnings per share (expressed in Russian roubles per share)	0.01299	0.00855	51.9%
Basic and diluted earnings per share before profit after tax from subsidiaries acquired exclusively with a view to resale (expressed in Russian roubles per share)	0.01299	0.00854	52.1%

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER
(in RUB bn)

	2018	2017
Net profit	178.8	120.1
Other comprehensive income/(loss):		
Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods:		
Net change in fair value of debt financial assets at fair value through other comprehensive income, net of tax	(7.4)	n/a
Reclassification to income statement on sale of debt financial assets at fair value through other comprehensive income, net of tax	(5.1)	n/a
Net result on financial assets available-for-sale, net of tax	n/a	2.5
Cash flow hedges, net of tax	–	(0.1)
Share of other comprehensive income/(loss) of associates and joint ventures	3.5	(0.4)
Effect of translation, net of tax	33.8	0.3
Total other comprehensive income to be reclassified to profit or loss in subsequent periods	24.8	2.3
Other comprehensive income/(loss) not to be reclassified to profit or loss in subsequent periods:		
Actuarial (losses net of gains)/gains net of losses arising from difference between pension plan assets and obligations	(0.2)	1.1
Net result on equity instruments at fair value through other comprehensive income	(2.7)	n/a
Land and premises revaluation, net of tax	6.2	(0.1)
Total other comprehensive income not to be reclassified to profit or loss in subsequent periods	3.3	1.0
Other comprehensive income, net of tax	28.1	3.3
Total comprehensive income	206.9	123.4
Total comprehensive income/(loss) attributable to:		
Shareholders of the parent	208.1	123.6
Non-controlling interests	(1.2)	(0.2)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER
(in RUB bn)

	2018	2017	Change
ASSETS			
Cash and short-term funds	935.8	773.8	20.9%
Mandatory cash balances with central banks	111.1	97.1	14.4%
Trading financial assets	298.7	277.2	7.8%
• Trading financial assets	264.6	276.9	-4.4%
• Trading financial assets, pledged under repurchase agreements	34.1	0.3	11,266.7%
Derivative financial assets	202.5	175.6	15.3%
Due from other banks	693.1	835.0	-17.0%
Loans and advances to customers	10,695.2	9,171.4	16.6%
• Loans and advances to customers	10,669.3	9,171.4	16.3%
• Loans and advances to customers, pledged under repurchase agreements	25.9	—	n/a
Investment financial assets	352.6	321.8	9.6%
• Investment financial assets	339.5	321.4	5.6%
• Investment financial assets, pledged under repurchase agreements	13.1	0.4	3,175.0%
Investments in associates and joint ventures	283.2	117.1	141.8%
Assets of disposal groups and non-current assets held for sale	22.0	17.2	27.9%
Land, premises and equipment	402.3	348.2	15.5%
Investment property	197.2	210.4	-6.3%
Goodwill and other intangible assets	160.0	157.4	1.7%
Deferred income tax asset	119.6	98.7	21.2%
Other assets	287.3	408.4	-29.7%
Total assets	14,760.6	13,009.3	13.5%
LIABILITIES			
Due to other banks	1,425.7	810.3	75.9%
Customer deposits	10,403.7	9,144.7	13.8%
Derivative financial liabilities	140.2	134.0	4.6%
Other borrowed funds	329.7	304.5	8.3%
Debt securities issued	259.1	322.7	-19.7%
Liabilities of disposal groups held for sale	—	7.0	-100.0%
Deferred income tax liability	12.4	30.7	-59.6%
Other liabilities	452.3	582.5	-22.4%
Total liabilities before subordinated debt	13,023.1	11,336.4	14.9%
Subordinated debt	214.5	193.2	11.0%
Total liabilities	13,237.6	11,529.6	14.8%
EQUITY			
Share capital	659.5	659.5	0.0%
Share premium	433.8	433.8	0.0%
Perpetual loan participation notes	156.3	129.6	20.6%
Treasury shares and bought back perpetual loan participation notes	(1.0)	(3.3)	-69.7%
Other reserves	82.4	46.1	78.7%
Retained earnings	197.0	200.4	-1.7%
Equity attributable to shareholders of the parent	1,528.0	1,466.1	4.2%
Non-controlling interests	(5.0)	13.6	-136.8%
Total equity	1,523.0	1,479.7	2.9%
Total liabilities and equity	14,760.6	13,009.3	13.5%

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER
(in RUB bn)

	2018	2017
Cash flows from / (used in) operating activities		
Interest received	1,047.9	1,068.6
Interest paid	(508.4)	(560.9)
Payments to deposit insurance system	(20.2)	(14.3)
Losses on operations with trading financial assets	(25.4)	(4.0)
Gains/ (losses) incurred on dealing in foreign currency	88.8	(27.4)
Fees and commissions received	143.0	130.1
Fees and commissions paid	(43.1)	(35.1)
Other operating income received	9.3	8.0
Other operating expenses paid	(16.8)	(17.9)
Revenue received from operating lease of equipment	26.9	20.6
Expenses paid related to equipment leased out	(4.7)	(2.4)
Net insurance premiums received	152.2	111.0
Net insurance claims paid	(30.4)	(28.4)
Revenue received from non-banking activities	32.6	36.8
Expenses paid related to non-banking activities	(36.3)	(34.5)
Staff costs, administrative expenses paid	(233.6)	(238.0)
Income tax paid	(44.6)	(52.1)
Cash flows from operating activities before changes in operating assets and liabilities	537.2	360.1
Net decrease/(increase) in operating assets		
Net increase in mandatory cash balances with central banks	(13.7)	(2.5)
Net decrease/(increase) in correspondent accounts in precious metals	29.2	(31.5)
Net increase in trading financial assets	(74.5)	(47.8)
Net decrease in due from other banks	122.5	176.6
Net increase in loans and advances to customers	(1,423.6)	(229.8)
Net (increase)/decrease in other assets	(4.7)	35.5
Net (decrease)/increase in operating liabilities		
Net increase/(decrease) in due to other banks	573.7	(473.3)
Net increase in customer deposits	718.9	1,635.5
Net increase in debt securities issued other than bonds issued	13.7	22.4
Net decrease in other liabilities	(2.8)	(12.4)
Net cash from operating activities	475.9	1,432.8
Cash flows from / (used in) investing activities		
Dividends and other distributions received	10.0	5.8
Proceeds from redemption and sales of investment financial assets	174.0	n/a
Purchase of investment financial assets	(197.9)	n/a
Proceeds from redemption and sales of investment financial assets designated as at fair value through profit or loss	n/a	0.9
Proceeds from redemption and sales of investment financial assets available-for-sale	n/a	416.8
Purchase of investment financial assets available-for-sale	n/a	(345.0)
Acquisition of subsidiaries, net of cash	6.9	0.2
Disposal of subsidiaries, net of cash	(18.9)	14.5
Purchase of share in associates and other contributions	(140.1)	–
Proceeds from sale of share in associates and other distributions	64.9	4.1
Purchase of investment financial assets held-to-maturity	n/a	(7.1)
Proceeds from redemption of investment financial assets held-to-maturity	n/a	9.3
Purchase of land, premises and equipment	(53.3)	(61.5)
Proceeds from sale of land, premises and equipment	4.8	6.2
Purchase or construction of investment property	(7.3)	(60.7)
Proceeds from sale of investment property	3.5	29.9
Purchase of intangible assets	(10.1)	(11.2)
Proceeds from sale of intangible assets	0.7	0.2
Net cash (used in) / from investing activities	(162.8)	2.4

CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER
(in RUB bn)

	2018	2017
Cash flows from/ (used in) financing activities		
Dividends paid	(78.2)	(44.5)
Proceeds net of repayment in short-term local bonds issued	(11.2)	25.0
Proceeds from local bonds issued	55.6	–
Repayment of local bonds	(33.6)	(6.0)
Buy-back of local bonds	(10.6)	(4.7)
Proceeds from sale of previously bought-back local bonds	3.6	7.1
Repayment of Eurobonds	(115.8)	(105.2)
Buy-back of Eurobonds	(2.5)	(11.4)
Proceeds from sale of previously bought-back Eurobonds	2.4	9.8
Repayment of syndicated loans	(1.6)	(10.0)
Proceeds from other borrowings and funds from local central banks	535.4	473.2
Repayment of other borrowings and funds from local central banks	(540.4)	(1,446.1)
Repayment of subordinated debt	–	(24.3)
Buy-back of subordinated debt	(0.7)	(0.3)
Proceeds from sale of previously bought-back subordinated debt	0.8	0.2
Cash received from sale of treasury shares	4.1	2.2
Cash paid for treasury shares	(2.4)	(2.5)
Purchase of non-controlling interest in subsidiaries	–	(1.6)
Proceeds from issue to non-controlling interest holders in subsidiaries	3.1	3.4
Buy-back of perpetual loan participation notes	(10.5)	(5.4)
Proceeds from sale of previously bought-back perpetual loan participation notes	11.1	4.9
Amounts paid on perpetual loan participation notes	(13.7)	(12.3)
Net cash used in financing activities	(205.1)	(1,148.5)
Effect of exchange rate changes on cash and cash equivalents	83.3	2.8
Effect of change in impairment loss allowance	(0.1)	n/a
Net increase in cash and cash equivalents	191.2	289.5
At the beginning of period	738.1	448.6
At the end of period	929.3	738.1
Non-cash changes in liabilities arising from financial activities	2018	2017
Foreign currency translation		
Local bonds	–	(0.1)
Eurobonds	(15.6)	11.7
Syndicated loans	(1.4)	(3.4)
Funds from local central banks	(0.1)	(0.3)
Subordinated debt	(18.4)	5.2
Other non-cash changes		
Short-term local bonds	–	0.2
Local bonds	(1.2)	2.5
Eurobonds	1.2	1.4
Syndicated loans	(0.2)	1.0
Funds from local central banks	10.1	19.8
Subordinated debt	(2.8)	1.4

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY FOR THE YEAR ENDED 31 DECEMBER
(in RUB bn)

	Attributable to shareholders of the parent						Non-controlling interests	Total equity
	Share capital	Share premium	Perpetual loan participation notes	Treasury shares and bought back perpetual loan participation loan notes	Other reserves	Retained earnings		
Balance at 1 January 2017	659.5	433.8	136.5	(2.5)	44.8	131.1	9.7	1,412.9
Net result from treasury shares transactions	–	–	–	(0.3)	–	–	–	(0.3)
Net result from bought back perpetual loan participation notes transactions	–	–	–	(0.5)	–	–	–	(0.5)
Profit/(loss) for the period	–	–	–	–	–	120.3	(0.2)	120.1
Other comprehensive income	–	–	–	–	2.2	1.1	–	3.3
Total comprehensive income/ (loss) for the period	–	–	–	–	2.2	121.4	(0.2)	123.4
Transfer of premises revaluation reserve upon disposal or depreciation	–	–	–	–	(1.6)	1.6	–	–
Share-based payments	–	–	–	–	–	(0.1)	–	(0.1)
Increase in share capital of subsidiaries	–	–	–	–	–	–	3.6	3.6
Disposal of subsidiaries	–	–	–	–	–	–	(0.8)	(0.8)
Purchase and other operations with non-controlling interests	–	–	–	–	0.7	(4.9)	2.2	(2.0)
Amounts paid on perpetual loan participation notes	–	–	–	–	–	(12.3)	–	(12.3)
Foreign exchange translation of perpetual loan participation notes	–	–	(6.9)	–	–	6.9	–	–
Tax effect recognised on perpetual loan participation notes	–	–	–	–	–	1.1	–	1.1
Dividends declared	–	–	–	–	–	(44.4)	(0.9)	(45.3)
Balance at 31 December 2017	659.5	433.8	129.6	(3.3)	46.1	200.4	13.6	1,479.7
Impact of adopting IFRS 9 at 1 January 2018	–	–	–	–	8.0	(74.9)	(3.1)	(70.0)
Impact of adopting IFRS 15 at 1 January 2018	–	–	–	–	–	1.1	–	1.1
Balance at 1 January 2018 after adoption	659.5	433.8	129.6	(3.3)	54.1	126.6	10.5	1,410.8
Net result from treasury shares transactions	–	–	–	1.7	–	0.1	–	1.8
Net result from bought back perpetual loan participation notes transactions	–	–	–	0.6	–	–	–	0.6
Profit/(loss) for the period	–	–	–	–	–	179.2	(0.4)	178.8
Other comprehensive income/(loss)	–	–	–	–	29.1	(0.2)	(0.8)	28.1
Total comprehensive income/(loss) for the period	–	–	–	–	29.1	179.0	(1.2)	206.9
Transfer of premises revaluation reserve upon disposal or depreciation	–	–	–	–	(0.8)	0.8	–	–
Share-based payments	–	–	–	–	–	(1.1)	–	(1.1)
Acquisition of subsidiaries	–	–	–	–	–	–	2.2	2.2
Disposal of subsidiaries	–	–	–	–	–	–	(15.9)	(15.9)
Acquisition of non-controlling interests	–	–	–	–	–	(0.9)	0.6	(0.3)
Increase in share capital of subsidiaries	–	–	–	–	–	–	3.1	3.1
Put options over non-controlling interests	–	–	–	–	–	(1.7)	–	(1.7)
Amounts paid on perpetual loan participation notes	–	–	–	–	–	(13.7)	–	(13.7)
Foreign exchange translation of perpetual loan participation notes	–	–	26.7	–	–	(26.7)	–	–
Tax effect recognised on perpetual loan participation notes	–	–	–	–	–	8.1	–	8.1
Dividends declared	–	–	–	–	–	(73.5)	(4.3)	(77.8)
Balance at 31 December 2018	659.5	433.8	156.3	(1.0)	82.4	197.0	(5.0)	1,523.0

8. ANNEXES

8.1. SHARE CAPITAL

In 2018, the structure of VTB Bank's share capital did not undergo significant changes. There was also no change in the amount of the Bank's charter capital, remaining at RUB 651,033,883,623.38, which is divided into ordinary and preference shares:

Type of shares	Number of shares	Nominal value
Ordinary shares	12,960,541,337,338	RUB 0.01
Type 1 preference shares	21,403,797,025,000	RUB 0.01
Type 2 preference shares	3,073,905,000,000	RUB 0.1
Total	37,438,243,362,338	

In accordance with its Charter, the Bank has the right to issue a maximum number of 14,000,000,000,000 ordinary shares with a par value of RUB 0.01 each. The state registration number of VTB Bank's outstanding ordinary shares is 10401000B. The record date for the state registration of VTB Bank's issue of ordinary shares is 29 September 2006.

The state registration number of VTB Bank Type 1 preference shares is 20301000B. The record date for the state registration of the issue is 13 December 2016. All shares of this type are placed at the disposal of a sole purchaser, the Russian Federation, as represented by the Ministry of Finance of the Russian Federation.

The state registration number of VTB Bank Type 2 preference shares is 20401000B. The record date for the state registration of the issue is 13 December 2016. All shares of this type are placed at the disposal of a sole purchaser, the State Corporation Deposit Insurance Agency (hereinafter, the "Deposit Insurance Agency").

VTB Bank's ordinary shares trade on Moscow Exchange and on the London Stock Exchange in the form of global depository receipts (GDRs). Moscow Exchange has included VTB Bank's shares in its Level 1 list. One lot is 10,000 shares.

VTB Bank Type 1 and Type 2 preference shares are not traded on exchanges and do not offer a fixed dividend for the year. The amount of the dividend is subject to approval at the Annual General Meeting of Shareholders. In addition, the Bank's Charter provides for the possibility of paying out interim dividends.

The total number of shareholders of the Bank as of January 2019 was 129.6 thousand, including 128.6 thousand individuals. In 2018, the number of shareholders of the Bank increased by 37.3%, or by 35 thousand individuals.

The Bank's largest shareholders are the Federal Agency for State Property Management (hereinafter, the "Federal Agency for State Property Management") (12.13% of the charter capital or 60.93% of ordinary shares) and the Russian Ministry of Finance (32.88% of the charter capital), as well as the Deposit Insurance Agency (47.22% of the charter capital).

Shareholder structure: holders of ordinary Bank shares (as of December 2018)

Shareholder	% of ordinary shares	% of charter capital
The Russian Federation as represented by the Federal Agency for State Property Management	60.93	12.13
State Oil Fund of the Republic of Azerbaijan	2.95	0.59
Qatar Holding LLC	2.35	0.47
Bank Otkritie Financial Corporation	8.99	1.79
Management-consulting LLC	5.70	1.13
Demettaco Limited	0.05	0.01
Other minority shareholders	19.03	3.78

8.2. DIVIDENDS

VTB Bank's Annual General Meeting of Shareholders on 23 May 2018 approved the payment of dividends for 2017 in the amount of:

RUB 0.00345349138975912 per ordinary nominal share with a par value of RUB 0.01;

RUB 0.000551499742855177 per Type 1 preference share with a par value of RUB 0.01;

RUB 0.00551499742855177 per Type 2 preference share with a par value of RUB 0.1.

Dividend payments for each type of Bank share at the end of 2017 were calculated based on the principle of the equalisation of returns for all three types of Bank shares; the dividend yield for each type of share was 5.51% (for each ordinary nominal share, this was calculated based on their average market value on Moscow Exchange for 2017; for preference shares, it was based on the par value of each type of share).

The total amount of dividends paid out for 2017 amounted to RUB 73.51 billion (compared to RUB 62.27 billion for 2016, taking into account interim dividends), including RUB 44.76 billion on ordinary shares, RUB 11.80 billion on Type 1 preference shares and RUB 16.95 billion on Type 2 preference shares.

In accordance with a decision of the Annual General Meeting of Shareholders, the dividend record date for 2017 was 4 June 2018. Dividends were paid in accordance with the time frame set out by law.

As of 31 December 2018, the amount paid in dividends on ordinary shares amounted to RUB 44,748,611,134.14, with the proportion of dividends paid out of the total declared dividends amounting to 99.977%. Dividends on all types of preference shares were paid in full.

The amount of dividends paid to major shareholders in 2018 was as follows:

- The Russian Federation, represented by the Federal Agency for State Property Management: RUB 27,273,870,202.73;
- The Russian Federation, represented by the Ministry of Finance of the Russian Federation: RUB 11,804,188,555.41;
- The Deposit Insurance Agency: RUB 16,952,578,170.61.

The Bank is not in arrears on dividend payments to the federal budget.

In connection with VTB Bank's merger with VTB24 in January 2018, VTB Bank took on dividend obligations owing to former shareholders of VTB24.

Dividend Policy

One of the main rights of shareholders is the right to receive a share of the Bank's net profit in the form of dividend payments. Dividend payments are approved by the AGM, following recommendations made by the Supervisory Board. In determining the recommended dividend amount, the Supervisory Board is guided by the amount of the Bank's net profit and by the Dividend Policy. The Bank's Charter also provides for the possibility of the payment of interim dividends for each quarter to holders of issued shares.

In accordance with the current Regulation on the Dividend Policy, the recommended amount for dividend payments is determined by the Bank's Supervisory Board on the basis of the Bank's consolidated financial statements in accordance with IFRS. The recommended amount of dividend payments, according to the Regulation, is not less than 25% of the Group's consolidated net profit according to IFRS.

The Dividend Policy is available in the Investor Relations section on the Bank's website: https://www.vtb.com/akcionery-i-investory/raskrytie-informacii/ustav-i-vnutrennie-dokumenty/#tab_0_1#



Record of VTB Bank dividend payments for the last five years

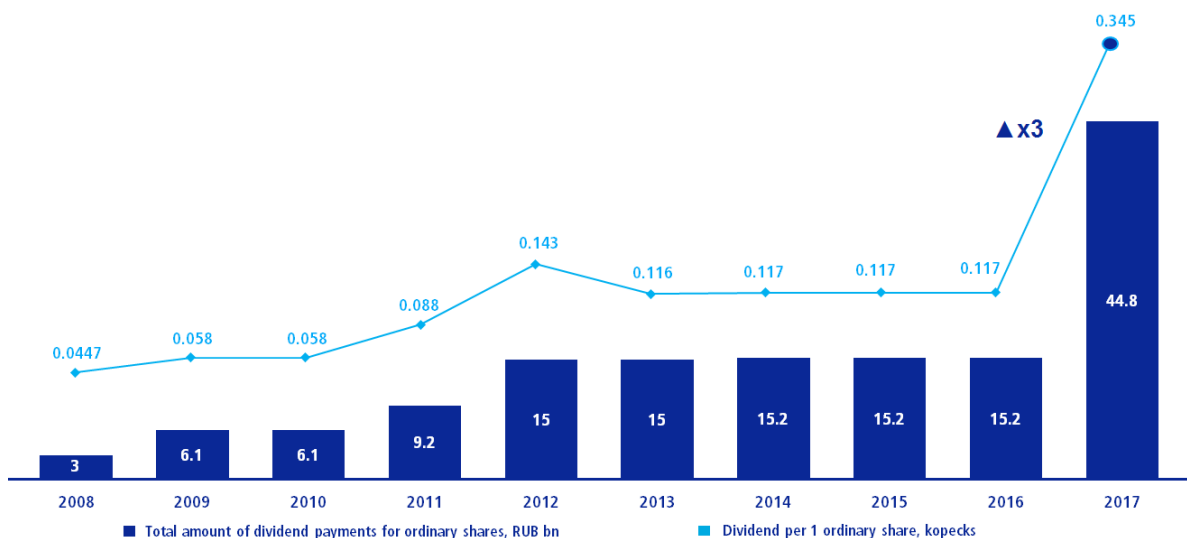
	2013	2014	2015	2016 ²⁰	2017
Net profit under RAS (RUB million)	34,485	19,674	49,140	69,088	101,268
Total amount of dividend payments (RUB million)	15,034	18,000	33,093	62,265	73,516
Dividend payout ratio (% of VTB Bank's net profit under RAS)	44	91	67	90	73
Dividend payout ratio (% of VTB Group's net profit under IFRS)	15	2,250	1,947	121	61
Dividend payout for ordinary shares (RUB million)	15,034	15,164	15,164	15,164	44,759
Dividend payout for Type 1 preference shares ²¹ (RUB million)	-	2,836	90	11,130	11,804
Dividend payout for Type 2 preference shares ²² (RUB million)	-	-	17,839	35,971	16,953
Dividend per ordinary share (RUB)	0.00116	0.00117	0.00117	0.00117	≈0.0034535
Dividend per Type 1 preference share (RUB)	-	≈0.000132	≈0.0000042	0.00052	≈0.0005515
Dividend per Type 2 preference share (RUB)	-	-	≈0.0058	0.01170218	≈0.005515

²⁰ Taking into account interim dividends on Type 2 preference shares for the first three quarters of 2016, paid in December 2016.

²¹ In accordance with the decision of the Extraordinary General Meeting of Shareholders of VTB Bank on 8 December 2016, Type 1 and Type 2 preference shares were placed by converting preference shares and Type A registered preference shares.

²² In accordance with the decision of the Extraordinary General Meeting of Shareholders of VTB Bank on 8 December 2016, Type 1 and Type 2 preference shares were placed by converting preference shares and Type A preference shares.

History of VTB Bank dividend payments for ordinary shares over the past 10 years



The amount of the dividend payment per share, as well as the period and form of payment are determined at the General Meeting of Shareholders separately for ordinary shares and for all types of preference shares. The amount of the dividend payment may not exceed the amount recommended by the Supervisory Board. The amount of accrued dividends per share is calculated to the nearest kopeck. Rounding is performed in accordance with the rules of mathematical rounding.

The record date for persons entitled to a share of the Bank's net profit is determined by the General Meeting of Shareholders, but can be no earlier than 10 days before the date when the decision to pay dividends is due to be made, and no later than 20 days following such a decision. The time period for the payment of dividends depends on the type of registered shareholder. Dividend payments to nominal shareholders and trustees listed on the shareholder register must be made within 10 working days, while dividend payments to other registered shareholders must be made within 25 working days of the date when the list of persons entitled to dividends is compiled.

At their request, shareholders appearing on the register receive dividends by bank transfer to their accounts (if bank details are provided) or by postal order. Shareholders whose rights are registered via nominal shareholders receive dividends in monetary form in accordance with the procedure stipulated in Russian laws on securities. The current legislation, which was amended on 1 January 2014, does not provide for dividend payments in cash.

Any dividends accrued but unclaimed by shareholders within a period of three calendar years are subject to allocation back to the profit of the Bank. Therefore, if a shareholder does not claim his or her accrued dividends within three years, he or she loses the right to receive them. If dividends are transferred to a shareholder's bank account, they are considered paid.

Dividend taxation

When calculating dividends for the year, a tax agent calculates and withholds tax from the amount of dividends accrued. Since 1 January 2014, when income is distributed in the form of dividends on shares issued by a Russian organisation, not only may the issuer of these shares be considered a tax agent, but, in cases stipulated by law, so may trustees, depositaries and so on. Taking into account that the income tax is calculated and withheld by a tax agent, mutual funds, foreign institutional investors and individual investors can apply for a tax exemption or a reduced tax rate on dividends received by submitting documents that demonstrate that they have the right to preferential tax treatment to the Bank's

registrar, VTB Registrar, or to the depositary where their shares are registered. In the case of share transfer to beneficial ownership, documents should be submitted to a trust manager.

A complete list of the required documents can be found in the Investor Relations section of the Bank's website: <https://www.vtb.com/akcionery-i-investory/informaciya-dlya-akcionerov/voprosy-i-otvety/>



The tax rate on dividends for both individuals and legal entities that are residents of the Russian Federation is 13%, and it is 15% for non-residents. This rate applies to the total dividend sum, which can be less than the total volume of payments based on the income received by VTB Bank as dividends from participating in other companies, as tax has already been paid on these amounts. If a double taxation agreement applies, tax payments are made in accordance with the rate specified in the agreement, taking into account Russian legislation.

8.3. REPORT ON COMPLIANCE WITH THE PRINCIPLES AND RECOMMENDATIONS OF THE CORPORATE GOVERNANCE CODE

This report on compliance with the principles and recommendations of the Corporate Governance Code was reviewed by the Supervisory Board of VTB Bank at its meeting on 24 April 2019 within the framework of this Annual Report. VTB Bank's Supervisory Board confirms that the data provided in this report present complete and accurate information about the Company's compliance with the principles and recommendations of the Code of Corporate Governance in 2018.

No.	Principles of Corporate Governance	Criteria for assessing compliance with the relevant principle of corporate governance	Status <1> of compliance	Comments/explanation <2>
1.1	The company shall ensure equal and fair treatment for all its shareholders in exercising their rights to participate in the management of the company.			
1.1.1	The company creates the best possible conditions for its shareholders to participate in the General Meeting, for the development of sound positions related to agenda items at the General Meeting, for coordinating their activities, as well as an opportunity to express their views on the issues under consideration.	1. There is a publicly available company bylaw, approved by the General Meeting of Shareholders, that governs the procedures for conducting General Meetings. 2. The company has established a straightforward means of communicating with the company, such as a hotline, e-mail or online forums, allowing shareholders to express their opinions and send questions regarding the agenda during preparations for the General Meeting. The company undertook such actions before every General Meeting that took place during the reporting period.	 Compliance ☐ Partial compliance ☐ Non-compliant	
1.1.2	The procedure for giving notice of the General Meeting and the provision of materials for the General Meeting gives shareholders an opportunity to properly prepare for participation in the meeting.	1. Notice of an upcoming General Meeting of Shareholders is posted (published) on the website no later than 30 days before the date of the General Meeting. 2. The notice about an upcoming meeting indicated the place of the meeting and the documents required for admission to the premises. 3. Shareholders were provided with access to information about who proposed the agenda items and who nominated individuals to the Board of Directors and the Statutory Audit Commission.	 Compliance ☐ Partial compliance ☐ Non-compliant	
1.1.3	In the course of the preparation for and the holding of a General Meeting, shareholders had the opportunity to receive information about the meeting and materials for the meeting without hindrance and in a timely manner to put questions to the executive bodies and the members of the Board of Directors and to communicate with one another.	1. Shareholders had the opportunity to put questions to members of the executive bodies and the members of the Board of Directors prior to and during the Annual General Meeting. 2. The position of the Board of Directors (including dissenting opinions entered in the minutes) on each agenda item at General Meetings held during the reporting period was included in the materials for the General Meeting of Shareholders. 3. The company provided those shareholders with a right to access the list of persons entitled to participate in the	 Compliance ☐ Partial compliance ☐ Non-compliant	

General Meeting from the date of its receipt by the company in all cases regarding General Meetings held during the reporting period.

1.1.4	Implementation of the shareholder right to request that a general meeting be convened, to nominate candidates to the management bodies and to make proposals for inclusion on the agenda of the general meeting did not involve needless difficulties.	1. During the reporting period, shareholders had the opportunity to submit proposals for inclusion on the agenda of the Annual General Meeting during a period of no less than 60 days after the end of the corresponding calendar year. 2. During the reporting period, the company did not refuse to accept proposals for the agenda or nominations to the company's various bodies as a result of typos or other insignificant errors in the shareholder's proposal.	 Compliance ☐ Partial compliance ☐ Non-compliant
1.1.5	Every shareholder had an opportunity to freely exercise their right to vote in the simplest and most convenient way for them.	One of the company's bylaws (internal policy) contains provisions pursuant to which each participant of a General Meeting may request a copy of their completed ballot certified by the counting commission prior to the completion of the meeting in question.	 Compliance ☐ Partial compliance ☐ Non-compliant
1.1.6	The procedure established by the company for conducting General Meetings provides an equal opportunity to all individuals present at a meeting to express their opinions and ask questions.	1. When conducting General Meetings of Shareholders during the reporting period in the form of a meeting (with the joint presence of shareholders), sufficient time was provided for reports on agenda items, as well as time to discuss those items. 2. Candidates for the company's management and oversight bodies were available to answer questions from shareholders at the meeting at which their nominations were put to a vote. 3. When making decisions related to the preparation and holding of General Meetings of Shareholders, the Board of Directors considered the use of telecommunications facilities to provide remote access to shareholders to participate in General Meetings during the reporting period.	 Compliance ☐ Partial compliance ☐ Non-compliant
1.2	Shareholders are given equal and fair opportunities to participate in the profits of the company by receiving dividends.		
1.2.1	The company has developed and implemented a transparent and clear mechanism for determining the amount and payment of dividends.	1. The company has developed an open dividend policy that has been approved by the Board of Directors and that has been disclosed. 2. If the company's Dividend Policy uses the company's reporting indicators to determine the amount of the dividend, then the relevant provisions of the Dividend Policy take into account the Group's consolidated financial statements.	 Compliance ☐ Partial compliance ☐ Non-compliant

1.2.2	The company does not take a decision on the payment of dividends if such a decision, while not formally in violation of legal restrictions, is unjustified from an economic point of view and could lead to the formation of misconceptions about the company's activities.	The company's Dividend Policy provides clear guidance on the financial/economic circumstances under which the company should not pay dividends.	 Compliance
			☐ Partial compliance ☐ Non-compliant
1.2.3	The company does not permit any diminution of the dividend rights of existing shareholders.	During the reporting period, the company did not take any actions that led to the diminution of the dividend rights of existing shareholders.	 Compliance
			☐ Partial compliance ☐ Non-compliant
1.2.4	The company is committed to preventing shareholders from using other means of earning a profit (income) at the company's expense beyond dividends and liquidation value.	In order to prevent shareholders from using other means of earning a profit (income) at the company's expense beyond dividends and liquidation value, the company's bylaws have established monitoring mechanisms that ensure the timely discovery of, and a procedure for, the approval of transactions with persons affiliated (associated) with major shareholders (individuals with the right to make use of the votes stemming from voting shares) in cases where the law does not formally recognise such transactions as related-party transactions.	 Compliance
			☐ Partial compliance ☐ Non-compliant
1.3	The corporate governance system and practices shall ensure equal terms and conditions for all shareholders owning shares of the same class (category), including minority and foreign shareholders, as well as their equal treatment by the company.		
1.3.1	The company has created the conditions for the fair treatment of each shareholder by the company's management and oversight bodies, including conditions ensuring the inadmissibility of abuse by major shareholders in relation to minority shareholders.	During the reporting period, the procedures for managing potential conflicts of interest involving major shareholders were effective, and conflicts between shareholders, if any, were given due attention by the Board of Directors.	 Compliance
			☐ Partial compliance ☐ Non-compliant
1.3.2	The company does not undertake actions that lead or may lead to the artificial redistribution of corporate control.	There were no quasi-treasury shares, or they did not vote during the reporting period.	 Compliance
			☐ Partial compliance ☐ Non-compliant
1.4	Shareholders must be provided with reliable and effective ways to register their rights to their shares, as well as the possibility to dispose of their shares freely and easily.		

1.4.1	Shareholders must be provided with reliable and effective ways to register their rights to their shares, as well the possibility to dispose of their shares freely and easily.	The quality and reliability of the activities performed by the company's registrar to maintain the register of securities holders meet the needs of the company and its shareholders.	 ☐ Partial compliance ☐ Non-compliant
2.1	The Board of Directors carries out strategic management within the company, defines the basic principles and approaches to organising a risk management and internal control system within the company, supervises the activity of executive bodies and also performs other key functions.		
2.1.1	The Board of Directors is responsible for decisions relating to the appointment and dismissal of members of executive bodies, including in connection with the improper performance of their duties. The Board of Directors also carries out oversight measures to ensure that the company's executive bodies act in accordance with the approved development strategy and the company's main areas of activity.	1. The Board of Directors has the authority, per the Charter, to appoint and dismiss members of executive bodies, as well as to determine the terms of their contracts. 2. The Board of Directors reviewed the report(s) of the sole executive body and of members of the collective executive body on the implementation of the company's strategy.	 ☐ Partial compliance ☐ Non-compliant
2.1.2	The Board of Directors establishes the basic guidelines for the company's activities in the long term, evaluates and approves the company's key performance indicators and key business goals, and evaluates and approves the strategy and business plans for the company's core activities.	During the reporting period, meetings of the Board of Directors addressed issues related to progress on implementation and updating of the company's strategy, approval of the company's financial and economic plan (budget), as well as the consideration of criteria and indicators (including interim) related to implementation of the company's strategy and business plans.	 ☐ Partial compliance ☐ Non-compliant
2.1.3	The Board of Directors determines the principles of, and approaches to, organising a risk management and internal control system in the company.	1. The Board of Directors has determined the principles of, and approaches to, organising a risk management and internal control system in the company. 2. The Board of Directors assessed the company's risk management and internal control system during the reporting period.	 ☐ Partial compliance ☐ Non-compliant
2.1.4	The Board of Directors determines the company policy on remuneration and/or reimbursement (compensation) for expenses for members of the company's Board of Directors, executive bodies and other key executives.	1. The company has developed and implemented a policy (policies), approved by the Board of Directors, on the remuneration and reimbursement (compensation) of expenses for members of the company's Board of Directors, executive bodies and other key executives. 2. Issues related to this policy (policies) were considered during the reporting period at meetings of the Board of Directors.	 ☐ Partial compliance ☐ Non-compliant

2.1.5	The Board of Directors plays a key role in the prevention, detection and resolution of internal conflicts between the company's executive bodies, shareholders and employees.	1. The Board of Directors plays a key role in the prevention, detection and resolution of internal conflicts. 2. The company has established a system for identifying transactions involving a conflict of interest, and a system of measures aimed at resolving such conflicts.	✓ Compliance ☐ Partial compliance ☐ Non-compliant
2.1.6	The Board of Directors plays a key role in ensuring the transparency of the company, the timeliness and completeness of the company's disclosure of information, and shareholders' unhindered access to company documents.	1. The Board of Directors approved the Regulation on Information Policy. 2. The company has appointed responsible officials for implementation of its Information Policy.	✓ Compliance ☐ Partial compliance ☐ Non-compliant
2.1.7	The Board of Directors oversees the corporate governance practices within the company and plays a key role in significant corporate events.	During the reporting period, the Board of Directors considered the issue of the company's corporate governance practices.	✓ Compliance ☐ Partial compliance ☐ Non-compliant
2.2	The Board of Directors is accountable to the company's shareholders.		
2.2.1	Information about the work of the Board of Directors is disclosed and presented to the shareholders.	1. The company's Annual Report for the reporting period includes information on individual directors' attendance at board and committee meetings. 2. The Annual Report contains information about the main results of the assessment of the work of the Board of Directors carried out during the reporting period.	✓ Compliance ☐ Partial compliance ☐ Non-compliant
2.2.2	The Chairman of the Board of Directors must be available to the company's shareholders.	The company has a transparent procedure for providing shareholders with an opportunity to direct their questions and their position on those questions to the Chairman of the Board of Directors.	✓ Compliance ☐ Partial compliance ☐ Non-compliant
2.3	The Board of Directors must be an efficient and professional governing body that is capable of making objective and independent judgements and passing resolutions in the best interests of the company and its shareholders.		
2.3.1	Only individuals who have an excellent business and personal reputation, and who also have the knowledge, skills and experience required to make decisions related to the remit of the board of directors and required for the effective performance of its functions may be	1. The company has adopted a procedure for assessing the effectiveness of the Board of Directors that includes an assessment of the professional qualifications of the members of the Board of Directors. 2. During the reporting period, the Board of Directors (or its Nominating Committee) evaluated candidates for the Board of Directors in terms of whether they had the	✓ Compliance ☐ Partial compliance ☐ Non-compliant

	elected by the members of the Board of Directors.	necessary experience, knowledge and business reputation, as well as whether or not they had any conflicts of interest.	
2.3.2	The members of the Board of Directors are elected through a transparent procedure that allows shareholders to receive information about the candidates that is sufficient to form a picture of their personal and professional qualities.	Whenever a General Meeting of Shareholders was held during the reporting period whose agenda included the issue of the election of the Board of Directors, the company provided the shareholders with the CVs of all candidates for members of the Board of Directors and the results of the evaluation of the candidates conducted by the Board of Directors (or the Nominating Committee). It also provided information on each candidate's compliance with the independence criteria in accordance with recommendations 102–107 of the Code, as well as the written consent of the candidates for election to the Board of Directors.	 Compliance ☐ Partial compliance ☐ Non-compliant
2.3.3	The composition of the Board of Directors shall be balanced, including in terms of the qualifications of its members, their experience, knowledge and business qualities, and it shall enjoy the confidence of the shareholders.	As part of the procedures for assessing the work of the Board of Directors carried out during the reporting period, the Board of Directors analysed its own requirements in the area of professional qualifications, experience and business skills.	 Compliance ☐ Partial compliance ☐ Non-compliant
2.3.4	The quantitative composition of the Board of Directors shall make it possible to organise the activities of the Board of Directors in the most efficient manner possible, including the possibility of the formation of the board committees. It shall also provide the company's significant minority shareholders with an opportunity to elect to the Board of Directors a candidate of their choice.	As part of the procedures for assessing the work of the Board of Directors carried out during the reporting period, the Board of Directors considered the issue of the compliance of the quantitative composition of the Board of Directors with the company's requirements and the interests of shareholders.	 Compliance ☐ Partial compliance ☐ Non-compliant

2.4	The Board of Directors shall include a sufficient number of independent directors.		
2.4.1	An independent director is a person who has sufficient professionalism, experience and independence to form their own positions, is able to formulate objective and honest opinions, is independent from the influence of the company's executive bodies, individual groups of shareholders and other interested parties. It should be kept in mind that, under normal conditions, a candidate (elected member of the Board of Directors) who is associated with the company, its major shareholders, a significant counterparty or competitor or the state may not be considered independent.	During the reporting period, all independent members of the Board of Directors met all the criteria for independence set out in recommendations 102–107 of the Code or were recognised as independent by a decision of the Board of Directors. ☒ Compliance ☐ Partial compliance ☐ Non-compliant	
2.4.2	An assessment of the compliance of candidates for the Board of Directors with the criteria for independence shall be carried out, along with a regular review of the compliance of independent members of the Board of Directors with the independence criteria. In conducting such an assessment, content should prevail over form.	1. During the reporting period, the Board of Directors (or its Nominating Committee) formed an opinion about each candidate's independence and presented shareholders with their conclusions. 2. During the reporting period, the Board of Directors (or its Nominating Committee) reviewed, on at least one occasion, the independence of the current members of the Board of Directors who are indicated as independent directors in the company's Annual Report. 3. The company has developed procedures for determining the necessary actions a board member must take in the event that he or she ceases to be independent, including the obligation to inform the Board of Directors about this in a timely manner. ☐ Partial compliance ☐ Non-compliant	
2.4.3	Independent directors shall account for at least one third of all directors elected to the board.	Independent directors account for at least one third of all directors elected to the board. ☐ Compliance ☒ partial compliance ☐ Non-compliant	Of the 11 members of the Bank's Supervisory Board, three are independent, which is less than one third of the composition of the Supervisory Board recommended in this paragraph. At the same time, the Bank elected a new Supervisory Board at its AGM in 2018, which includes five directors with no relation to the principal shareholder, including four representatives of minority shareholders. According to the Bank, the current composition of the Bank's Supervisory Board is balanced, representing the interests of a wide range of shareholders, and it is as independent as possible in its activities.

2.4.4	Independent directors play a key role in the prevention of internal conflicts within the company and in the company's performance of material corporate actions.	Independent directors (who have no conflict of interest) provide a preliminary assessment of material corporate actions related to possible conflicts of interest, and the results of that assessment are presented to the Board.	 Compliance
			☐ Partial compliance ☐ Non-compliant
2.5	The Chairman of the Board of Directors shall facilitate the most effective performance of the functions assigned to the Board.		
2.5.1	The Chairman of the Board of Directors is an independent director, or the elected independent directors select a senior independent director who coordinates the work of the independent directors and is responsible for communication with the Chairman of the Board of Directors.	1. The Chairman of the Board of Directors is an independent director, or a senior independent director is selected from among the independent directors <3>. 2. The role, rights and responsibilities of the Chairman of the Board of Directors (and, if applicable, of the senior independent director) are stipulated, as required, in the company's bylaws.	 Compliance
			☐ Partial compliance ☐ Non-compliant
2.5.2	The Chairman of the Board of Directors ensures a constructive atmosphere for holding meetings, a free discussion of the issues included on the meeting agenda and oversight over the execution of decisions taken by the Board of Directors.	The effectiveness of the work of the Chairman of the Board of Directors is evaluated in the framework of the performance evaluation procedures for the Board of Directors during the reporting period.	 Compliance
			☐ Partial compliance ☐ Non-compliant
2.5.3	The Chairman of the Board of Directors shall take the necessary measures for the timely provision of information to members of the Board of Directors in order to take decisions about items on the agenda.	The duty of the Chairman of the Board of Directors to take steps to ensure the timely delivery of materials to members of the Board of Directors concerning items on the agenda of a meeting of the board is stipulated in company bylaws.	 Compliance
			☐ Partial compliance ☐ Non-compliant
2.6.	Board members act in good faith and reasonably in the interests of the company and its shareholders on the basis of sufficient information, with due care and diligence.		
2.6.1	Board members take decisions based on all available information, without any conflicts of interest, taking into account the equal treatment of the company's shareholders, within the framework of normal business risk.	1. According to the company's bylaws, a member of the Board of Directors must notify the Board of Directors if he or she has a conflict of interest in respect of any item on the agenda of a meeting of the board or of a board committee prior to the discussion of the relevant agenda item. 2. The company's bylaws provide that a board member must abstain from voting on any matter in which he or she has a conflict of interest. 3. The company has established a procedure that allows	 Compliance
			☐ Partial compliance ☐ Non-compliant

the Board of Directors to receive professional advice on matters within its remit at the company's expense.

2.6.2	The rights and obligations of members of the Board of Directors are clearly enshrined in the company's bylaws.	The company has adopted and published a bylaw that clearly stipulates the rights and responsibilities of members of the Board of Directors.	 Compliance
			☐ Partial compliance ☐ Non-compliant

2.6.3	Board members have sufficient time to perform their duties.	1. Individual attendance at board and committee meetings, as well as the time devoted to preparation for participation in such meetings, was taken into account as part of the Board of Directors assessment procedures during the reporting period. 2. In accordance with the company's bylaws, members of the Board of Directors are required to notify the Board of their intention to be a part of the management bodies of other organisations (beyond those that are the company's subsidiaries or dependent organisations), as well as the fact of such appointments.	 Compliance
			☐ Partial compliance ☐ Non-compliant

2.6.4	All members of the Board of Directors shall have equal access to the company's documents and information. Newly elected members of the Board of Directors shall, in the shortest possible time, be provided with sufficient information about the company and the work of the Board of Directors.	1. In accordance with the company's bylaws, the members of the Board of Directors have the right to access documents and to make inquiries concerning the company and its subsidiary organisations, and the company's executive bodies are required to provide relevant information and documents. 2. The company has established a formalised programme of introductory events for newly elected members of the Board of Directors.	 Compliance
			☐ Partial compliance ☐ Non-compliant

2.7 Meetings of the Board of Directors, preparations for them and the participation of board members therein shall ensure that the board works in an effective manner.

2.7.1	Meetings of the Board of Directors shall be held as necessary, taking into account the scale of operations and the tasks facing the company at a given period of time.	The Board of Directors held at least six meetings during the reporting year.	 Compliance
			☐ Partial compliance ☐ Non-compliant

2.7.2	The company's bylaws shall enshrine procedures for the preparation and holding of board meetings that allow	The company has approved a bylaw that stipulates the procedure for the preparation and holding of board meetings, in which it is also established that notice about	 Compliance
			☐ Partial compliance

	members of the Board of Directors to prepare adequately for such meetings.	a meeting must be provided, as a rule, not less than five days prior to the meeting.	☐ Non-compliant	
2.7.3	The format of each meeting of the Board of Directors is determined based on the importance of the items on its agenda. The most important issues are resolved at meetings of the Board of Directors held in person.	The company's Charter or bylaws provide that the most important issues (according to the list provided in recommendation 168 of the Code) must be considered at in-person Board meetings.	☒ Compliance ☐ Partial compliance ☐ Non-compliant	
2.7.4	Decisions on the most important issues concerning the company's activities shall be taken at a meeting of the Board of Directors by a qualified majority or a majority of all the elected members of the Board of Directors.	The company's Charter provides that decisions on the most important issues outlined in recommendation 170 of the Code must be taken at a meeting of the Board of Directors by a qualified majority of not less than three fourths of the votes or by a majority of all the elected members of the Board of Directors.	☒ Compliance ☐ Partial compliance ☐ Non-compliant	
2.8	The Board of Directors shall form committees for preliminary consideration of the most important issues related to the company's activities.			
2.8.1	For the preliminary consideration of issues related to the control of the company's financial and economic activities, an Audit Committee shall be established that is composed of independent directors.	1. The Board of Directors has formed an Audit Committee composed entirely of independent directors. 2. The company's bylaws stipulate the Audit Committee's tasks, including those tasks outlined in recommendation 172 of the Code. 3. At least one member of the Audit Committee, who is an independent director, has experience and expertise in the preparation, analysis, evaluation and auditing of financial statements. 4. Meetings of the Audit Committee took place at least once a quarter during the reporting period.	☒ Compliance ☐ Partial compliance ☐ Non-compliant	
2.8.2	For preliminary consideration of issues related to the formation of effective and transparent remuneration practices, a Remuneration Committee was established that consists of independent directors and is chaired by an independent director who is not the Chairman of the Board of Directors.	1. The Board of Directors established a Remuneration Committee that consists solely of independent directors. 2. The Chairman of the Remuneration Committee is an independent director who is not the Chairman of the Board of Directors. 3. The company's bylaws stipulate the Remuneration Committee's tasks, including those tasks outlined in recommendation 180 of the Code.	☐ Compliance ☒ Partial compliance ☐ Non-compliant	1-2. Two of the three directions on the Supervisory Board's Staff and Remuneration Committee are independent, and the other is a non-executive director. The current members of the Committee are selected based on the individual experience and competence of each member. In addition, the Bank complies with the requirements on corporate governance of the Moscow Exchange Listing Rules, including the requirements for the composition of the Supervisory Board committees. At the same time, the Bank considered the practice of forming a committee from independent directors only to be inexpedient for itself primarily because of the risk that the Committee would include members of the Supervisory Board without the necessary competence in this field. Bearing in mind that the decisions at Committee meetings are adopted by a simple

				majority, and the majority of the members of the Committee are independent, the Bank has minimised the risk of biased decisions.
				At the same time, however, the Bank, in collaboration with its principal shareholder (the Federal Agency for State Property Management), plans to explore in 2019, the issue of including as candidates for positions on the Supervisory Board more independent directors with the requisite experience to serve on the Committee.
2.8.3	For preliminary consideration of issues related to the implementation of staff planning (succession planning) and the professional composition and performance of the Board of Directors, a Nominating Committee (appointments, human resources) was established, most of whose members are independent directors.	1. The Board of Directors established a Nominating Committee (or the tasks thereof specified in recommendation 186 of the Code are performed by another committee <4>) consisting mostly of independent directors. 2. The company's bylaws stipulate the tasks of the Nominating Committee (or the relevant committee with combined functions), including the tasks outlined in recommendation 186 of the Code.	✓ Compliance ☐ Partial compliance ☐ Non-compliant	1. The functions of the Nominating Committee belong to the Supervisory Board Staff and Remuneration Committee of VTB Bank.
2.8.4	Given the scope and risk level, the Board of Directors has determined that the composition of its committees fully meets the company's goals. Additional committees have either been formed or are not deemed necessary (strategy committee, corporate governance committee, ethics committee, risk management committee, budget committee, committee on health, safety and the environment, etc.).	During the reporting period, the company's Board of Directors considered the composition of its committees in terms of the Board's duties and the company's objectives. Additional committees were either formed or were deemed unnecessary.	✓ Compliance ☐ Partial compliance ☐ Non-compliant	
2.8.5	The composition of the committees is determined in such a way that it allows for a comprehensive discussion of issues beforehand, taking into account different views.	1. Committees of the Board of Directors are chaired by independent directors. 2. The company's bylaws (policies) include provisions under which individuals who are not members of the Audit Committee, the Nominating Committee or the Remuneration Committee may attend committee meetings only at the invitation of the chairman of the relevant committee.	☐ Compliance ✓ Partial compliance ☐ Non-compliant	1. See paras. 2.8.1 and 2.8.2.
2.8.6	The committee chairmen shall regularly inform the Board of Directors and its Chairman about the work of their committees.	During the reporting period, the chairmen of the committees reported regularly to the Board of Directors on the work of the committees.	✓ Compliance ☐ Partial compliance ☐ Non-compliant	

2.9	The Board of Directors shall ensure that the quality of its work and that of its committees and its members is assessed.		
2.9.1	Assessment of the quality of the work of the Board of Directors is aimed at determining the degree of the effectiveness of the Board's work, its committees and Board members, the compliance of their work with the company's development needs, intensification of the work of the Board of Directors and identifying areas in which their work can be improved.	1. The self-assessment and external evaluation of the Board of Directors carried out during the reporting period included an evaluation of the work of the committees, individual Board members and the Board of Directors as a whole. 2. The results of the self-assessment or external assessment of the Board of Directors carried out during the reporting period were discussed at an in-person meeting of the Board of Directors.	✓ Compliance ☐ Partial compliance ☐ Non-compliant
2.9.2	The work of the Board of Directors, its committees and Board members is assessed on a regular basis, at least once a year. To conduct an independent assessment of the quality of the Board of Directors' work, a third-party entity (consultant) is engaged at least once every three years.	To conduct an independent assessment of the quality of the Board of Directors' work during the last three reporting periods, the company engaged a third-party entity (consultant) at least once. ☐ Compliance ☐ Partial compliance ✓ Non-compliant	An external evaluation of the work of the Bank's Supervisory Board was not carried out in 2018 due to the fact that the Bank needed more time to study the issue and to identify potential contractors to carry out such an assessment. At the same time, however, the Bank conducts an annual evaluation of the work of the Supervisory Board as part of its comprehensive evaluation of corporate governance in accordance with Bank of Russia Letter No. 11-T as of 7 February 2007, the results of which are considered at an in-person meeting of the Supervisory Board. The Bank plans to hire an independent consultant in 2019 to conduct an assessment of the Supervisory Board's work in 2018.
3.1	The company's Corporate Secretary is responsible for efficient ongoing interaction with its shareholders, coordination of the company's actions designed to protect the rights and interests of its shareholders and support for the efficient work of its Board of Directors.		
3.1.1	The Corporate Secretary has sufficient knowledge, experience and expertise for the execution of his or her duties. This official enjoys an impeccable reputation and the confidence of shareholders.	1. The company has adopted and disclosed a bylaw called the Regulation on the Corporate Secretary. 2. The company's website and Annual Report provide biographical information about the Corporate Secretary. The same level of detail is provided about the members of the company's Board of Directors and executive management.	✓ Compliance ☐ Partial compliance ☐ Non-compliant
3.1.2	The Corporate Secretary is sufficiently independent of the company's executive bodies, and has been given the necessary authority and resources to carry out his assigned tasks.	The Board of Directors approves the appointment and dismissal of the Corporate Secretary, as well as decisions to award additional remuneration to the Corporate Secretary.	✓ Compliance ☐ Partial compliance ☐ Non-compliant
4.1	The level of remuneration paid by the company shall be sufficient to enable it to attract, motivate and retain employees who have the required skills and qualifications. Remuneration shall be paid to Board members, executive bodies and other key managers at the company in accordance with the remuneration policy adopted by the company.		

4.1.1	The level of remuneration provided by the company to members of the Board of Directors, executive bodies and other key executives creates sufficient motivation for them to work effectively, allowing the company to attract and retain competent and skilled professionals. This allows the company to avoid having to pay a level of remuneration that is more than necessary, and it prevents the formation of unjustifiably large gaps in the level of remuneration between these officials and company employees.	The company has adopted a bylaw or bylaws (policy/policies) regulating the remuneration for members of the Board of Directors, executive bodies and other key executives, which clearly stipulate approaches to the remuneration of these individuals.	 Compliance ☐ Partial compliance ☐ Non-compliant
4.1.2	The company's remuneration policy is determined by the Remuneration Committee and approved by the Board of Directors. The Board of Directors, with the support of the Remuneration Committee, monitors the introduction and implementation of the company's Remuneration Policy, and if necessary it reviews and makes adjustments to it.	During the reporting period, the Remuneration Committee reviewed the Remuneration Policy (Policies) and the policy regulating its (their) implementation; if necessary, it presented appropriate recommendations to the Board of Directors.	 Compliance ☐ Partial compliance ☐ Non-compliant
4.1.3	The company's Remuneration Policy provides transparent mechanisms for determining the amount of remuneration for members of the Board of Directors, executive bodies and other key executives at the company. It also regulates all types of payments, benefits and privileges provided to such individuals.	The company's Remuneration Policy (Policies) contains (contain) transparent mechanisms for determining the remuneration of members of the Board of Directors, executive bodies and other key executives at the company. It (they) also regulates (regulate) all kinds of payments, benefits and privileges provided to such individuals.	 Compliance ☐ Partial compliance ☐ Non-compliant
4.1.4	The company determines a policy on the reimbursement (compensation) of expenses that enumerates a list of reimbursable expenses and the level of service that members of the Board of Directors, executive bodies and other key executives at the company may qualify for. This policy may form a part of the company's Remuneration Policy.	The policy (policies) on remuneration or the company's other bylaws establish reimbursement rules for Board members, executive bodies and other key executives at the company.	 Compliance ☐ Partial compliance ☐ Non-compliant

4.2	The system of remuneration for members of the Board of Directors shall ensure that the financial interests of the directors are in line with the long-term financial interests of shareholders.		
4.2.1	The company pays fixed annual remuneration to the members of the Board of Directors. The company does not pay remuneration for participation in meetings of the Board or Board committees. The company does not use short-term incentives or additional material incentives for members of the Board of Directors.	Fixed annual remuneration was the only form of monetary remuneration that Board members received for their work on the Board during the reporting period. ✓ Compliance ☐ Partial compliance ☐ Non-compliant	
4.2.2	Long-term holding of company shares has been the most conducive to ensuring the convergence of the financial interests of the members of the Board of Directors with the long-term interests of shareholders. The company does not make the right to dispose of shares dependent on the achievement of certain performance results, and Board members do not participate in option programmes.	If the bylaw (bylaws) detailing the policy (policies) on remuneration include a provision allowing company shares to be granted to members of the Board of Directors, then clear rules regulating how Board members can hold these shares must be stipulated in a way that promotes the long-term holding of such shares. ✓ Compliance ☐ Partial compliance ☐ Non-compliant	Members of the Board of Directors do not participate in the Bank's option programmes.
4.2.3	The company does not provide any additional payments or compensation in the event of the early termination of members of the Board of Directors in connection with the transfer of control over the company or other circumstances.	The company does not provide any additional payments or compensation in the event of the early termination of members of the Board of Directors in connection with the transfer of control over the company or other circumstances. ✓ Compliance ☐ Partial compliance ☐ Non-compliant	
4.3	The system of remuneration due to members of the executive bodies and other key company executives provides that their remuneration is dependent on the company's performance results and their personal contributions to achieving these.		
4.3.1	Remuneration for members of executive bodies and other key executives at the company shall be determined in such a way as to provide a reasonable and justified ratio between their base salary and variable remuneration depending on the company's results and the personal (individual) contribution of each employee to the final result.	1. During the reporting period, the annual performance indicators approved by the Board of Directors were used to determine the amount of variable compensation for members of executive bodies and other key executives at the company. 2. In the course of the last evaluation of the system of remuneration for members of executive bodies and other key executives at the company, the Board of Directors (the Remuneration Committee) confirmed that the Company employed an effective ratio of base salary to variable compensation. ✓ Compliance ☐ Partial compliance ☐ Non-compliant	

3. The company has established a procedure that provides for the return of bonuses that were unlawfully obtained by members of the executive bodies and other key executives at the company.

4.3.2	The company has established a long-term incentive programme for members of the executive bodies and other key company executives using the company's shares (options or other derivative instruments whose underlying asset is company shares).	1. The company has established a long-term incentive programme for members of the executive bodies and other key company executives using the company's shares (financial instruments based on company shares). 2. The long-term incentive programme for members of executive bodies and other key company executives provides that the right to sell shares and other financial instruments that are granted within the programme shall not be granted less than three years from the date that such shares or instruments are awarded. The right to sell shares shall be conditional upon the company's achievement of certain performance indicators.	✓ Compliance ☐ Partial compliance ☐ Non-compliant

4.3.3	The amount of compensation (golden parachute) that is paid by the company in the event of the early termination of members of the executive bodies or key executives at the initiative of the company and in the absence of any actions taken by the employees themselves that were not in good faith shall not exceed two times the base salary that is paid as part of the annual compensation package.	The amount of compensation (golden parachute) that is paid by the company in the event of the early termination of members of the executive bodies or key executives at the initiative of the company and in the absence of any actions taken by the employees themselves that were not in good faith did not, during the reporting period, exceed two times the base salary that is paid as part of the annual compensation package.	✓ Compliance ☐ Partial compliance ☐ Non-compliant

5.1 The company has established an efficient risk management and internal control system that is designed to provide reasonable assurance that the company's goals will be achieved.

5.1.1	The Board of Directors determines the principles and approaches used to shape the company's risk management and internal control system.	The functions that the company's various control bodies and divisions play in the risk management and internal control system are clearly stipulated in the company's bylaws/relevant policies that were approved by the Board of Directors.	✓ Compliance ☐ Partial compliance ☐ Non-compliant
5.1.2	The company's executive bodies shall ensure the establishment and maintenance of an effective system of risk management and internal control at the company.	The company's executive bodies have ensured the distribution of functions and responsibilities for risk management and internal control between their subordinate unit and department heads.	✓ Compliance ☐ Partial compliance ☐ Non-compliant

5.1.3	The company's risk management and internal control system provides for an objective, fair and clear picture of the company's current state and prospects, the integrity and transparency of the company's reporting, and the reasonableness and acceptability of the risks taken by the company.	1. The company has approved a policy on preventing corruption. 2. The company provides an accessible means of notifying the Board of Directors or the Board's Audit Committee about violations of the law, internal procedures and the company's code of ethics.	✓ Compliance ☐ Partial compliance ☐ Non-compliant
5.1.4	The Board of Directors takes necessary measures to ensure that the company's current risk management and internal control system complies with the principles and approaches determined by the Board of Directors to ensure that such a system is organised and functions effectively.	During the reporting period, the Board of Directors or its Audit Committee evaluated the effectiveness of the company's risk management and internal control system. Information about the main findings of this evaluation is included in the company's Annual Report.	✓ Compliance ☐ Partial compliance ☐ Non-compliant
5.2	The company organises an internal audit to ensure the regular independent evaluation of the reliability and effectiveness of the risk management and internal control system and corporate governance practice.		
5.2.1	The company has created a separate structural unit or contracted an independent external organisation to conduct the internal audit. The functional and administrative reporting relationship of the internal audit unit has been established. Functionally, the internal audit unit is subordinate to the Board of Directors.	The company has created a separate structural unit to conduct internal audits that is functionally subordinate to the Board of Directors or the Audit Committee or it has engaged an independent external organisation with the same subordinate status to conduct internal audits.	✓ Compliance ☐ Partial compliance ☐ Non-compliant
5.2.2	The internal audit unit evaluates the effectiveness of the internal control system and assesses the effectiveness of the risk management and corporate governance systems. The company employs generally accepted standards in the field of internal auditing.	1. During the reporting period, an assessment was provided of the effectiveness of the internal control and risk management system as part of the internal audit process. 2. The company uses generally accepted approaches to internal control and risk management.	✓ Compliance ☐ Partial compliance ☐ Non-compliant
6.1	The company and its activities are transparent to shareholders, investors and other interested parties.		
6.1.1	The company has developed and implemented an information policy that ensures effective communication of information between the company, shareholders, investors and other interested parties.	1. The Board of Directors approved the company's Information Policy, which takes into account the recommendations of the Code. 2. The Board of Directors (or one of its committees) considered issues related to the company's compliance with its Information Policy at least once during the reporting period.	✓ Compliance ☐ Partial compliance ☐ Non-compliant

6.1.2	The company discloses information on its corporate governance system and practices, including detailed information on compliance with the principles and recommendations of the Code.	1. The company discloses information on its system of corporate governance and the general principles of corporate governance that are applied in the company, including on the company's website. 2. The company discloses information on the composition of its executive bodies and its Board of Directors, the independence of Board members and their membership of Board committees (in accordance with the definitions provided in the Code). 3. In the event that a person should assume control of the company, the company publishes a memorandum by the controlling person concerning said person's plans in relation to the company's corporate governance.	✓ Compliance ☐ Partial compliance ☐ Non-compliant
6.2	The company discloses complete, up-to-date and reliable information about the company to allow its shareholders and investors to make informed decisions.		
6.2.1	The company discloses information in accordance with the principles of regular publication, consistency, timeliness, as well as accessibility, accuracy, completeness and comparability of the data disclosed.	1. The company's Information Policy stipulates the approaches and criteria for determining information that could materially affect the company's valuation, the value of its securities and the procedures that ensure the timely disclosure of such information. 2. If the company's securities are traded in foreign markets, then equivalent material information is disclosed in the Russian Federation and in those foreign markets at the same time during the reporting year. 3. If foreign shareholders hold a substantial number of shares in the company, then information was disclosed during the reporting year not only in Russian, but also in a commonly known foreign language.	✓ Compliance ☐ Partial compliance ☐ Non-compliant
6.2.2	The company avoids taking a formal approach to the disclosure of information, and it discloses important information about its activities even when such disclosure is not required by law.	1. During the reporting period, the company disclosed its annual and semi-annual financial statements prepared in accordance with IFRS. The company's Annual Report for the reporting period included annual financial statements that were prepared in accordance with IFRS, along with the auditor's report. 2. The company discloses both in its Annual Report and on its website complete information on its capital structure in accordance with recommendation 290 of the Code.	✓ Compliance ☐ Partial compliance ☐ Non-compliant
6.2.3	The Annual Report, which is one of the most important tools for sharing information with shareholders and other interested parties, contains information that makes it possible to assess the company's activities for the year.	1. The company's Annual Report provides information on the key aspects of its activities and its financial results. 2. The company's Annual Report contains information about the environmental and social aspects of the company's activities.	✓ Compliance ☐ Partial compliance ☐ Non-compliant

6.3	The company provides information and documents requested by its shareholders in accordance with the principle of equal and unhindered access.		
6.3.1	The company provides information and documents requested by its shareholders in accordance with the principle of equal and unhindered access.	The company's Information Policy stipulates a non-burdensome procedure for providing shareholders with access to information, including information about the company's subsidiaries, at the request of shareholders.	✓ Compliance ☐ Partial compliance ☐ Non-compliant
6.3.2	When the company provides information to shareholders, it ensures a reasonable balance between the interests of specific shareholders and the interest of the company itself in ensuring the confidentiality of important trade secrets that could have a material impact on its competitiveness.	1. During the reporting period, the company did not refuse to satisfy shareholder requests for information, or if it did deny any requests, then such refusals were justified. 2. In cases stipulated by the company's Information Policy, shareholders are warned about the confidential nature of information and take responsibility for maintaining its confidentiality.	✓ Compliance ☐ Partial compliance ☐ Non-compliant
7.1	Any actions that will or may materially affect the company's share capital structure and its financial position and, accordingly, the position of its shareholders ("material corporate actions") shall be taken on fair terms and conditions ensuring that the rights and interests of the shareholders as well as other interested parties are observed.		
7.1.1	Material corporate actions include the reorganisation of the company, the acquisition of 30 percent or more of voting shares (takeover), material transactions by the company, an increase or decrease in the company's share capital, the listing and delisting of company shares, as well as other actions that could lead to a significant change in the rights of shareholders or a violation of their interests. The company's Charter includes a list of (criteria for) transactions or other actions falling within the category of material corporate actions. These actions fall within the remit of the company's Board of Directors.	1. The company's Charter contains a list of transactions or other actions that constitute material corporate actions and the criteria that are used to determine such actions. Decisions regarding material corporate actions fall within the remit of the Board of Directors. In cases where the authority to take such corporate actions falls within the remit of the General Meeting of Shareholders, the Board of Directors provides shareholders with appropriate recommendations. 2. The company's Charter recognises the following, at a minimum, to be material corporate actions: the reorganisation of the company, the acquisition of 30 percent or more of voting shares (takeover), the completion of material transactions by the company, an increase or decrease in the company's share capital and the listing and delisting of company shares.	☐ Compliance ✓ Partial compliance ☐ Non-compliant 1-2 The Bank's Charter does not specify a list of transactions and material corporate actions. At the same time, the Bank's Charter assigns decision-making power regarding such material corporate actions to the remit of the Bank's Supervisory Board and General Meeting of Shareholders in accordance with the recommendation. In addition, the Regulation on the Bank's Supervisory Board Audit Committee provides for a special procedure for the Committee to deal with matters related to material and non-standard transactions concluded by the Bank (para. 2.2.1 of the Regulation), including review of their compliance with applicable standards. Considering the above, in order to avoid duplication in the Bank's Charter of provisions on the procedure for taking decisions on matters falling within the remit of the Supervisory Board and the General Meeting of Shareholders, and also taking into account the lack of relevant practice in comparable companies, the Bank considered it inexpedient to further enshrine in its Charter provisions on material corporate actions and on the procedure for making decisions on such actions.
7.1.2	The Board of Directors plays a key role in making decisions or developing recommendations about material corporate actions. The Board of Directors relies on the position of the company's independent directors.	The company has stipulated a procedure under which the independent directors declare their positions on material corporate actions prior to their approval.	✓ Compliance ☐ Partial compliance ☐ Non-compliant

7.1.3	When completing material corporate actions that affect the rights and legal interests of shareholders, equal conditions are provided for all company shareholders. If the mechanisms protecting the legal rights of shareholders are insufficient, then further measures to protect the rights and legal interests of the company's shareholders are provided. The company is governed not only by compliance with the formal requirements of the law, but also by the principles of corporate governance set out in the Code.	1. Taking into account the nature of the company's business, the company's Charter establishes less restrictive criteria than the minimum provided for under the law for classifying the company's transactions as material corporate actions. 2. During the reporting period, all material corporate actions underwent an approval process before implementation.	☐ Compliance ☒ Partial compliance ☐ Non-compliant	1. The issue of introducing amendments to the Bank's Charter to enshrine provisions on material corporate actions (transactions) with less restrictive criteria for classifying Bank transactions as material than required by law is currently being studied. At the same time, in order to minimise possible risks, the Regulation on the Bank's Supervisory Boardory Audit Committee stipulates a special procedure for dealing with issues related to concluding non-standard and material transactions (para. 2.2.1 of the Regulation).
7.2	The company has established a procedure regulating material corporate actions that allows shareholders to receive timely and complete information on such actions, provides them with an opportunity to influence decision-making about such actions and ensures compliance with, and an adequate level of protection of, their rights in the performance of such actions.			
7.2.1	Information about material corporate actions is disclosed together with the reasons, conditions and consequences of such actions.	During the reporting period, the company disclosed information on its material corporate actions in a timely manner and in detail, including the reasons for, and timing of, such actions.	☒ Compliance ☐ Partial compliance ☐ Non-compliant	
7.2.2	The rules and procedures governing material corporate actions taken by the company are stipulated in the company's bylaws.	1. The company's bylaws have established a procedure for retaining an independent appraiser to determine the value of property that is alienated or acquired by a material transaction or a related-party transaction. 2. The company's bylaws have established a procedure for retaining an independent appraiser to assess the value of shares that are acquired or bought back by the company. 3. The company's bylaws have established an expanded list of grounds on which the members of the Board of Directors and other persons referred to in respective laws are deemed to have an interest in the company's transactions.	☐ Compliance ☒ Partial compliance ☐ Non-compliant	3. The Bank believes that the introduction of such a practice could significantly hamper the activities of the Bank and put it at a disadvantage compared to other financial market participants, including in relation to the duration of the procedure for prior approval of transactions. Considering the above, the Bank does not plan to implement this recommendation. According to the Bank, the legislation on joint-stock companies in terms of expanding the list of grounds on which a person may be deemed to be an interested party to a transaction eliminated the risk of non-implementation of this recommendation. Considering the above, the Bank is not currently planning to implement this recommendation.

<1> "Compliance" is indicated only if the company meets all the criteria for assessing compliance with the respective principle of corporate governance. Otherwise, the status of "partial compliance" or "non-compliant" is indicated.

<2> A status is assigned for each criterion that is used to assess compliance with corporate governance principles in the event that the company meets only part of the criteria or does not meet any of the criteria for assessing compliance with the principle. If the company indicates "compliance", then no further explanation is required.

<3> Specify which of the two alternative approaches permitted by the principle has been implemented within the company and explain why this approach was chosen.

<4> In case the tasks of the Nominating Committee are performed by another committee, then name that committee here.

<5> Provide a list of additional committees that have been created.

8.4. BANK DETAILS AND CONTACTS

Full official name	VTB Bank (Public Joint-Stock Company)
Short name	VTB Bank (PJSC)
Main type of activity	Banking
Date of state registration	17 October 1990
General licence for banking operations	No. 1000
Main state registration number (OGRN)	1027739609391, issued by the Interdistrict Inspectorate of the Ministry of Taxes and Levies of Russia No. 39 for the city of Moscow on 22 November 2002
Taxpayer identification number (TIN)	7702070139
Bank identifier code (BIC)	044525187
Address	29 Bolshaya Morskaya St. 190000 St Petersburg
Mailing address	VTB Bank (PJSC) 43 Vorontsovskaya St., bldg. 1 109147 Moscow
Call centre:	For corporate clients 8 800 200 7799 (toll-free within Russia) (495) 739 7799 For private clients 8 800 100 2424 (toll-free within Russia) (495) 777 2424
Fax	Fax: +7 495 258 4781
Email	info@vtb.ru (for information and offers) compliance@msk.vtb.ru (for insiders)
Website	https://www.vtb.com
Details for transfers	https://www.vtb.com/o-banke/bank-vtb/rekvizity/



VTB Bank (PJSC)

Legal address:

29 Bolshaya Morskaya St.

190000 St Petersburg

Postal address:

43 Vorontsovskaya St., bldg. 1

109147 Moscow

General enquiries:

+7 495 739 7799,

8 800 200 7799 E-mail: Info@vtb.ru

**Chief of staff of the Supervisory Board –
Corporate Secretary**

Evgeniy Ignatyev

Tel.: +7 495 775 7088

E-mail: Ignatyev@vtb.ru

**Investor Relations Department (institutional
investors and analysts)**

Phone: +7 495 775 7139

E-mail: InvestorRelations@vtb.ru

**Shareholder Relations Department (individual
shareholders)**

Phone: +7 495 258 4947

E-mail: Shareholders@vtb.ru

Shareholders Consultative Council

Site: www.facebook.com/ksavtb,

www.twitter.com/ksavtb

Phone: +7 985 774 3155

E-mail: KSA@vtb.ru

VTB Bank Shareholders' Centre in Moscow

35 Myasnitskaya St., office 1026

Phone: +7 495 645 4361

**VTB Bank Shareholders Liaison Centre in
St. Petersburg**

29 Bolshaya Morskaya St., office 40

Phone: +7 812 494 9446

**VTB Bank Shareholders Liaison Centre in
Yekaterinburg**

5 Marshala Zhukova St., Yekaterinburg

Phone: +7 343 379 6615

Auditor

Ernst and Young LLC

77 Sadovnicheskaya Emb., bldg. 1

Phone: +7 495 755 9700

Depository bank for VTB GDR programme

The Bank of New York Mellon

Legal address:

240 Greenwich Street, New York,

NY 10286, USA

Postal address: BNY Mellon, Depository

Receipts Division, 101 Barclay Street — 22nd

Floor, New York, NY 10286, USA

Registrar

JSC VTB Registrar

Legal address: 23 Pravdy St., Moscow 125040

Postal address: P.O. Box 54, Moscow 127137,
Russia

Phone / fax: +7 495 787 4483

E-mail: Info@vtbreg.ru

VTB Shareholder mobile application



VTB BANK

CONSOLIDATED FINANCIAL
STATEMENTS
AND INDEPENDENT
AUDITOR'S REPORT

FOR THE YEAR ENDED 31 DECEMBER 2018

CONTENTS

INDEPENDENT AUDITOR'S REPORT	3
CONSOLIDATED INCOME STATEMENT	11
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME	12
CONSOLIDATED STATEMENT OF FINANCIAL POSITION	13
CONSOLIDATED STATEMENT OF CASH FLOWS	14
CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY	16

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. Principal Activities.....	17
2. Basis of Preparation	17
3. Adoption of New or Revised Standards and Interpretations	18

DELVING INTO NUMBERS

4. Analysis by Segment.....	23
5-20. Notes to Income Statements	36
21-41. Notes to Statements of Financial Position	43

RISK

42. Significant Accounting Estimates and Judgments	75
43. Operating Environment of the Group.....	76
44. Financial and Insurance Risk Management.....	78
45. Fair Value Measurement.....	106
46. Capital Management and Capital Adequacy	123

GROUP STRUCTURE

47. Composition of the Group.....	126
48. Business Combinations and Disposal of Subsidiaries.....	127
49. Investments in Associates and Joint Ventures	129
50. Non-controlling Interest.....	134
51. Interests in Structured Entities	135

OFF BALANCE-SHEET ITEMS

52. Contingencies and Commitments.....	137
53. Subsequent Events.....	140

OTHER INFORMATION

54. Related Party Transactions.....	142
55. Offsetting of Financial Instruments.....	144
56. Share-Based Payments.....	146
57. Basic and Diluted Earnings per Share	147
58. Transfers of Financial Assets and Assets Held or Pledged as Collateral.....	147
59. Summary of Principal Accounting Policies	150
60. New Accounting Pronouncements	170
61. Changes in Presentation and Correction	171

Independent auditor's report

To the Shareholders and Supervisory Council of
VTB Bank (public joint-stock company)

Report on the audit of the consolidated financial statements

Opinion

We have audited the consolidated financial statements of VTB Bank (public joint-stock company) (hereinafter, the "Bank") and its subsidiaries (hereinafter, the "Group"), which comprise the consolidated income statement and consolidated statement of comprehensive income for the year ended 31 December 2018, the consolidated statement of financial position as at 31 December 2018, the consolidated statements of cash flows and changes in shareholders' equity for the year ended 31 December 2018, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

Basis for opinion

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

Key audit matters

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

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Key audit matter

How our audit addressed the key audit matter

Allowance for loans and advances to customers and provision for credit related commitments

Given the significance of the allowance for loans and advances to customers and provision for credit related commitments to the Group's financial position, the complexity and judgements related to the estimation of expected credit losses under newly adopted IFRS 9 *Financial instruments* ("IFRS 9"), we considered this area as a key audit matter.

Assessment on an individual and a portfolio basis of whether a significant increase in credit risk has occurred since initial recognition, as well as calculation of expected credit losses ("ECL"), require judgement. Determination of whether an increase in credit risk has occurred is based on relative change in credit ratings, days past due and other objective and subjective factors. Selection of thresholds used to conclude that the increase in credit risk is significant, such as the extent of the downgrade in a credit rating, is also judgemental.

The calculation of ECL involves estimation techniques that use significant unobservable inputs and factors, such as internal credit ratings, complex statistical modelling and expert judgement. These techniques are used to determine probability of default, projected exposure at default and loss arising at default, based on available historical data and external information, which is adjusted for forward looking information, including forecast of macroeconomic variables.

The calculation of expected credit losses for significant credit-impaired financial assets on an individual basis requires analysis of financial and non-financial information and extensive use of assumptions. Assessment of estimated future cash flows is based on significant unobservable inputs, such as current and projected financial performance of the borrower, collateral value, and estimation of probabilities of possible outcomes. The use of different modelling techniques, assumptions and forecasts could produce significantly different estimates of the allowance for expected credit losses.

Information on the allowance for expected credit

We focused our audit on the following:

- ▶ evaluating credit risk models and assumptions used to estimate key provisioning parameters, and determine expected credit losses on a portfolio basis;
- ▶ assessing management's judgement in relation to the identification of significant increases in credit risk on an individual and portfolio basis based on quantitative and qualitative criteria;
- ▶ testing estimated future cash flows, including collateral-sourced cash flows, in relation to significant credit-impaired loans and advances to customers and credit related commitments.

Our audit procedures included evaluation of expected credit loss methodology developed by the Group in accordance with the requirements of IFRS 9 to calculate the allowance for loans and advances to customers and provision for credit related commitments.

We assessed the reasonableness of the credit risk factors and thresholds selected by the management to determine whether significant increase in credit risk has occurred on individual and portfolio basis. We evaluated consistency of application of the criteria selected by the management as of the reporting date.

To test allowance calculated on a portfolio basis, we evaluated underlying statistical models, key inputs and assumptions used and assessed incorporation of forward-looking information in the calculation of expected credit losses. For significant credit exposures, we evaluated, on a sample basis, internal credit ratings, credit risk factors and staging. For a sample of significant credit-impaired corporate exposures, we, together with our valuation specialists, challenged assumptions on estimated future cash flows, including value of collateral and probabilities of expected outcomes. We have also considered the results of backtesting of the IFRS 9 models performed by the Group.

We also assessed the disclosures in the consolidated financial statements about the Group's

Key audit matter

losses on loans and advances to customers and provision for credit related commitments is included in Note 25, *Loans and advances to customers*, Note 44, *Financial and insurance risk management*, and Note 52, *Contingencies and commitments*, to the consolidated financial statements.

How our audit addressed the key audit matter

allowance for expected credit losses on loans and advances to customers and provision for credit related commitments.

Valuation of land, premises, investment property and property intended for sale in the ordinary course of business

The Group's aggregate carrying value of land, premises, investment property and property intended for sale in the ordinary course of business was RUR 488.3 billion at 31 December 2018. The Group determines the value of these assets with the assistance of independent or internal valuation specialists. The valuation models prepared by these specialists contain unobservable inputs and assumptions. Changes in these inputs and assumptions may have a significant impact on the valuation. The significance and subjectivity of these valuations make them a key audit matter.

Information on the valuation of land, premises, investment property and property intended for sale in the ordinary course of business is included in Note 27, *Land, premises and equipment*, Note 28, *Investment property*, Note 30, *Other assets*, and Note 45, *Fair value measurement*, to the consolidated financial statements.

Our audit procedures included an assessment, on a sample basis, of the valuation methods and models as well as the sources of significant assumptions. We also tested the determination of the net realizable value of a sample of individually significant properties intended for sale in the ordinary course of business. Where management involved a valuation specialist, we assessed their qualification and objectivity. For a sample of individually significant properties, we involved our valuation specialists to assist us in assessing the reasonableness of the methodology and assumptions. We also assessed the Group's disclosures in relation to the valuation of land, premises and investment property.

Valuation of financial instruments not quoted in active market

Financial instruments not quoted in an active market (instruments in Level 2 and Level 3 of the fair value hierarchy) represent a significant part of the Group's investments in securities and derivatives, due from other banks and loans and advances to customers at fair value through profit or loss.

The fair value of these instruments is determined by internally developed valuation models that may use complex assumptions and unobservable inputs. The significance and subjectivity of these valuations make them a key audit matter.

Information on the valuation of financial instruments not quoted in an active market is included in Note 45, *Fair value measurement*, to the consolidated financial statements.

Our audit procedures included an assessment, on a sample basis, of internally developed models and the sources of significant assumptions used in determining fair value. For a sample of individually significant instruments, we inspected, with assistance of our valuation specialists, the models and assumptions used, and/or performed an independent valuation assessment using alternative valuation methods and assumptions. We also assessed the Group's disclosures in relation to the valuation of such financial instruments, including disclosures regarding significant Level 3 inputs used and sensitivity of the value to changes in these inputs.

Key audit matter

How our audit addressed the key audit matter

Goodwill impairment

Impairment of goodwill is a key audit matter due to both the significance of its carrying value and the judgement inherent in the impairment testing. Management has to use significant unobservable inputs and make assumptions in their goodwill impairment analysis to develop cash flow forecasts, and to determine appropriate growth rates and discount rates. The use of different modelling techniques and assumptions could produce significantly different estimates of the impairment.

Information on goodwill is included in Note 29, *Goodwill and other intangible assets*, to the consolidated financial statements.

We assessed, with the assistance of our business valuation specialists, management's goodwill impairment analysis, including calculations of carrying values and recoverable amounts of cash-generating units. We evaluated forecasted cash flows, discount rates and long-term growth rates, by comparing them with the historical operating performance, business plans, market indicators and other available evidence. We assessed the disclosure prepared by the Group in relation to the results of testing.

Other information included in VTB Annual Report 2018

Other information consists of the information included in the VTB Annual Report 2018 (hereinafter, the "Annual Report") other than the consolidated financial statements and our auditor's report thereon. Management is responsible for the other information. The Annual Report is expected to be made available to us after the date of this auditor's report.

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

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

Responsibilities of management and the Audit Committee for the consolidated financial statements

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

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

The Audit Committee is responsible for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

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

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

- ▶ Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- ▶ Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- ▶ Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- ▶ Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- ▶ Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- ▶ Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

Report in accordance with the requirements of Article 42 of the Federal Law of the Russian Federation No. 395-1 Concerning Banks and Banking Activities of 2 December 1990

Management of the Bank is responsible for the compliance of the Banking group, where the Bank is the parent credit institution (hereinafter, the "Banking group") with the mandatory prudential ratios established by the Central Bank of the Russian Federation (hereinafter, the "Bank of Russia") and for the conformity of internal control and organization of the risk management systems of the Banking group with the requirements set forth by the Bank of Russia in respect of such systems.

In accordance with the requirements of Article 42 of the Federal Law of the Russian Federation No. 395-1 *Concerning Banks and Banking Activities* of 2 December 1990 (hereinafter, the "Federal Law"), during the audit of the Group's consolidated financial statements for the year ended 31 December 2018, we determined:

- 1) Whether the Banking group complied as at 1 January 2019 with the obligatory ratios established by the Bank of Russia;
- 2) Whether internal control and organization of the risk management systems of the Banking group conformed to the requirements set forth by the Bank of Russia for such systems in respect of the following:
 - ▶ subordination of the risk management departments;
 - ▶ the existence of methodologies, approved by the Bank's respective authorized bodies, for detecting and managing risks that are significant to the Bank and for performing stress-testing; the existence of a reporting system at the Bank pertaining to its significant risks and capital;
 - ▶ consistency in applying and assessing the effectiveness of methodologies for managing risks that are significant to the Bank;
 - ▶ oversight performed by the Supervisory Council and executive management of the Bank in respect of the Bank's compliance with risk limits and capital adequacy requirements set forth in the Bank's internal documents, and effectiveness and consistency of the application of the Bank's risk management procedures.

This work included procedures selected based on our judgment, such as inquiries, analysis, reading of documents, comparison of the requirements, procedures and methodologies approved by the Bank with the requirements set forth by the Bank of Russia, and the recalculation, comparison and reconciliation of numerical values and other information.

The findings from our work are provided below.

Compliance by the Banking group with the obligatory ratios established by the Bank of Russia

We found that the values of the obligatory ratios of the Banking group as of 1 January 2019 were within the limits established by the Bank of Russia.

We have not performed any procedures in respect of accounting data of the Banking group, except for those procedures we considered necessary to express our opinion on the fair presentation of the Group's consolidated financial statements.

Conformity of internal control and organization of the risk management systems of the Banking group with the requirements set forth by the Bank of Russia in respect of such systems

- ▶ We found that, in accordance with the legal acts and recommendations issued by the Bank of Russia, as at 31 December 2018 the Bank's internal audit division was subordinated and accountable to the Supervisory Council, and the Bank's risk management departments were not subordinated or accountable to the departments that take the relevant risks.
- ▶ We found that the Bank's internal documents effective as at 31 December 2018 that establish the methodologies for detecting and managing credit, market, operational and liquidity risks that are significant to the Banking group and stress-testing have been approved by the Bank's authorized bodies in accordance with the legal acts and recommendations issued by the Bank of Russia. We also found that, as at 31 December 2018, the Bank had a reporting system pertaining to credit, market, operational and liquidity risks that were significant to the Banking group and pertaining to its capital.
- ▶ We found that the frequency and consistency of reports prepared by the Bank's risk management departments and internal audit division during the year ended 31 December 2018 with regard to the management of credit, market, operational and liquidity risks of the Banking group complied with the Bank's internal documents, and that those reports included observations made by the Bank's risk management departments and internal audit division in respect of the effectiveness of relevant risk management methodologies.
- ▶ We found that, as at 31 December 2018, the authority of the Supervisory Council and executive management bodies of the Bank included control over compliance of the Banking group with internally established risk limits and capital adequacy requirements. For the purpose of control over the effectiveness and consistency of the risk management procedures applied by the Banking group during the year ended 31 December 2018, the Supervisory Council and executive management bodies of the Bank regularly reviewed the reports prepared by the Bank's risk management departments and internal audit division.

The procedures pertaining to the internal control and organization of the risk management systems were conducted by us solely for the purpose of determining the conformity of certain elements of the internal control and organization of the risk management systems of the Banking group, as listed in the Federal Law and described above, with the requirements set forth by the Bank of Russia.

The partner in charge of the audit resulting in this independent auditor's report is P.P. Tsebernyak.



P.P. Tsebernyak
Partner
Ernst & Young LLC

26 February 2019

Details of the audited entity

Name: VTB Bank (Public joint-stock company)
Record made in the State Register of Legal Entities on 22 November 2002, State Registration Number 1027739609391.
Address: Russia 190000, Saint-Petersburg, Bolshaya Morskaya st., 29.

Details of the auditor

Name: Ernst & Young LLC
Record made in the State Register of Legal Entities on 5 December 2002, State Registration Number 1027739707203.
Address: Russia 115035, Moscow, Sadovnicheskaya naberezhnaya, 77, building 1.
Ernst & Young LLC is a member of Self-regulated organization of auditors "Russian Union of auditors" (Association) ("SRO RUA"). Ernst & Young LLC is included in the control copy of the register of auditors and audit organizations, main registration number 11603050648.

	Note	2018	2017	Change
Interest income calculated using the effective interest method	5, 61	967.6	1,016.6	-4.8%
Other interest income	5, 61	66.4	39.6	67.7%
Interest expense	5	(542.6)	(581.3)	-6.7%
Payments to deposit insurance system	5	(22.8)	(14.7)	55.1%
Net interest income	5	468.6	460.2	1.8%
Provision charge for credit losses on debt financial assets	24, 25, 26	(160.6)	(169.2)	-5.1%
Net interest income after provision for credit losses		308.0	291.0	5.8%
Net fee and commission income	6	90.0	95.3	-5.6%
Losses net of gains arising from sale and revaluation of loans at fair value through profit or loss		(2.0)	n/a	n/a
Gains net of losses arising from other financial instruments at fair value through profit or loss	7	21.1	12.8	64.8%
Gains net of losses arising from sale of financial assets at fair value through other comprehensive income	8	6.3	n/a	n/a
Gains net of losses from investment financial assets available-for-sale	8	n/a	13.6	n/a
Gains net of losses/(losses net of gains) arising from foreign currencies and precious metals	9	21.4	(12.4)	272.6%
Other gains net of losses on financial instruments at amortised cost	10	1.4	39.1	-96.4%
Share in profit of associates and joint ventures		8.1	1.2	575.0%
Impairment of investments in associates	49	(11.8)	—	n/a
Gains/(losses) from disposal of subsidiaries and associates	31, 48, 49	40.8	(0.5)	8,260.0%
Losses net of gains arising from extinguishment of liabilities	11	(0.5)	(0.1)	400.0%
Provision charge for credit losses on credit related commitments and other financial assets	30, 52, 61	(8.3)	(3.2)	159.4%
Reversal of provision for legal claims and other commitments	52, 61	1.8	0.5	260.0%
Excess of fair value of acquired net assets over cost	48	2.7	—	n/a
Other operating income	12	10.1	13.1	-22.9%
Non-interest gains		91.1	64.1	42.1%
Revenue from operating lease of equipment	13	26.5	22.5	17.8%
Expenses related to equipment leased out	13	(14.9)	(14.1)	5.7%
Revenues less expenses from operating leasing	13	11.6	8.4	38.1%
Net insurance premiums earned	16	121.8	82.6	47.5%
Net insurance claims incurred, movement in liabilities to policyholders and acquisition costs	17	(99.3)	(61.8)	60.7%
Revenues less expenses from insurance activity		22.5	20.8	8.2%
Revenue and other gains from other non-banking activities	14	71.3	61.4	16.1%
Cost of sales and other expenses from other non-banking activities	15	(66.3)	(61.5)	7.8%
Impairment of land, premises and intangible assets other than goodwill used in non-banking activities	27, 29	(7.1)	(16.1)	-55.9%
Net loss from change in fair value of investment property recognised on revaluation or disposal	28	(14.4)	(23.1)	-37.7%
Gain from disposal of disposal group held for sale	31	—	0.8	-100.0%
Revenues less expenses from other non-banking activities		(16.5)	(38.5)	-57.1%
Impairment of land, premises and intangible assets other than goodwill	27, 29	(9.4)	(3.7)	154.1%
Impairment of goodwill	29	(0.1)	(2.7)	-96.3%
Other operating expense	18	(23.0)	(14.1)	63.1%
Staff costs and administrative expenses	19	(259.8)	(260.9)	-0.4%
Non-interest expenses		(292.3)	(281.4)	3.9%
Profit before tax		214.4	159.7	34.3%
Income tax expense	20	(35.6)	(39.7)	-10.3%
Net profit after tax		178.8	120.0	49.0%
Profit after tax from subsidiaries acquired exclusively with a view to resale		—	0.1	-100.0%
Net profit		178.8	120.1	48.9%
Net profit/(loss) attributable to:				
Shareholders of the parent		179.2	120.3	49.0%
Non-controlling interests		(0.4)	(0.2)	100.0%
Basic and diluted earnings per share (expressed in Russian roubles per share)	57	0.01299	0.00855	51.9%
Basic and diluted earnings per share before profit after tax from subsidiaries acquired exclusively with a view to resale (expressed in Russian roubles per share)	57	0.01299	0.00854	52.1%

The notes № 1-61 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER (IN BILLIONS OF RUSSIAN ROUBLES)

	2018	2017
Net profit	178.8	120.1
Other comprehensive income/(loss):		
Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods:		
Net change in fair value of debt financial assets at fair value through other comprehensive income, net of tax	(7.4)	n/a
Reclassification to income statement on sale of debt financial assets at fair value through other comprehensive income, net of tax	(5.1)	n/a
Net result on financial assets available-for-sale, net of tax	n/a	2.5
Cash flow hedges, net of tax	—	(0.1)
Share of other comprehensive income/(loss) of associates and joint ventures	3.5	(0.4)
Effect of translation, net of tax	33.8	0.3
Total other comprehensive income to be reclassified to profit or loss in subsequent periods	24.8	2.3
Other comprehensive income/(loss) not to be reclassified to profit or loss in subsequent periods:		
Actuarial (losses net of gains)/gains net of losses arising from difference between pension plan assets and obligations	(0.2)	1.1
Net result on equity instruments at fair value through other comprehensive income	(2.7)	n/a
Land and premises revaluation, net of tax	6.2	(0.1)
Total other comprehensive income not to be reclassified to profit or loss in subsequent periods	3.3	1.0
Other comprehensive income, net of tax	28.1	3.3
Total comprehensive income	206.9	123.4
Total comprehensive income/(loss) attributable to:		
Shareholders of the parent	208.1	123.6
Non-controlling interests	(1.2)	(0.2)

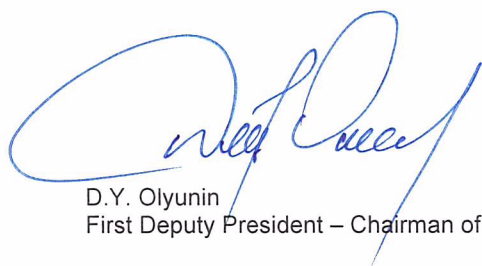
VTB BANK
**CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER (IN BILLIONS OF RUSSIAN ROUBLES)**

	Note	2018	2017	Change
ASSETS				
Cash and short-term funds	21	935.8	773.8	20.9%
Mandatory cash balances with central banks		111.1	97.1	14.4%
Trading financial assets	22, 61	298.7	277.2	7.8%
- Trading financial assets		264.6	276.9	-4.4%
- Trading financial assets, pledged under repurchase agreements		34.1	0.3	11,266.7%
Derivative financial assets	23	202.5	175.6	15.3%
Due from other banks	24	693.1	835.0	-17.0%
Loans and advances to customers	25	10,695.2	9,171.4	16.6%
- Loans and advances to customers		10,669.3	9,171.4	16.3%
- Loans and advances to customers, pledged under repurchase agreements		25.9	—	n/a
Investment financial assets	26, 61	352.6	321.8	9.6%
- Investment financial assets		339.5	321.4	5.6%
- Investment financial assets, pledged under repurchase agreements		13.1	0.4	3,175.0%
Investments in associates and joint ventures	49	283.2	117.1	141.8%
Assets of disposal groups and non-current assets held for sale	31	22.0	17.2	27.9%
Land, premises and equipment	27	402.3	348.2	15.5%
Investment property	28	197.2	210.4	-6.3%
Goodwill and other intangible assets	29	160.0	157.4	1.7%
Deferred income tax asset	20	119.6	98.7	21.2%
Other assets	30	287.3	408.4	-29.7%
Total assets		14,760.6	13,009.3	13.5%
LIABILITIES				
Due to other banks	32	1,425.7	810.3	75.9%
Customer deposits	33	10,403.7	9,144.7	13.8%
Derivative financial liabilities	23	140.2	134.0	4.6%
Other borrowed funds	34	329.7	304.5	8.3%
Debt securities issued	35	259.1	322.7	-19.7%
Liabilities of disposal groups held for sale	31	—	7.0	-100.0%
Deferred income tax liability	20	12.4	30.7	-59.6%
Other liabilities	37	452.3	582.5	-22.4%
Total liabilities before subordinated debt		13,023.1	11,336.4	14.9%
Subordinated debt	36	214.5	193.2	11.0%
Total liabilities		13,237.6	11,529.6	14.8%
EQUITY				
Share capital	38	659.5	659.5	0.0%
Share premium		433.8	433.8	0.0%
Perpetual loan participation notes	39	156.3	129.6	20.6%
Treasury shares and bought back perpetual loan participation notes		(1.0)	(3.3)	-69.7%
Other reserves	40	82.4	46.1	78.7%
Retained earnings		197.0	200.4	-1.7%
Equity attributable to shareholders of the parent		1,528.0	1,466.1	4.2%
Non-controlling interests		(5.0)	13.6	-136.8%
Total equity		1,523.0	1,479.7	2.9%
Total liabilities and equity		14,760.6	13,009.3	13.5%

Approved for issue and signed on 26 February 2019.



A.L. Kostin
President – Chairman of the Management Board



D.Y. Olyunin
First Deputy President – Chairman of the Management Board

The notes № 1-61 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER (IN BILLIONS OF RUSSIAN ROUBLES)

	Note	2018	2017
Cash flows from/ (used in) operating activities			
Interest received		1,047.9	1,068.6
Interest paid		(508.4)	(560.9)
Payments to deposit insurance system		(20.2)	(14.3)
Losses on operations with trading financial assets		(25.4)	(4.0)
Gains/ (losses) incurred on dealing in foreign currency		88.8	(27.4)
Fees and commissions received		143.0	130.1
Fees and commissions paid		(43.1)	(35.1)
Other operating income received		9.3	8.0
Other operating expenses paid		(16.8)	(17.9)
Revenue received from operating lease of equipment		26.9	20.6
Expenses paid related to equipment leased out		(4.7)	(2.4)
Net insurance premiums received		152.2	111.0
Net insurance claims paid		(30.4)	(28.4)
Revenue received from non-banking activities		32.6	36.8
Expenses paid related to non-banking activities		(36.3)	(34.5)
Staff costs, administrative expenses paid		(233.6)	(238.0)
Income tax paid		(44.6)	(52.1)
Cash flows from operating activities before changes in operating assets and liabilities		537.2	360.1
Net decrease/ (increase) in operating assets			
Net increase in mandatory cash balances with central banks		(13.7)	(2.5)
Net decrease/ (increase) in correspondent accounts in precious metals		29.2	(31.5)
Net increase in trading financial assets	61	(74.5)	(47.8)
Net decrease in due from other banks		122.5	176.6
Net increase in loans and advances to customers		(1,423.6)	(229.8)
Net (increase)/ decrease in other assets		(4.7)	35.5
Net (decrease)/ increase in operating liabilities			
Net increase/ (decrease) in due to other banks		573.7	(473.3)
Net increase in customer deposits		718.9	1,635.5
Net increase in debt securities issued other than bonds issued		13.7	22.4
Net decrease in other liabilities		(2.8)	(12.4)
Net cash from operating activities		475.9	1,432.8
Cash flows from/ (used in) investing activities			
Dividends and other distributions received		10.0	5.8
Proceeds from redemption and sales of investment financial assets		174.0	n/a
Purchase of investment financial assets		(197.9)	n/a
Proceeds from redemption and sales of investment financial assets designated as at fair value through profit or loss	61	n/a	0.9
Proceeds from redemption and sales of investment financial assets available-for-sale		n/a	416.8
Purchase of investment financial assets available-for-sale		n/a	(345.0)
Acquisition of subsidiaries, net of cash	48	6.9	0.2
Disposal of subsidiaries, net of cash	48	(18.9)	14.5
Purchase of share in associates and other contributions		(140.1)	—
Proceeds from sale of share in associates and other distributions		64.9	4.1
Purchase of investment financial assets held-to-maturity		n/a	(7.1)
Proceeds from redemption of investment financial assets held-to-maturity		n/a	9.3
Purchase of land, premises and equipment		(53.3)	(61.5)
Proceeds from sale of land, premises and equipment		4.8	6.2
Purchase or construction of investment property		(7.3)	(60.7)
Proceeds from sale of investment property		3.5	29.9
Purchase of intangible assets		(10.1)	(11.2)
Proceeds from sale of intangible assets		0.7	0.2
Net cash (used in)/ from investing activities		(162.8)	2.4

The notes № 1-61 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER (IN BILLIONS OF RUSSIAN ROUBLES)

	Note	2018	2017
Cash flows from/ (used in) financing activities			
Dividends paid	41	(78.2)	(44.5)
Proceeds net of repayment in short-term local bonds issued		(11.2)	25.0
Proceeds from local bonds issued		55.6	–
Repayment of local bonds		(33.6)	(6.0)
Buy-back of local bonds		(10.6)	(4.7)
Proceeds from sale of previously bought-back local bonds		3.6	7.1
Repayment of Eurobonds		(115.8)	(105.2)
Buy-back of Eurobonds		(2.5)	(11.4)
Proceeds from sale of previously bought-back Eurobonds		2.4	9.8
Repayment of syndicated loans		(1.6)	(10.0)
Proceeds from other borrowings and funds from local central banks		535.4	473.2
Repayment of other borrowings and funds from local central banks		(540.4)	(1,446.1)
Repayment of subordinated debt		–	(24.3)
Buy-back of subordinated debt		(0.7)	(0.3)
Proceeds from sale of previously bought-back subordinated debt		0.8	0.2
Cash received from sale of treasury shares		4.1	2.2
Cash paid for treasury shares		(2.4)	(2.5)
Purchase of non-controlling interest in subsidiaries		–	(1.6)
Proceeds from issue to non-controlling interest holders in subsidiaries		3.1	3.4
Buy-back of perpetual loan participation notes		(10.5)	(5.4)
Proceeds from sale of previously bought-back perpetual loan participation notes		11.1	4.9
Amounts paid on perpetual loan participation notes	41	(13.7)	(12.3)
Net cash used in financing activities		(205.1)	(1,148.5)
Effect of exchange rate changes on cash and cash equivalents		83.3	2.8
Effect of change in impairment loss allowance		(0.1)	n/a
Net increase in cash and cash equivalents		191.2	289.5
At the beginning of period	21	738.1	448.6
At the end of period	21	929.3	738.1
Non-cash changes in liabilities arising from financial activities		2018	2017
Foreign currency translation			
Local bonds		–	(0.1)
Eurobonds		(15.6)	11.7
Syndicated loans		(1.4)	(3.4)
Funds from local central banks		(0.1)	(0.3)
Subordinated debt		(18.4)	5.2
Other non-cash changes			
Short-term local bonds		–	0.2
Local bonds		(1.2)	2.5
Eurobonds		1.2	1.4
Syndicated loans		(0.2)	1.0
Funds from local central banks		10.1	19.8
Subordinated debt		(2.8)	1.4

VTB BANK
**CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEAR ENDED 31 DECEMBER (IN BILLIONS OF RUSSIAN ROUBLES)**

	Attributable to shareholders of the parent								Total equity
	Share capital	Share premium	Perpetual loan participation notes (Note 39)	Treasury shares and bought back perpetual loan participation notes	Other reserves (Note 40)	Retained earnings	Total	Non-controlling interests (Note 50)	
Balance at 1 January 2017	659.5	433.8	136.5	(2.5)	44.8	131.1	1,403.2	9.7	1,412.9
Net result from treasury shares transactions	—	—	—	(0.3)	—	—	(0.3)	—	(0.3)
Net result from bought back perpetual loan participation notes transactions	—	—	—	(0.5)	—	—	(0.5)	—	(0.5)
Profit/(loss) for the period	—	—	—	—	—	120.3	120.3	(0.2)	120.1
Other comprehensive income	—	—	—	—	2.2	1.1	3.3	—	3.3
Total comprehensive income/(loss) for the period	—	—	—	—	2.2	121.4	123.6	(0.2)	123.4
Transfer of premises revaluation reserve upon disposal or depreciation	—	—	—	—	(1.6)	1.6	—	—	—
Share-based payments (Note 56)	—	—	—	—	—	(0.1)	(0.1)	—	(0.1)
Increase in share capital of subsidiaries	—	—	—	—	—	—	—	3.6	3.6
Disposal of subsidiaries (Note 48)	—	—	—	—	—	—	—	(0.8)	(0.8)
Purchase and other operations with non-controlling interests	—	—	—	—	0.7	(4.9)	(4.2)	2.2	(2.0)
Amounts paid on perpetual loan participation notes	—	—	—	—	—	(12.3)	(12.3)	—	(12.3)
Foreign exchange translation of perpetual loan participation notes	—	—	(6.9)	—	—	6.9	—	—	—
Tax effect recognised on perpetual loan participation notes	—	—	—	—	—	1.1	1.1	—	1.1
Dividends declared (Note 41)	—	—	—	—	—	(44.4)	(44.4)	(0.9)	(45.3)
Balance at 31 December 2017	659.5	433.8	129.6	(3.3)	46.1	200.4	1,466.1	13.6	1,479.7
Impact of adopting IFRS 9 at 1 January 2018 (Note 3)	—	—	—	—	8.0	(74.9)	(66.9)	(3.1)	(70.0)
Impact of adopting IFRS 15 at 1 January 2018 (Note 3)	—	—	—	—	—	1.1	1.1	—	1.1
Balance at 1 January 2018 after adoption	659.5	433.8	129.6	(3.3)	54.1	126.6	1,400.3	10.5	1,410.8
Net result from treasury shares transactions	—	—	—	1.7	—	0.1	1.8	—	1.8
Net result from bought back perpetual loan participation notes transactions	—	—	—	0.6	—	—	0.6	—	0.6
Profit/(loss) for the period	—	—	—	—	—	179.2	179.2	(0.4)	178.8
Other comprehensive income/(loss)	—	—	—	—	29.1	(0.2)	28.9	(0.8)	28.1
Total comprehensive income/(loss) for the period	—	—	—	—	29.1	179.0	208.1	(1.2)	206.9
Transfer of premises revaluation reserve upon disposal or depreciation	—	—	—	—	(0.8)	0.8	—	—	—
Share-based payments (Note 56)	—	—	—	—	—	(1.1)	(1.1)	—	(1.1)
Acquisition of subsidiaries (Note 48)	—	—	—	—	—	—	—	2.2	2.2
Disposal of subsidiaries (Note 48)	—	—	—	—	—	—	—	(15.9)	(15.9)
Acquisition of non-controlling interests	—	—	—	—	—	(0.9)	(0.9)	0.6	(0.3)
Increase in share capital of subsidiaries	—	—	—	—	—	—	—	3.1	3.1
Put options over non-controlling interests (Note 48)	—	—	—	—	—	(1.7)	(1.7)	—	(1.7)
Amounts paid on perpetual loan participation notes	—	—	—	—	—	(13.7)	(13.7)	—	(13.7)
Foreign exchange translation of perpetual loan participation notes	—	—	26.7	—	—	(26.7)	—	—	—
Tax effect recognised on perpetual loan participation notes	—	—	—	—	—	8.1	8.1	—	8.1
Dividends declared (Note 41)	—	—	—	—	—	(73.5)	(73.5)	(4.3)	(77.8)
Balance at 31 December 2018	659.5	433.8	156.3	(1.0)	82.4	197.0	1,528.0	(5.0)	1,523.0

The notes № 1-61 form an integral part of these consolidated financial statements.

1. PRINCIPAL ACTIVITIES

VTB Bank and its subsidiaries (the “Group”) comprise Russian and foreign commercial banks, insurance, leasing and other entities controlled by the Group.

VTB Bank, formerly known as Vneshtorgbank (the “Bank”, or “VTB”), was formed as Russia’s foreign trade bank under the laws of the Russian Federation on 17 October 1990. In 1998, following several reorganisations, VTB was reorganised into an open joint stock company. In October 2006 the Group started re-branding to change its name from Vneshtorgbank to VTB. In March 2007, the Bank for Foreign Trade was renamed into “VTB Bank” (Open Joint-Stock Company). In June 2015 “VTB Bank” (open joint-stock company) was renamed into VTB Bank (Public Joint-Stock Company) in accordance with the legislative requirements.

On 2 January 1991, VTB received a general banking license (number 1000) from the Central Bank of the Russian Federation (CBR). In addition, VTB holds licenses required for trading and holding securities and engaging in other securities-related activities, including acting as a broker, a dealer and a custodian, and providing asset management and special depositary services. VTB and other Russian banks within the Group are regulated and supervised by the CBR. Foreign banks within the Group operate under the bank regulatory regimes of their respective countries.

On 29 December 2004, the Bank became a member of the obligatory deposit insurance system provided by the State Corporation “Deposit Insurance Agency” (DIA). The Group subsidiary banks in Russia: “BM-Bank”, PJSC (currently – “BM-Bank”, JSC) and “Vozrozhdenie Bank” are also members of the obligatory deposit insurance system provided by DIA. The State deposit insurance scheme implies that DIA guarantees repayment of individual deposits up to the maximum total guaranteed amount of RUR 1.4 million with a 100% compensation of deposited amount from 29 December 2014.

2. BASIS OF PREPARATION

These consolidated financial statements (“financial statements”) have been prepared in accordance with International Financial Reporting Standards (“IFRS”). The Bank and its subsidiaries and associates maintain their accounting records in accordance with regulations applicable in their country of registration. These financial statements are based on those accounting books and records, as adjusted and reclassified to comply with IFRS.

These financial statements have been prepared under the historical cost convention, as modified by the initial recognition of trading financial instruments based on fair value, by the revaluation of land, premises and

On 5 October 2005, VTB re-registered its legal address to 29 Bolshaya Morskaya Street, Saint-Petersburg 190000, Russian Federation. VTB’s Head Office is located in Moscow.

The Group operates in the corporate and investment banking, retail, real estate and other sectors. Corporate and investment banking include deposit taking and commercial lending, support of clients’ export/import transactions, foreign exchange, securities trading and trading in derivative financial instruments. The Group’s operations are conducted in both Russian and international markets. The Group conducts its banking business in Russia through VTB as a parent and several subsidiary banks.

On 1 January 2018 the Group completed the merger of “Bank VTB 24”, PJSC into VTB Bank (PJSC) under the unified VTB brand.

The Group operates outside Russia through 8 subsidiary banks, located in Germany, Great Britain, Armenia, Belarus, Kazakhstan, Azerbaijan, Georgia and Angola; through 3 representative offices located in Italy, China and Kyrgyzskaya Republic; through 2 VTB branches in China and India, branch of “VTB Bank (Europe)” in Austria and branch of “VTB Capital”, Plc in Singapore. The Group investment banking division also performs securities dealing and financial advisory in Hong Kong and investment banking operations in Bulgaria.

VTB’s majority shareholder is the Russian Federation, acting through the Federal Property Agency, which holds 60.9% of VTB’s issued and outstanding ordinary shares as at 31 December 2018 (31 December 2017: 60.9%).

Unless otherwise noted herein, all amounts are expressed in billions of Russian roubles rounded off to one decimal.

investment properties, investment securities at fair value through profit and loss and through other comprehensive income.

The summary of principal accounting policies applied in the preparation of these financial statements is set out below in Note 59. These policies have been consistently applied to all the periods presented, unless otherwise stated.

These financial statements are presented in Russian roubles (RUR), the national currency of the Russian Federation, where the Bank is domiciled.

3. ADOPTION OF NEW AND REVISED STANDARDS AND INTERPRETATIONS

IFRS 9 *Financial Instruments* replaces IAS 39 *Financial Instruments: Recognition and Measurement* for annual periods on or after 1 January 2018. The Group has not restated comparative information for 2017 for financial instruments in the scope of IFRS 9. Therefore, the comparative information for 2017 is reported under IAS 39 and is not comparable to the information presented for 2018. Differences arising from the adoption of IFRS 9 have been recognised directly in retained earnings as of 1 January 2018 and are disclosed below.

At initial application of IFRS 9 the Group chose as its accounting policy to continue to apply the hedge accounting requirements of IAS 39 instead of the requirements in Chapter 6 of IFRS 9. The Group applies that policy to all of its hedging relationships.

Classification and measurement

Under IFRS 9 *Financial Instruments*, all debt financial assets that do not meet “solely payment of principal and interest” (SPPI) criteria, are classified at initial recognition as fair value through profit or loss (FVPL). Under these criteria, debt instruments that do not correspond to a “basic lending arrangement” are measured at FVPL. For debt financial assets that meet the SPPI criteria, classification at initial recognition is determined based on the business model, under which these instruments are managed:

- debt financial assets that are managed on a “hold to collect” basis are measured at amortised cost
- debt financial assets that are managed on a “hold to collect and sale” basis are measured at fair value through other comprehensive income (FVOCI)
- debt financial assets that are managed on other basis, including trading financial assets, are measured at FVPL.

Equity financial assets are required to be classified at initial recognition as FVPL unless an irrevocable designation is made to classify the instrument as FVOCI. For equity investments classified as FVOCI, all realised and unrealised gains and losses, except for dividend income, are recognised in other comprehensive income with no subsequent reclassification to profit and loss. Further information accounting policies applicable for financial assets and liabilities is provided in Note 59.

Credit risk and expected credit loss

Information about credit risk grades and description of definitions, principles and techniques used for assessment of expected credit loss is provided in Note 44.

Effect of transition to IFRS 9

The application of IFRS 9 resulted in the reclassifications explained below:

1. Certain debt financial assets held by the Group's Corporate-Investment banking are classified under IFRS 9 as mandatorily measured at fair value through profit or loss because the contractual cash flows of these assets are not solely payments of principal and interest on the principal outstanding.

2. Certain debt investment financial assets are held by the Group's Treasury to meet everyday liquidity needs. The Group's Treasury seeks to minimise the costs of managing those liquidity needs and therefore manages the return on the portfolio. The return consists of collecting contractual payments as well as gains and losses from the sale of financial assets. The Group considers that under IFRS 9 these assets are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets.

3. Certain debt investment financial assets are held by the Group in a separate portfolio for long-term investments purposes. These assets may be sold in a stress-case scenario only. The Group considers that these securities are held within a business model whose objective is to hold assets to collect the contractual cash flows. These assets are classified and measured at amortised cost under IFRS 9.

4. Certain debt investment financial assets are held by the Group with an objective of short-term profit taking. The Group primarily focuses on fair value information and uses that information to assess the financial assets' performance and to make decisions. These assets are therefore measured at fair value through profit or loss under IFRS 9.

5. Certain equity investments held by the Group for strategic purposes have been designated under IFRS 9 as at fair value through other comprehensive income.

6. Before the adoption of IFRS 9, certain trading assets and investment securities were reclassified out of the fair value through profit or loss and available-for-sale categories to loans and advances at their fair values. On the adoption of IFRS 9, the carrying amount of those assets was adjusted so that their amortised cost under IFRS 9 was as if those assets were accounted for at amortised cost from the inception.

Certain debt financial securities held by the Group were classified as loans and advances to customers in accordance with the Group accounting policies. The Group classifies as loans and advances to customers (i) government securities received by the Group under the government financial support and capitalisation plans with certain third-parties sale restrictions and (ii) other debt securities acquired through a significant participation in an initial offering and for which the Group does not expect active market trading in the near future.

According to the requirements of IFRS 9 the Group calculates ECL for all types of undrawn credit lines and commitments to extend credit – revocable and irrevocable (Note 52).

3. ADOPTION OF NEW AND REVISED STANDARDS AND INTERPRETATIONS (CONTINUED)**Effect of transition to IFRS 9 (continued)**

The following table reconciles the carrying amounts of financial assets and liabilities and amounts of provisions for loan commitments and financial guarantee contracts under IAS 39 and IAS 37 to the carrying amounts under IFRS 9 on transition to IFRS 9 on 1 January 2018:

	Measurement basis under IAS 39	Measurement basis under IFRS 9	Note	Original carrying amount under IAS 39	Reclassification	Remeasurement under IFRS 9	New carrying amount under IFRS 9
Financial assets, including pledged under repurchase agreements where relevant							
Cash and short-term funds	Loans and receivables	Amortised cost		773.8	–	–	773.8
Mandatory cash balances with central banks	Loans and receivables	Amortised cost		97.1	–	–	97.1
Trading financial assets	Fair value through profit or loss	Fair value through profit or loss (mandatorily)	22	277.2	(39.9)	–	237.3
Derivative financial assets at fair value through profit or loss held for trading	Fair value through profit or loss	Fair value through profit or loss (mandatorily)	23	174.9	(6.6)	–	168.3
Derivative financial assets designated as hedging instruments	Fair value through profit or loss (designated)	Fair value through profit or loss (mandatorily)		0.7	–	–	0.7
Due from other banks	Loans and receivables	Amortised cost	24	835.0	(35.5)	(0.7)	798.8
Due from other banks	Loans and receivables	Fair value through other comprehensive income	24	–	20.1	–	20.1
Due from other banks	Loans and receivables	Fair value through profit or loss (mandatorily)	24	–	15.4	(12.6)	2.8
Total Due from other banks				835.0	–	(13.3)	821.7
Loans and advances to customers	Loans and receivables	Amortised cost	25	9,171.4	(590.1)	(81.4)	8,499.9
Loans and advances to customers	Loans and receivables	Fair value through profit or loss (mandatorily)	25	–	439.8	(0.7)	439.1
Loans and advances to customers	Loans and receivables	Fair value through other comprehensive income	25	–	145.0	14.1	159.1
Total Loans and advances to customers				9,171.4	(5.3)	(68.0)	9,098.1
Investment financial assets	Available-for-sale	Fair value through other comprehensive income	26	321.8	(18.5)	–	303.3
Investment financial assets	Fair value through profit or loss	Amortised cost	26	–	23.5	(0.5)	23.0
Investment financial assets	Fair value through profit or loss (designated)	Fair value through profit or loss (designated)	26	–	18.5	–	18.5
Investment financial assets	Fair value through profit or loss (designated)	Fair value through profit or loss (mandatorily)	26	–	17.4	–	17.4
Investment financial assets	Available-for-sale	Fair value through profit or loss (mandatorily)	26	–	8.2	–	8.2
Investment financial assets	Available-for-sale	Amortised cost		–	2.7	–	2.7
Total Investment financial assets				321.8	51.8	(0.5)	373.1
Investments in associates and joint ventures at fair value through profit or loss	Fair value through profit or loss (designated)	Fair value through profit or loss (designated)		66.7	–	–	66.7
Other financial assets	Loans and receivables	Amortised cost	30	65.6	0.1	(0.2)	65.5
Other financial assets	Fair value through profit or loss	Fair value through profit or loss (mandatorily)	30	0.4	(0.1)	–	0.3
Total financial assets, including pledged under repurchase agreements where relevant				11,784.6	–	(82.0)	11,702.6
Financial liabilities							
Due to other banks	Amortised cost	Amortised cost		810.3	–	–	810.3
Customer deposits	Amortised cost	Amortised cost		9,144.7	–	–	9,144.7
Derivative financial liabilities at fair value through profit or loss held for trading	Fair value through profit or loss	Fair value through profit or loss (mandatorily)	23	133.3	–	–	133.3
Derivative financial liabilities designated as hedging instruments	Fair value through profit or loss (designated)	Fair value through profit or loss (mandatorily)		0.7	–	–	0.7
Other borrowed funds	Amortised cost	Amortised cost		304.5	–	–	304.5
Debt securities issued	Amortised cost	Amortised cost		322.7	–	–	322.7
Other financial liabilities	Amortised cost	Amortised cost	37	59.4	0.2	–	59.6
Other financial liabilities	Fair value through profit or loss	Fair value through profit or loss (mandatorily)	37	35.7	(0.2)	–	35.5
Other financial liabilities	Fair value through profit or loss (designated)	Fair value through profit or loss (designated)		3.7	–	–	3.7
Other financial liabilities	Provisions for loan commitments and financial guarantee contracts	Provisions for loan commitments and financial guarantee contracts	37, 52	4.1	–	4.1	8.2
Total Other financial liabilities				102.9	–	4.1	107.0
Subordinated debt	Amortised cost	Amortised cost		193.2	–	–	193.2
Total financial liabilities				11,012.3	–	4.1	11,016.4
Other non-financial liabilities	Provisions for performance guarantee contracts	Provisions for performance guarantee contracts	37, 52	14.7	–	2.0	16.7

Increase in net deferred income tax asset related to remeasurement under IFRS 9 amounted to RUR 18.1 billion (Note 20)

3. ADOPTION OF NEW AND REVISED STANDARDS AND INTERPRETATIONS (CONTINUED)**Effect of transition to IFRS 9 (continued)**

The following table shows the effects of the reclassification of financial assets measured at fair value under IAS 39 categories into financial assets measured at amortised cost under IFRS 9.

From financial assets held-for-trading under IAS 39	23.5
• of which redeemed during the year ended 31 December 2018	(1.6)
• disposed resulting a sale of subsidiary	(21.8)
Fair value as at 31 December 2018	—
Fair value loss that would have been recognised in profit and loss for the year ended 31 December 2018 if the financial assets had not been reclassified	(0.1)
From investment financial assets available-for-sale under IAS 39	2.7
• of which redeemed during the year ended 31 December 2018	(1.8)
Fair value as at 31 December 2018	1.0
Fair value gain that would have been recognised in other comprehensive income for the year ended 31 December 2018 if the financial assets had not been reclassified	0.1

The following table reconciles the closing impairment allowance for financial assets and provisions for loan commitments and financial guarantee contracts in accordance with IAS 39 and IAS 37 as at 31 December 2017, to opening expected credit losses allowance determined in accordance with IFRS 9 as at 1 January 2018.

	Note	31 December 2017 (IAS 39 / IAS 37)	Reclassifica- tions and effect of changes in measurement basis	Remeasure- ment under IFRS 9	1 January 2018 (IFRS 9)
Due from banks under IAS 39 / financial assets at amortised cost under IFRS 9	24	(18.6)	18.1	(0.7)	(1.2)
Loans and advances to customers under IAS 39 / financial assets at amortised cost under IFRS 9	25	(601.4)	32.5	(174.2)	(743.1)
Debt investment financial assets available-for-sale under IAS 39 reclassified to amortised cost under IFRS 9	26	—	—	(0.1)	(0.1)
Debt investment financial assets available-for-sale under IAS 39 / debt investment financial assets at fair value through other comprehensive income under IFRS 9	26	—	—	(0.2)	(0.2)
Other financial assets	30	(3.6)	—	(0.2)	(3.8)
Total impairment allowance for financial assets		(623.6)	50.6	(175.4)	(748.4)
Undrawn credit lines and financial guarantee contracts issued	52	(4.1)	—	(4.1)	(8.2)
Performance guarantee contracts issued	52	(14.7)	—	(2.0)	(16.7)

As at 1 January 2018, the amount of expected credit losses allowance for financial assets at amortised cost includes the effect of remeasurement for the gross carrying value financial assets.

IFRS 15 Revenue from Contracts with Customers (issued on 28 May 2014 and effective for the periods beginning on or after 1 January 2018). The new standard introduces the core principle that revenue must be recognised when the goods or services are transferred to the customer, at the transaction price. Any bundled goods or services that are distinct must be separately recognised, and any discounts or rebates on the contract price must generally be allocated to the separate elements. When the consideration varies for

any reason, minimum amounts must be recognised if they are not at significant risk of reversal. Costs incurred to secure contracts with customers have to be capitalised and amortised over the period when the benefits of the contract are consumed.

The Group applies IFRS 15 using modified retrospective approach, which means that recalculations were performed only for contracts that were not completed as at 1 January 2018.

The effect presented below is primarily attributable to operations of Group members in the construction and development industry:

	Note	Original carrying amount	Recognition of revenue under IFRS 15 before taxation	New carrying amount under IFRS 15
Effect of transition to IFRS 15				
Other assets	30	408.4	(1.3)	407.1
Other liabilities	37	582.5	(2.7)	579.8

3. ADOPTION OF NEW AND REVISED STANDARDS AND INTERPRETATIONS (CONTINUED)

Decrease in net deferred income tax asset related to recognition of revenue under IFRS 15 amounted to RUR 0.3 billion (Note 20).

The following table analyses the impact, net of tax, of transition from IAS 39 and IAS 18 to IFRS 9 and IFRS 15 on reserves, retained earnings and non-controlling interest. There is no impact on other components of equity.

Other reserves (Fair value reserve for debt and equity investment financial assets and cash-flow hedges – Note 40)	
Closing balance (31 December 2017)	46.1
Remeasurement of debt financial assets at fair value through other comprehensive income under IFRS 9	11.7
Remeasurement of equity investment financial assets at fair value through other comprehensive income under IFRS 9	(3.7)
Opening balance (1 January 2018)	54.1
Retained earnings	
Closing balance (31 December 2017)	200.4
Recognition of expected credit losses under IFRS 9 (including lease receivables, loan commitments and financial guarantee contracts) and other remeasurement effects	(74.9)
Recognition of revenue under IFRS 15	1.1
Opening balance (1 January 2018)	126.6
Non-controlling interest (Note 50)	
Closing balance (31 December 2017)	13.6
Recognition of expected credit losses under IFRS 9 (including lease receivables, loan commitments and financial guarantee contracts)	(3.1)
Opening balance (1 January 2018)	10.5

Amendments to IFRS 2 Share-based Payment

issued on 20 June 2016 with the effective date of annual periods beginning on or after 1 January 2018. The amendments clarifying how to account for certain types of share-based payment transactions and provide requirements on the accounting for:

- the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments;
- share-based payment transactions with a net settlement feature for withholding tax obligations; and
- a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled.

Other amendments

The following amendments and interpretation are also effective from 1 January 2018:

- IFRIC Interpretation 22 *Foreign Currency Transactions and Advance Consideration*;
- Amendments to IAS 40 *Transfers of Investment Property*;
- Amendments to IFRS 4 *Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts*;
- Amendments to IAS 28 *Investments in Associates and Joint Ventures* – Clarification that measuring investees at fair value through profit or loss is an investment-by-investment choice. The Group has early adopted these amendments starting 1 April 2017.

Unless otherwise described above, the new and revised standards and interpretations not affect significantly the Group's consolidated financial statements.

DELIVING INTO NUMBERS

4.	ANALYSIS BY SEGMENT	23	19.	STAFF COSTS AND ADMINISTRATIVE EXPENSES	40
5.	INTEREST INCOME AND EXPENSE.....	36	20.	INCOME TAX	40
6.	NET FEE AND COMMISSION INCOME	36	21.	CASH AND SHORT-TERM FUNDS	43
7.	GAINS NET OF LOSSES ARISING FROM OTHER FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS	36	22.	TRADING FINANCIAL ASSETS.....	43
8.	GAINS NET OF LOSSES ARISING FROM SALE OF FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME AND FROM SALE OF INVESTMENT FINANCIAL ASSETS AVAILABLE-FOR-SALE	37	23.	DERIVATIVE FINANCIAL INSTRUMENTS....	45
9.	GAINS NET OF LOSSES / (LOSSES NET OF GAINS) ARISING FROM FOREIGN CURRENCIES AND PRECIOUS METALS	37	24.	DUE FROM OTHER BANKS.....	47
10.	OTHER GAINS NET OF LOSSES ON FINANCIAL INSTRUMENTS AT AMORTISED COST	37	25.	LOANS AND ADVANCES TO CUSTOMERS	49
11.	LOSSES NET OF GAINS FROM EXTINGUISHMENT OF LIABILITIES.....	37	26.	INVESTMENT FINANCIAL ASSETS.....	54
12.	OTHER OPERATING INCOME.....	38	27.	LAND, PREMISES AND EQUIPMENT.....	57
13.	REVENUES LESS EXPENSES FROM OPERATING LEASING	38	28.	INVESTMENT PROPERTY.....	58
14.	REVENUES AND OTHER GAINS FROM OTHER NON-BANKING ACTIVITIES	38	29.	GOODWILL AND OTHER INTANGIBLE ASSETS	59
15.	COST OF SALES AND OTHER EXPENSES FROM OTHER NON-BANKING ACTIVITIES.	38	30.	OTHER ASSETS.....	64
16.	NET INSURANCE PREMIUMS EARNED	39	31.	DISPOSAL GROUPS AND NON-CURRENT ASSETS HELD FOR SALE	66
17.	NET INSURANCE CLAIMS INCURRED, MOVEMENT IN LIABILITIES TO POLICYHOLDERS AND ACQUISITION COSTS	39	32.	DUE TO OTHER BANKS	67
18.	OTHER OPERATING EXPENSE	40	33.	CUSTOMER DEPOSITS	67
			34.	OTHER BORROWED FUNDS	68
			35.	DEBT SECURITIES ISSUED	69
			36.	SUBORDINATED DEBT	69
			37.	OTHER LIABILITIES	70
			38.	SHARE CAPITAL	71
			39.	PERPETUAL LOAN PARTICIPATION NOTES	71
			40.	OTHER RESERVES	72
			41.	DIVIDENDS AND AMOUNTS PAID UNDER PERPETUAL LOAN PARTICIPATION NOTES	73

4. ANALYSIS BY SEGMENT

In accordance with IFRS 8, *Operating Segments*, the Group has defined five reportable segments.

- Corporate-Investment banking (CIB)
- Medium and Small banking (MSB)
- Retail business (RB)
- Treasury
- Other business

The Group has also separately disclosed Corporate Centre.

The Group also disclosed in 2018 a new acquisition - non distributed item as a separate reportable segment that presents data of a subsidiary acquired in 2018 (Note 48). As the control over the subsidiary was obtained in the fourth quarter 2018, the Group has not yet allocate the respective data to reportable segments. Following the further integration of activities of the subsidiary into the Group's global business lines the data for the subsidiary will be presented within reportable segments listed above.

The composition of reportable segments is approved by resolutions of VTB Group's Management Committee (Chief Decision Makers), the body that on a regular basis assesses performance of reportable segments and allocates resources to them.

(a) Factors that management used in order to identify the reportable segments

The Group's segments are strategic business lines that are managed separately, focus on different clients and have product specialisation.

The majority of the Group's activities and resources are allocated and managed, and their performance is assessed via the respective segment information.

(b) Segments' business activities

The CIB, MSB and RB segments are global business lines that focus on servicing different customer segments.

The Treasury and Other Business segments, as well as Corporate Centre do not constitute separate global business lines.

The criteria used to identify client segments for each global business line are set by the Group Management Committee. They include principles for allocating customers between large, medium and small business customer segments.

CIB and MSB

CIB global business line encompasses operations with corporate customers that are 'large business' customers and banking financial institutions, as well as operations on the securities market, excluding operations with securities for liquidity management purposes.

MSB global business line encompasses operations with corporate customers of "medium business" and "small business" categories.

To provide additional information, the Group also discloses the following product lines as part of the CIB reportable segment:

- Investment banking
- Loans and Deposits
- Transaction banking

Investment Banking

The Investment banking product line in the CIB reportable segment comprises:

- operations with prevailing market risk including loans with exposure to market risks;
- corporate finance operations;
- asset management, brokerage services and financial consulting;
- operations with precious metals;
- profit-taking operations on the financial and currency markets, including interbank market;
- other products and services with prevailing market risk.

The Investment banking product line also includes term funding from certain clients (including promissory notes issued), based on the decision of VTB Group's Management Committee.

Loans and Deposits

The Loans and deposits product line covers:

- operations with prevailing credit risk and interest rate risk, such as lending to corporate customers (large and medium businesses segments), including overdrafts on customers' current accounts;
- trade and export financing;

Transaction Banking

The Transaction banking product line consists of fee-based services and products with prevailing operational risks. It includes:

- operations with corporate customers; current and settlement accounts and term deposits;
- documentary operations, including letters of credit and guarantees;
- depositary operations;
- fee-based services of all kinds not related to operations on the financial markets and currency valuables: settlement and cash services, collection, storage box, remote banking services, payment processing centre service.

4. ANALYSIS BY SEGMENT (CONTINUED)**(b) Segments' business activities (continued)****Retail business**

RB global business line encompasses operations with individuals and specific operations with corporate customers.

The retail business reportable segment covers: Retail banking product line that includes:

- operations with individuals;
- insurance product line which includes all types of insurance products and services;
- pension funds product line, which include non-government pension funds.

The Retail banking product line comprises operations with individuals and also internet and mobile POS-acquiring operations with major retail chains, operations of individuals with plastic cards, payroll related services, payment processing centre service.

Treasury

The Treasury comprises:

- operations to manage liquidity (including those with securities portfolios maintained for liquidity management purposes);
- operations on financial and interbank markets as a part of management of payment and currency positions, as well as interest rate risk management;
- cash flow management within the Head office or subsidiary and between VTB Group members;
- debt financing operations;
- reallocation of resources between segments both within the Head office or subsidiary and between VTB Group members.

The net financial results of the Treasury reportable segment are allocated to other reportable segments in accordance with established methodology.

Corporate Centre

The Corporate Centre represents unallocated staff and administrative expenses related to VTB Group's management, as well as expenses on strategic programmes connected with VTB Group's brand development and positioning on the local and international markets, etc. It may also include other items resulting from intersegment reallocations as determined by VTB Group's Management Committee. Corporate Center also includes investments in associates not allocated to reportable segments.

Other business

The other business includes two lines of business: Construction and development and Other.

The Construction and development business line is non-banking operations undertaken by Group members operating in the construction and development industry.

The Other activities represent non-banking business, other than insurance, construction and development.

(c) Managing operating segments' profit or loss, assets or liabilities

The performance of a segment and its profit or loss are measured in accordance with IFRS, as adjusted by intersegment reallocations and decisions of VTB Group's Management Committee regarding the allocation of operations between segments.

The Head office and the Group members prepare segment reporting using unified rules.

Intersegment transactions within a single entity of the Group are settled using the internal transfer prices, which are designed to reflect the cost of resources. Transfer prices are set and reviewed on a regular basis in each of the Group's entities.

VTB Group's Management Committee evaluates segments' performance based on their net profit after tax, as well as other qualitative and quantitative information.

Intersegment transactions are predominantly conducted in the normal course of business.

As at 31 December 2018, the Group's reportable segments and their compositions remained as disclosed in the consolidated financial statements as at 31 December 2017 except for the changes described below.

As at 1 January 2018, the Group approved new rules of operations allocation assignment to MSB and RB segments. Starting from 1 January 2018, operations with "small business" corporate customers are allocated to MSB segments and excluded from RB segment.

MSB global business line encompasses operations with corporate customers of "medium business" and "small business" categories.

Additionally, following the merger of "Bank VTB 24", PJSC into VTB Bank (PJSC), principles of transfer-pricing system, approved for multi-segment participants of the Group, which have "Treasury" segment, began to be applicable for RB.

Comparative information for the year ended 31 December 2017 and as at 31 December 2017 was not restated due to the fact that areas of responsibility are not reassessed retrospectively, as they are set and valid during 2017 and due to the fact that the necessary information was not readily available and the cost to develop it would have been excessive.

As a result, MSB and RB segment information disclosed in these consolidated financial statements is not presented on a fully comparable basis.

VTB BANK
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2018 (CONTINUED)
4. ANALYSIS BY SEGMENT (CONTINUED)

	Corporate-Investment banking (CIB)		Medium and Small banking (MSB)		Retail business (RB)		Treasury		Corporate centre		Other business		New acquisitions – non distributed		Inter-segment eliminations		Total	
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
Revenues from:																		
External customers	632.6	615.4	131.9	85.8	576.0	581.0	68.5	113.1	1.7	4.9	50.1	67.7	7.7	n/a	-	-	1,468.5	1,467.9
Other segments	250.5	249.6	88.3	59.1	229.6	104.9	742.0	552.8	-	0.4	6.8	5.2	0.2	n/a	(1,317.4)	(972.0)	-	-
Total revenues	883.1	865.0	220.2	144.9	805.6	685.9	810.5	665.9	1.7	5.3	56.9	72.9	7.9	n/a	(1,317.4)	(972.0)	1,468.5	1,467.9
Segment income and expense:																		
Interest income	744.2	759.0	185.9	132.5	592.6	487.2	801.4	632.9	0.2	0.7	5.8	4.2	5.9	n/a	(1,302.0)	(960.3)	1,034.0	1,056.2
Interest expense	(596.3)	(604.0)	(129.8)	(104.6)	(391.4)	(221.0)	(696.2)	(582.7)	(0.5)	(1.2)	(28.2)	(28.1)	(2.7)	n/a	1,302.5	960.3	(542.6)	(581.3)
Payments to deposit insurance system	-	-	(0.4)	-	(22.1)	(14.5)	(0.1)	(0.2)	-	-	-	-	(0.2)	n/a	-	-	(22.8)	(14.7)
Treasury result allocation	20.9	2.1	10.9	5.1	41.5	0.9	(90.1)	(14.1)	7.5	6.1	9.3	(0.1)	-	n/a	-	-	-	-
Net interest income/(expense)	168.8	157.1	66.6	33.0	220.6	252.6	15.0	35.9	7.2	5.6	(13.1)	(24.0)	3.0	n/a	0.5	-	468.6	460.2
(Provision charge) / reversal of provision for credit losses on debt financial assets	(59.3)	(75.4)	(19.9)	(17.4)	(51.8)	(47.5)	0.3	(28.8)	(29.1)	-	0.8	(0.1)	(1.6)	n/a	-	-	(160.6)	(169.2)
Net interest income/(expense) after provision charge for credit losses	109.5	81.7	46.7	15.6	168.8	205.1	15.3	7.1	(21.9)	5.6	(12.3)	(24.1)	1.4	n/a	0.5	-	308.0	291.0
Net fee and commission income	20.7	22.6	27.1	8.9	38.5	60.5	1.7	2.8	-	-	0.7	0.5	1.4	n/a	(0.1)	-	90.0	95.3
Other gains net of losses/(losses net of gains) arising from financial instruments and foreign currencies	43.2	45.1	2.8	0.7	4.6	17.0	0.3	(9.6)	-	-	(3.4)	(0.6)	0.2	n/a	-	0.4	47.7	53.0
Share in profit/(loss) of associates and joint ventures	6.3	(0.6)	0.2	0.2	1.1	-	0.1	(0.3)	1.4	3.1	(1.0)	(1.2)	-	n/a	-	-	8.1	1.2
Profit/(losses) from disposal of subsidiaries and associates	0.2	(0.7)	-	-	56.7	0.1	(17.3)	-	-	-	1.2	0.1	-	n/a	-	-	40.8	(0.5)
(Provision charge)/reversal of provision for credit losses on credit related commitments and other financial assets	(1.9)	0.6	(2.1)	(0.8)	(0.4)	(2.5)	-	-	(2.1)	-	(0.2)	-	0.2	n/a	-	-	(6.5)	(2.7)
Other operating (expense)/income	23.0	16.0	(0.7)	0.5	(2.9)	8.8	(0.1)	-	(0.2)	(0.7)	(34.6)	(39.9)	2.6	n/a	(1.0)	(1.4)	(13.9)	(16.7)
Net operating income/(expense)	201.0	164.7	74.0	25.1	266.4	289.0	-	-	(22.8)	8.0	(49.6)	(65.2)	5.8	n/a	(0.6)	(1.0)	474.2	420.6
Staff costs and administrative expenses	(65.1)	(62.7)	(31.3)	(18.7)	(125.1)	(145.2)	-	-	(28.7)	(24.4)	(8.6)	(11.9)	(2.4)	n/a	1.4	2.0	(259.8)	(260.9)
Profit/(loss) before tax	135.9	102.0	42.7	6.4	141.3	143.8	-	-	(51.5)	(16.4)	(58.2)	(77.1)	3.4	n/a	0.8	1.0	214.4	159.7
Income tax (expense)/benefit	(33.6)	(25.8)	(8.8)	(1.6)	(31.5)	(29.5)	-	-	29.8	4.3	8.8	13.0	(0.2)	n/a	(0.1)	(0.1)	(35.6)	(39.7)
Net profit/(loss) after tax	102.3	76.2	33.9	4.8	109.8	114.3	-	-	(21.7)	(12.1)	(49.4)	(64.1)	3.2	n/a	0.7	0.9	178.8	120.0
Profit after tax from subsidiaries acquired exclusively with a view to resale	-	0.1	-	-	-	-	-	-	-	-	-	-	-	n/a	-	-	-	0.1
Net profit/(loss)	102.3	76.3	33.9	4.8	109.8	114.3	-	-	(21.7)	(12.1)	(49.4)	(64.1)	3.2	n/a	0.7	0.9	178.8	120.1
Capital expenditure	43.3	39.7	2.7	2.6	14.6	23.2	-	-	-	-	16.8	18.2	-	n/a	-	-	77.4	83.7
Depreciation	14.1	11.3	3.0	3.0	9.5	9.8	-	-	0.5	0.9	2.4	2.1	0.1	n/a	-	0.1	29.6	27.2

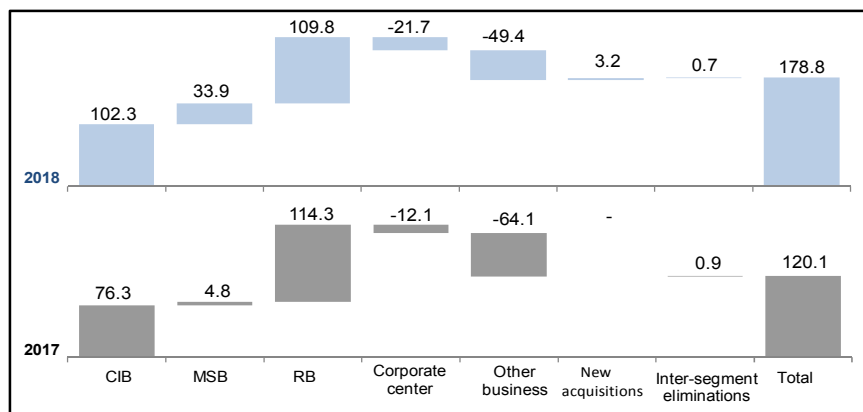
4. ANALYSIS BY SEGMENT (CONTINUED)

	Corporate-Investment banking (CIB)		Medium and Small banking (MSB)		Retail business (RB)		Treasury		Corporate centre		Other business		New acquisitions – non distributed		Inter-segment eliminations		Total	
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
Net profit/(loss)	102.3	76.3	33.9	4.8	109.8	114.3	-	-	(21.7)	(12.1)	(49.4)	(64.1)	3.2	n/a	0.7	0.9	178.8	120.1
Net result on debt financial assets at fair value through other comprehensive income, net of tax	(3.2)	n/a	-	n/a	-	n/a	(11.6)	n/a	-	n/a	-	n/a	(0.1)	n/a	(0.3)	n/a	(15.2)	n/a
Net result on financial assets available-for-sale, net of tax	n/a	-	n/a	-	n/a	2.7	n/a	1.5	n/a	-	n/a	(2.6)	n/a	n/a	n/a	0.9	n/a	2.5
Cash flow hedges, net of tax	-	0.6	-	-	-	-	-	-	-	-	-	(0.7)	-	n/a	-	-	-	(0.1)
Share of other comprehensive loss of associates and joint ventures	-	-	-	-	-	-	3.2	(0.4)	-	-	0.3	-	-	n/a	-	-	3.5	(0.4)
Effect of translation, net of tax	-	-	-	-	-	-	33.8	0.3	-	-	-	-	-	n/a	-	-	33.8	0.3
Actuarial (losses net of gains)/gains net of losses / arising from difference between pension plan assets and obligations	(0.2)	1.1	-	-	-	-	-	-	-	-	-	-	-	n/a	-	-	(0.2)	1.1
Land and premises revaluation, net of tax	0.3	-	1.6	-	2.9	-	0.1	-	-	-	1.3	(0.1)	-	n/a	-	-	6.2	(0.1)
Total other comprehensive (loss)/income before treasury result allocation	(3.1)	1.7	1.6	-	2.9	2.7	25.5	1.4	-	-	1.6	(3.4)	(0.1)	n/a	(0.3)	0.9	28.1	3.3
Treasury result allocation	(0.8)	1.0	(0.9)	0.2	(1.3)	0.1	(25.5)	(1.4)	28.5	0.1	-	-	n/a	n/a	-	-	-	-
Total other comprehensive (loss)/income	(3.9)	2.7	0.7	0.2	1.6	2.8	-	-	28.5	0.1	1.6	(3.4)	(0.1)	n/a	(0.3)	0.9	28.1	3.3
Total comprehensive income/(loss)	98.4	79.0	34.6	5.0	111.4	117.1	-	-	6.8	(12.0)	(47.8)	(67.5)	3.1	n/a	0.4	1.8	206.9	123.4

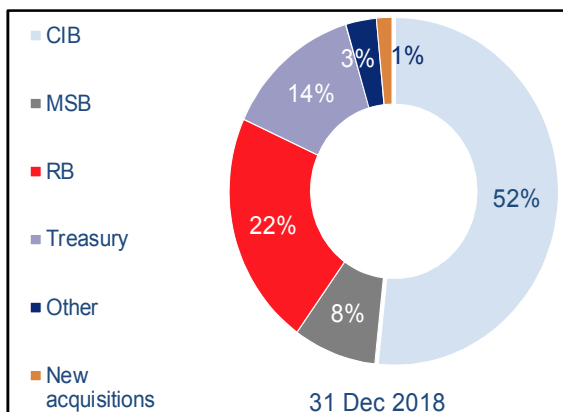
As at 31 December 2018 and for the year then ended provision for credit losses on debt financial assets and provision charge for credit losses on debt financial assets amounted to RUR 732.6 billion and RUR 160.6 billion, respectively; provision and provision charge for credit losses on credit related commitments and other financial assets amounted to RUR 28.1 billion and RUR 8.3 billion, respectively. Included in these amounts is the amount of RUR 94.0 billion, which represents the provision for credit losses on debt financial instruments and off-balance sheet items related to the Group's exposure to certain groups of borrowers that in the Group's management view are subject to industry and other portfolio specific risks. Group's exposure to these groups of borrowers are predominantly residing in the Corporate and Investment Banking segment. For the purpose of CIB segment performance measurement VTB Group's Management Committee has decided to reallocate RUR 31.2 billion from CIB segment to the Corporate Center segment.

4. ANALYSIS BY SEGMENT (CONTINUED)

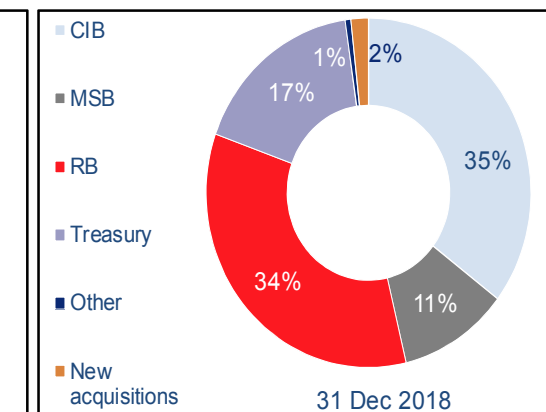
Net (loss)/profit after tax by segment



Segment assets



Segment liabilities

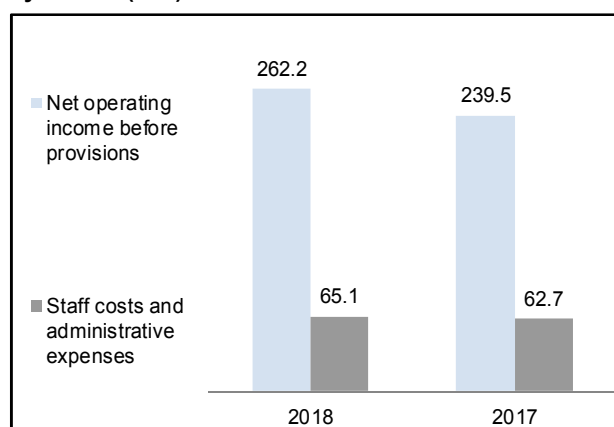


	Corporate-Investment banking (CIB)		Medium and Small banking (MSB)		Retail business (RB)		Treasury		Corporate centre		Other business		New acquisitions – non distributed		Inter-segment eliminations		Total	
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
Cash and short-term funds	25.8	48.6	-	-	103.6	273.0	788.8	452.1	-	-	0.1	0.1	17.5	n/a	-	-	935.8	773.8
Mandatory cash balances with central banks	-	-	-	-	-	28.4	109.4	68.7	-	-	-	-	1.7	n/a	-	-	111.1	97.1
Due from other banks	207.4	215.8	-	-	22.2	93.2	443.2	519.3	4.9	6.7	-	-	15.4	n/a	-	-	693.1	835.0
Loans and advances to customers	6,368.1	5,463.9	1,132.8	755.6	2,694.7	2,502.7	358.7	433.0	(29.1)	-	15.1	16.2	154.9	n/a	-	-	10,695.2	9,171.4
Other financial instruments	389.4	335.4	0.3	-	138.2	168.5	287.7	261.0	-	-	13.7	9.7	24.5	n/a	-	-	853.8	774.6
Investments in associates and joint ventures	167.3	68.8	0.6	0.5	73.8	-	7.3	6.6	20.5	15.6	13.7	25.6	-	n/a	-	-	283.2	117.1
Other assets items	472.8	508.6	78.5	72.7	197.4	210.5	14.0	27.5	2.2	0.7	408.8	420.3	14.7	n/a	-	-	1,188.4	1,240.3
Net amount of intersegment settlements	-	-	347.3	194.5	1,576.0	1,907.5	760.8	495.5	22.2	-	-	-	15.7	n/a	(2,722.0)	(2,597.5)	-	-
Segment assets	7,630.8	6,641.1	1,559.5	1,023.3	4,805.9	5,183.8	2,769.9	2,263.7	20.7	23.0	451.4	471.9	244.4	n/a	(2,722.0)	(2,597.5)	14,760.6	13,009.3
Due to other banks	346.0	19.7	1.8	0.8	0.1	0.2	1,076.7	788.0	-	1.6	-	-	1.1	n/a	-	-	1,425.7	810.3
Customer deposits	3,874.8	3,417.5	1,404.8	893.1	4,201.6	4,294.8	702.2	535.7	-	-	4.6	3.6	215.7	n/a	-	-	10,403.7	9,144.7
Other borrowed funds	167.2	128.9	0.8	0.2	0.4	8.3	159.4	163.9	-	-	-	3.2	1.9	n/a	-	-	329.7	304.5
Debt securities issued	25.2	12.2	19.4	13.1	93.0	72.0	118.4	225.4	-	-	-	-	3.1	n/a	-	-	259.1	322.7
Subordinated debt	-	-	-	-	0	-	211.5	193.2	-	-	-	-	3.0	n/a	-	-	214.5	193.2
Other liabilities items	270.1	278.5	14.6	10.6	231.2	354.4	12.6	6.9	2.1	-	69.8	103.8	4.5	n/a	-	-	604.9	754.2
Net amount of intersegment settlements	2,331.5	2,272.3	-	-	-	-	-	-	-	8.8	390.5	316.4	-	n/a	(2,722.0)	(2,597.5)	-	-
Segment liabilities	7,014.8	6,129.1	1,441.4	917.8	4,526.3	4,729.7	2,280.8	1,913.1	2.1	10.4	464.9	427.0	229.3	n/a	(2,722.0)	(2,597.5)	13,237.6	11,529.6

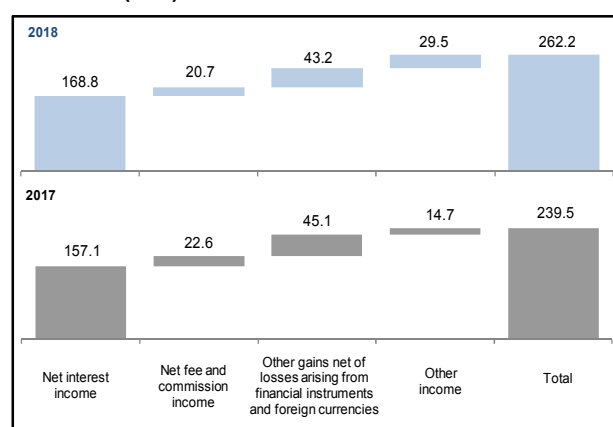
4. ANALYSIS BY SEGMENT (CONTINUED)

	Corporate-Investment banking (CIB) by product lines									
	Investment banking		Loans and deposits		Transaction banking		Inter-CIB eliminations		Total CIB	
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
Revenues from:										
External customers	217.0	198.2	391.2	393.9	24.4	23.3	-	-	632.6	615.4
Other segments	166.7	161.7	9.3	10.4	74.6	77.6	(0.1)	(0.1)	250.5	249.6
Total revenues	383.7	359.9	400.5	404.3	99.0	100.9	(0.1)	(0.1)	883.1	865.0
Segment income and expense										
Interest income	295.0	298.1	365.3	374.4	83.9	86.5	-	-	744.2	759.0
Interest expense	(251.5)	(247.9)	(287.0)	(290.6)	(57.8)	(65.5)	-	-	(596.3)	(604.0)
Treasury result allocation	9.2	4.8	10.0	(4.6)	1.7	1.9	-	-	20.9	2.1
Net interest income	52.7	55.0	88.3	79.2	27.8	22.9	-	-	168.8	157.1
(Provision charge)/reversal of provision for credit losses on debt financial assets	(15.4)	0.5	(43.2)	(75.8)	(0.7)	(0.1)	-	-	(59.3)	(75.4)
Net interest income after provision charge for credit losses	37.3	55.5	45.1	3.4	27.1	22.8	-	-	109.5	81.7
Net fee and commission income	7.8	8.7	1.2	0.5	11.7	13.4	-	-	20.7	22.6
Other gains net of losses/(losses net of gains) arising from financial instruments and foreign currencies	44.8	44.8	(1.6)	0.4	-	-	-	(0.1)	43.2	45.1
Share in profit/(loss) of associates and joint ventures	5.6	0.5	0.7	(1.1)	-	-	-	-	6.3	(0.6)
Profit/(loss) from disposal of subsidiaries and associates	0.2	(0.7)	-	-	-	-	-	-	0.2	(0.7)
Reversal of provision/(provision charge) for credit losses on credit related commitments and other financial assets	(0.2)	-	(5.8)	0.8	4.1	(0.2)	-	-	(1.9)	0.6
Other operating income	7.2	1.3	13.3	14.7	2.5	-	-	-	23.0	16.0
Net operating income	102.7	110.1	52.9	18.7	45.4	36.0	-	(0.1)	201.0	164.7
Staff costs and administrative expenses	(33.6)	(30.3)	(21.4)	(21.3)	(10.1)	(11.1)	-	-	(65.1)	(62.7)
Profit/(loss) before tax	69.1	79.8	31.5	(2.6)	35.3	24.9	-	(0.1)	135.9	102.0
Income tax expense	(18.1)	(17.3)	(8.1)	(3.1)	(7.4)	(5.4)	-	-	(33.6)	(25.8)
Net profit/(loss) after tax	51.0	62.5	23.4	(5.7)	27.9	19.5	-	(0.1)	102.3	76.2
Profit after tax from subsidiaries acquired exclusively with a view to resale	-	0.1	-	-	-	-	-	-	-	0.1
Net profit/(loss)	51.0	62.6	23.4	(5.7)	27.9	19.5	-	(0.1)	102.3	76.3
Capital expenditure	0.6	2.0	41.8	35.8	0.9	1.9	-	-	43.3	39.7
Depreciation	0.9	0.8	12.6	9.9	0.6	0.6	-	-	14.1	11.3

Net operating income and administrative expenses dynamics (CIB)



Net operating income before provisions: structure (CIB)



4. ANALYSIS BY SEGMENT (CONTINUED)

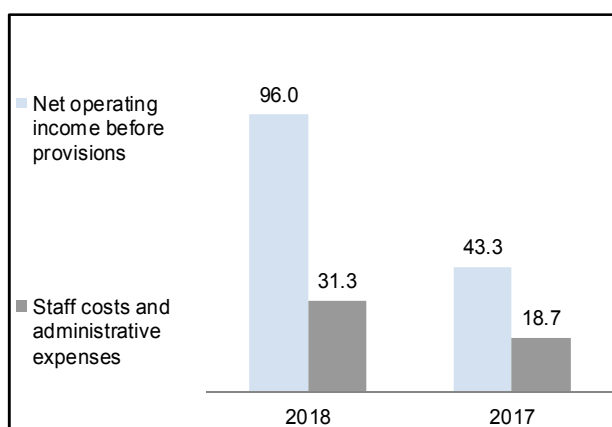
	Corporate-Investment banking (CIB) by product lines									
	Investment banking		Loans and deposits		Transaction banking		Inter-CIB eliminations		Total CIB	
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
Net profit/(loss)	51.0	62.6	23.4	(5.7)	27.9	19.5	-	(0.1)	102.3	76.3
Other comprehensive income/ (loss):										
Net result on debt financial assets at fair value through other comprehensive income, net of tax	(3.2)	n/a	-	n/a	-	n/a	-	n/a	(3.2)	n/a
Net result on financial assets available-for-sale, net of tax	n/a	0.9	n/a	(0.9)	n/a	-	n/a	-	n/a	-
Cash flow hedges, net of tax	-	0.6	-	-	-	-	-	-	-	0.6
Actuarial (losses) net of gains/gains net of losses arising from difference between pension plan assets and obligations	(0.2)	1.1	-	-	-	-	-	-	(0.2)	1.1
Land and premises revaluation, net of tax	-	-	0.1	-	0.2	-	-	-	0.3	-
Total other comprehensive (loss)/income before treasury result allocation	(3.4)	2.6	0.1	(0.9)	0.2	-	-	-	(3.1)	1.7
Treasury result allocation	-	0.1	-	-	(0.8)	0.9	-	-	(0.8)	1.0
Total other comprehensive (loss)/income	(3.4)	2.7	0.1	(0.9)	(0.6)	0.9	-	-	(3.9)	2.7
Total comprehensive income/(loss)	47.6	65.3	23.5	(6.6)	27.3	20.4	-	(0.1)	98.4	79.0

	Corporate-Investment banking (CIB) by product lines									
	Investment banking		Loans and deposits		Transaction banking		Inter-CIB eliminations		Total CIB	
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
Cash and short-term funds	19.4	48.6	-	-	6.4	-	-	-	25.8	48.6
Due from other banks	81.9	93.5	125.5	122.3	-	-	-	-	207.4	215.8
Loans and advances to customers	1,581.4	1,565.2	4,570.4	3,768.6	216.3	130.1	-	-	6,368.1	5,463.9
Other financial instruments	389.2	335.4	0.2	-	-	-	-	-	389.4	335.4
Investments in associates and joint ventures	166.2	68.8	1.1	-	-	-	-	-	167.3	68.8
Other assets items	128.1	205.3	328.8	275.2	15.9	28.1	-	-	472.8	508.6
Net amount of intersegment settlements	753.1	313.7	-	-	1,323.6	1,132.3	(2,076.7)	(1,446.0)	-	-
Segment assets	3,119.3	2,630.5	5,026.0	4,166.1	1,562.2	1,290.5	(2,076.7)	(1,446.0)	7,630.8	6,641.1
Due to other banks	311.1	11.5	33.8	5.2	1.1	3.0	-	-	346.0	19.7
Customer deposits	2,362.1	2,195.3	1.2	0.1	1,511.5	1,222.1	-	-	3,874.8	3,417.5
Other borrowed funds	-	-	167.2	128.9	-	-	-	-	167.2	128.9
Debt securities issued	18.7	7.2	-	5.0	6.5	-	-	-	25.2	12.2
Other liabilities items	220.2	227.6	36.3	29.9	13.6	21.0	-	-	270.1	278.5
Net amount of intersegment settlements	-	-	4,408.2	3,718.3	-	-	(2,076.7)	(1,446.0)	2,331.5	2,272.3
Segment liabilities	2,912.1	2,441.6	4,646.7	3,887.4	1,532.7	1,246.1	(2,076.7)	(1,446.0)	7,014.8	6,129.1

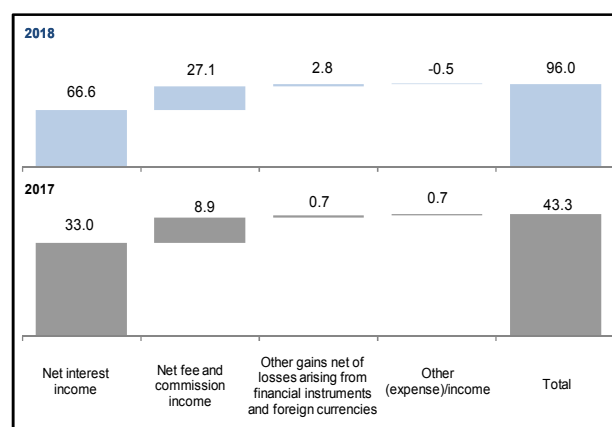
4. ANALYSIS BY SEGMENT (CONTINUED)

	Medium and Small banking (MSB) by product lines					
	Medium business		Small business		Total MSB	
	2018	2017	2018	2017	2018	2017
Revenues from:						
External customers	95.7	85.8	36.2	-	131.9	85.8
Other segments	69.0	59.1	19.3	-	88.3	59.1
Total revenues	164.7	144.9	55.5	-	220.2	144.9
Segment income and expense						
Interest income	148.8	132.5	37.1	-	185.9	132.5
Interest expense	(110.4)	(104.6)	(19.4)	-	(129.8)	(104.6)
Payments to deposit insurance system	(0.1)	-	(0.3)	-	(0.4)	-
Treasury result allocation	8.6	5.1	2.3	-	10.9	5.1
Net interest income	46.9	33.0	19.7	-	66.6	33.0
Provision charge for credit losses on debt financial assets	(19.3)	(17.4)	(0.6)	-	(19.9)	(17.4)
Net interest income after provision charge for credit losses	27.6	15.6	19.1	-	46.7	15.6
Net fee and commission income	11.0	8.9	16.1	-	27.1	8.9
Other gains net of losses arising from financial instruments and foreign currencies	1.7	0.7	1.1	-	2.8	0.7
Share in profit of associates and joint ventures	0.2	0.2	-	-	0.2	0.2
Provision charge for credit losses on credit related commitments and other financial assets	(1.8)	(0.8)	(0.3)	-	(2.1)	(0.8)
Other operating (expense)/income	0.3	0.5	(1.0)	-	(0.7)	0.5
Net operating income	39.0	25.1	35.0	-	74.0	25.1
Staff costs and administrative expenses	(18.5)	(18.7)	(12.8)	-	(31.3)	(18.7)
Profit before taxation	20.5	6.4	22.2	-	42.7	6.4
Income tax expense	(4.3)	(1.6)	(4.5)	-	(8.8)	(1.6)
Net profit	16.2	4.8	17.7	-	33.9	4.8
Capital expenditure	1.5	2.6	1.2	-	2.7	2.6
Depreciation	2.2	3.0	0.8	-	3.0	3.0

Net operating income and administrative expenses dynamics (MSB)



Net operating income before provisions: structure (MSB)



4. ANALYSIS BY SEGMENT (CONTINUED)

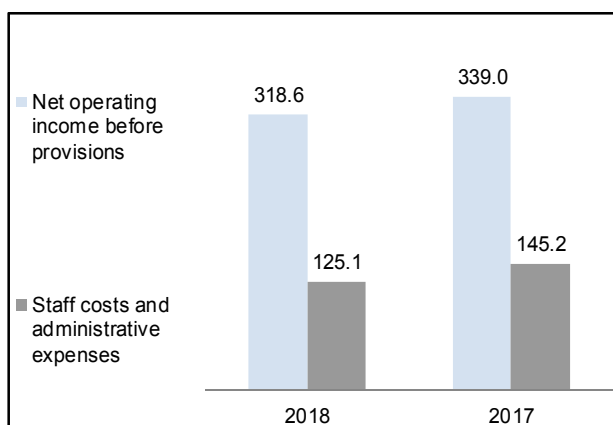
	Medium and Small banking (MSB) by product lines							
	Medium business		Small business		Inter-MSB eliminations		Total MSB	
	2018	2017	2018	2017	2018	2017	2018	2017
Net profit/(loss)	16.2	4.8	17.7	-	-	-	33.9	4.8
Other comprehensive income/ (loss):								
Land and premises revaluation, net of tax	0.4	-	1.2	-	-	-	1.6	-
Total other comprehensive income/(loss) before treasury result allocation	0.4	-	1.2	-	-	-	1.6	-
Treasury result allocation	(0.6)	0.2	(0.3)	-	-	-	(0.9)	0.2
Total other comprehensive income/(loss)	(0.2)	0.2	0.9	-	-	-	0.7	0.2
Total comprehensive income/(loss)	16.0	5.0	18.6	-	-	-	34.6	5.0

	Medium and Small banking (MSB) by product lines							
	Medium business		Small business		Inter-MSB eliminations		Total MSB	
	2018	2017	2018	2017	2018	2017	2018	2017
Cash and short-term funds	-	-	-	-	-	-	-	-
Loans and advances to customers	978.5	755.6	154.3	-	-	-	1,132.8	755.6
Other financial instruments	0.3	-	-	-	-	-	0.3	-
Investments in associates and joint ventures	0.6	0.5	-	-	-	-	0.6	0.5
Other assets items	55.7	72.7	22.8	-	-	-	78.5	72.7
Net amount of intersegment settlements	173.0	194.5	174.3	-	-	-	347.3	194.5
Segment assets	1,208.1	1,023.3	351.4	-	-	-	1,559.5	1,023.3
Due to other banks	1.8	0.8	-	-	-	-	1.8	0.8
Customer deposits	1,072.9	893.1	331.9	-	-	-	1,404.8	893.1
Other borrowed funds	-	0.2	0.8	-	-	-	0.8	0.2
Debt securities issued	19.1	13.1	0.3	-	-	-	19.4	13.1
Other liabilities items	9.9	10.6	4.7	-	-	-	14.6	10.6
Net amount of intersegment settlements	-	-	-	-	-	-	-	-
Segment liabilities	1,103.7	917.8	337.7	-	-	-	1,441.4	917.8

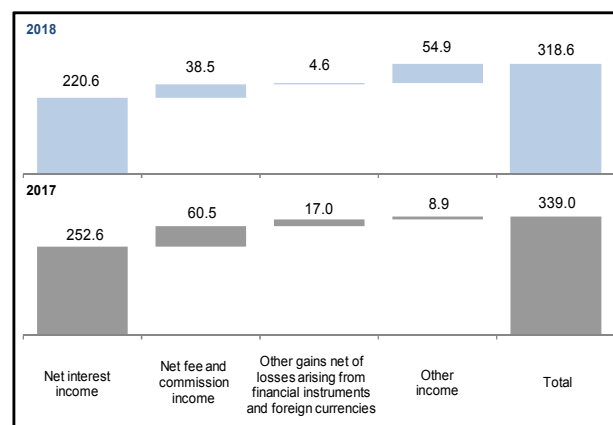
4. ANALYSIS BY SEGMENT (CONTINUED)

	Retail business (RB) by product lines									
	Retail banking		Insurance		Pension business		Inter-RB eliminations		Total RB	
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
Revenues from:										
External customers	430.4	477.3	87.5	72.6	58.1	31.1	-	-	576.0	581.0
Other segments	241.4	110.7	5.3	5.2	2.1	2.4	(19.2)	(13.4)	229.6	104.9
Total revenues	671.8	588.0	92.8	77.8	60.2	33.5	(19.2)	(13.4)	805.6	685.9
Segment income and expense										
Interest income	570.3	467.5	9.8	8.4	14.3	13.3	(1.8)	(2.0)	592.6	487.2
Interest expense	(391.4)	(221.3)	-	-	-	-	-	0.3	(391.4)	(221.0)
Payments to deposit insurance system	(22.1)	(14.5)	-	-	-	-	-	-	(22.1)	(14.5)
Treasury result allocation	41.5	0.9	-	-	-	-	-	-	41.5	0.9
Net interest income	198.3	232.6	9.8	8.4	14.3	13.3	(1.8)	(1.7)	220.6	252.6
Provision charge for credit losses of debt financial assets	(51.6)	(47.1)	(0.1)	-	-	-	(0.1)	(0.4)	(51.8)	(47.5)
Net interest income after provision charge for credit losses	146.7	185.5	9.7	8.4	14.3	13.3	(1.9)	(2.1)	168.8	205.1
Net fee and commission income/ (expense)	55.7	71.7	(0.7)	(0.6)	(0.7)	(0.7)	(15.8)	(9.9)	38.5	60.5
Other gains net of losses / (losses net of gains) arising from financial instruments and foreign currencies	5.2	16.1	0.7	0.1	(1.3)	0.8	-	-	4.6	17.0
Share in profit of associates and joint ventures	1.1	-	-	-	-	-	-	-	1.1	-
Gains from disposal of subsidiaries and associates	2.6	0.1	54.1	-	-	-	-	-	56.7	0.1
Provision charge for credit losses on credit related commitments and other financial assets	(0.2)	(2.4)	(0.2)	(0.1)	-	-	-	-	(0.4)	(2.5)
Other operating (expense)/income	(28.2)	(16.0)	28.2	27.1	(8.8)	(9.8)	5.9	7.5	(2.9)	8.8
Net operating income	182.9	255.0	91.8	34.9	3.5	3.6	(11.8)	(4.5)	266.4	289.0
Staff costs and administrative expenses	(116.7)	(135.2)	(8.9)	(9.6)	(0.5)	(0.4)	1.0	-	(125.1)	(145.2)
Profit before taxation	66.2	119.8	82.9	25.3	3.0	3.2	(10.8)	(4.5)	141.3	143.8
Income tax expense	(13.4)	(25.2)	(20.0)	(4.9)	(0.2)	(0.3)	2.1	0.9	(31.5)	(29.5)
Net profit after tax	52.8	94.6	62.9	20.4	2.8	2.9	(8.7)	(3.6)	109.8	114.3
Capital expenditure	14.1	22.1	0.5	1.1	-	-	-	-	14.6	23.2
Depreciation	8.9	9.3	0.6	0.5	-	-	-	-	9.5	9.8

Net operating income and administrative expenses dynamics (RB)



Net operating income before provisions: structure (RB)



4. ANALYSIS BY SEGMENT (CONTINUED)

	Retail business (RB) by product lines									
	Retail banking		Insurance		Pension business		Inter-RB eliminations		Total RB	
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
Net profit/(loss)	52.8	94.6	62.9	20.4	2.8	2.9	(8.7)	(3.6)	109.8	114.3
Other comprehensive income:										
Net result on financial assets available-for-sale, net of tax	n/a	2.7	n/a	-	n/a	-	n/a	-	n/a	2.7
Land and premises revaluation, net of tax	2.9	-	-	-	-	-	-	-	2.9	-
Total other comprehensive income before treasury result allocation	2.9	2.7	-	-	-	-	-	-	2.9	2.7
Treasury result allocation	(1.3)	0.1	-	-	-	-	-	-	(1.3)	0.1
Total other comprehensive income	1.6	2.8	-	-	-	-	-	-	1.6	2.8
Total comprehensive income/(loss)	54.4	97.4	62.9	20.4	2.8	2.9	(8.7)	(3.6)	111.4	117.1

	Retail business (RB) by product lines									
	Retail banking		Insurance		Pension business		Inter-RB eliminations		Total RB	
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
Cash and short-term funds	103.4	272.7	-	0.1	0.2	0.2	-	-	103.6	273.0
Mandatory cash balances with central banks	-	28.4	-	-	-	-	-	-	-	28.4
Due from other banks	0.4	19.6	-	43.9	21.8	29.7	-	-	22.2	93.2
Loans and advances to customers	2,687.5	2,495.0	-	-	7.2	7.7	-	-	2,694.7	2,502.7
Other financial instruments	0.2	36.8	-	41.7	138.0	90.0	-	-	138.2	168.5
Investments in associates and joint ventures	73.8	-	-	-	-	-	-	-	73.8	-
Other assets items	195.8	160.4	-	49.0	1.6	1.1	-	-	197.4	210.5
Net amount of intersegment settlements	1,542.7	1,827.2	-	57.1	33.3	23.2	-	-	1,576.0	1,907.5
Segment assets	4,603.8	4,840.1	-	191.8	202.1	151.9	-	-	4,805.9	5,183.8
Due to other banks	0.1	0.2	-	-	-	-	-	-	0.1	0.2
Customer deposits	4,201.6	4,294.8	-	-	-	-	-	-	4,201.6	4,294.8
Other borrowed funds	0.4	8.3	-	-	-	-	-	-	0.4	8.3
Debt securities issued	93.0	72.0	-	-	-	-	-	-	93.0	72.0
Other liabilities items	39.3	49.3	-	161.1	191.9	144.0	-	-	231.2	354.4
Segment liabilities	4,334.4	4,424.6	-	161.1	191.9	144.0	-	-	4,526.3	4,729.7

4. ANALYSIS BY SEGMENT (CONTINUED)

	Other business							
	Construction and development		Other		Inter-Other eliminations		Total Other business	
	2018	2017	2018	2017	2018	2017	2018	2017
Revenues from:								
External customers	38.4	50.3	11.7	17.4	-	-	50.1	67.7
Other segments	4.9	2.9	2.0	2.3	(0.1)	-	6.8	5.2
Total revenues	43.3	53.2	13.7	19.7	(0.1)	-	56.9	72.9
Segment income and expense								
Interest income	5.2	3.2	0.6	1.0	-	-	5.8	4.2
Interest expense	(20.5)	(19.6)	(7.7)	(8.5)	-	-	(28.2)	(28.1)
Treasury result allocation	2.2	1.7	7.1	(1.8)	-	-	9.3	(0.1)
Net interest expense	(13.1)	(14.7)	-	(9.3)	-	-	(13.1)	(24.0)
Reversal of provision/(provision charge) for credit losses of debt financial assets	0.7	-	0.1	(0.1)	-	-	0.8	(0.1)
Net (expense)/income after provision charge for credit losses	(12.4)	(14.7)	0.1	(9.4)	-	-	(12.3)	(24.1)
Net fee and commission income/(expense)	(0.1)	(0.1)	0.8	0.6	-	-	0.7	0.5
Other losses net of gains arising from financial instruments and foreign currencies	(0.8)	(0.4)	(2.6)	(0.2)	-	-	(3.4)	(0.6)
Share in loss of associates and joint ventures	-	-	(1.0)	(1.2)	-	-	(1.0)	(1.2)
Profit from disposal of subsidiaries and associates	0.1	-	1.1	0.1	-	-	1.2	0.1
Provision charge for credit losses on credit related commitments and other financial assets	(0.1)	-	(0.1)	-	-	-	(0.2)	-
Other operating expense	(22.0)	(28.8)	(12.6)	(11.1)	-	-	(34.6)	(39.9)
Net operating expense	(35.3)	(44.0)	(14.3)	(21.2)	-	-	(49.6)	(65.2)
Staff costs and administrative expenses	(0.6)	(0.3)	(8.0)	(11.6)	-	-	(8.6)	(11.9)
Loss before taxation	(35.9)	(44.3)	(22.3)	(32.8)	-	-	(58.2)	(77.1)
Income tax benefit	5.9	7.2	2.9	5.8	-	-	8.8	13.0
Loss after tax	(30.0)	(37.1)	(19.4)	(27.0)	-	-	(49.4)	(64.1)
Loss	(30.0)	(37.1)	(19.4)	(27.0)	-	-	(49.4)	(64.1)
Capital expenditure	13.5	15.5	3.3	2.7	-	-	16.8	18.2
Depreciation	0.8	0.2	1.6	1.9	-	-	2.4	2.1

4. ANALYSIS BY SEGMENT (CONTINUED)

	Other business							
	Construction and development		Other		Inter-other eliminations		Total Other business	
	2018	2017	2018	2017	2018	2017	2018	2017
Net loss	(30.0)	(37.1)	(19.4)	(27.0)	-	-	(49.4)	(64.1)
Other comprehensive income/(loss):								
Net result on financial assets available-for-sale, net of tax	n/a	-	n/a	(2.6)	n/a	-	n/a	(2.6)
Cash flow hedges, net of tax	-	-	-	(0.7)	-	-	-	(0.7)
Share in profit of associates and joint ventures	-	-	0.3	-	-	-	0.3	-
Land and premises revaluation, net of tax	-	-	1.3	(0.1)	-	-	1.3	(0.1)
Total other comprehensive (expenses)/income before treasury result allocation	-	-	1.6	(3.4)	-	-	1.6	(3.4)
Treasury result allocation	-	-	-	-	-	-	-	-
Total other comprehensive (expenses)/income	-	-	1.6	(3.4)	-	-	1.6	(3.4)
Total comprehensive loss	(30.0)	(37.1)	(17.8)	(30.4)	-	-	(47.8)	(67.5)

	Other business							
	Construction and development		Other		Inter-Other eliminations		Total Other business	
	2018	2017	2018	2017	2018	2017	2018	2017
Cash and short-term funds	-	0.1	0.1	-	-	-	0.1	0.1
Loans and advances to customers	13.5	14.4	1.6	1.8	-	-	15.1	16.2
Other financial instruments	-	-	13.7	9.7	-	-	13.7	9.7
Investments in associates and joint ventures	-	-	13.7	25.6	-	-	13.7	25.6
Other assets items	300.8	308.3	108.0	112.0	-	-	408.8	420.3
Segment assets	314.3	322.8	137.1	149.1	-	-	451.4	471.9
Customer deposits	-	-	4.6	3.6	-	-	4.6	3.6
Other borrowed funds	-	3.2	-	-	-	-	-	3.2
Other liabilities items	62.8	84.7	7.0	19.1	-	-	69.8	103.8
Net amount of intersegment settlements	297.6	249.7	92.9	66.7	-	-	390.5	316.4
Segment liabilities	360.4	337.6	104.5	89.4	-	-	464.9	427.0

Geographical segment information based on geographical location of entities within the Group:

	2018			2017		
	Russia	Other	Total	Russia	Other	Total
Revenues from external customers for the year	1,364.3	88.5	1,452.8	1,343.8	90.1	1,433.9
Non-current assets as at end of period	846.2	196.5	1,042.7	684.1	149.0	833.1

5. INTEREST INCOME AND EXPENSE

	2018	2017
Interest income calculated using the effective interest method		
Financial assets measured at amortised cost		
• Loans and advances to customers	902.7	949.4
• Due from other banks	38.3	45.8
• Investment financial assets	1.9	n/a
• Other financial assets, including securities	n/a	21.4
Debt financial assets measured at fair value through other comprehensive income	24.7	n/a
Total interest income calculated using the effective interest method	967.6	1,016.6
Other interest income		
Financial assets at fair value through profit or loss	42.1	15.6
Net investments in finance lease	24.3	24.0
Total other interest income	66.4	39.6
Total interest income	1,034.0	1,056.2
Interest expense		
Customer deposits	(424.2)	(433.9)
Due to other banks and other borrowed funds	(87.0)	(107.5)
Debt securities issued	(17.6)	(24.9)
Subordinated debt	(11.9)	(15.0)
Total interest expense calculated using the effective interest rate	(540.7)	(581.3)
Advances received under construction agreements	(1.9)	n/a
Total interest expense	(542.6)	(581.3)
Payments to deposit insurance system	(22.8)	(14.7)
Net interest income	468.6	460.2

6. NET FEE AND COMMISSION INCOME

	2018	2017
Commission on settlement transactions and trade finance	74.6	75.7
Fee received for insurance products distribution and agents' services	20.9	18.2
Commission on guarantees and other credit related commitments issued	11.7	13.2
Commission on cash transactions	10.8	6.7
Commission on operations with securities and capital markets	9.3	10.7
Other	6.1	5.1
Total fee and commission income	133.4	129.6
Commission on settlement transactions and trade finance	(34.6)	(25.5)
Commission on cash transactions	(2.7)	(2.7)
Commission on operations with securities and capital markets	(1.6)	(2.8)
Commission on guarantees and other credit related facilities received	(1.3)	(0.5)
Other	(3.2)	(2.8)
Total fee and commission expense	(43.4)	(34.3)
Net fee and commission income	90.0	95.3

7. GAINS NET OF LOSSES ARISING FROM OTHER FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2018	2017
Gains net of losses arising from derivative financial assets and liabilities	15.5	5.0
Gains net of losses from associates and joint ventures designated as at fair value through profit or loss	6.5	6.6
Gains net of losses arising from non-derivative trading financial assets	5.5	4.8
Losses net of gains arising from investment financial assets mandatorily measured at fair value through profit or loss	(5.0)	n/a
Losses net of gains arising from investment financial assets designated as at fair value through profit or loss	(0.8)	(3.6)
Losses net of gains arising from other financial instruments designated as at fair value through profit or loss	(0.6)	—
Total gains net of losses arising from financial instruments at fair value through profit or loss	21.1	12.8

8. GAINS NET OF LOSSES ARISING FROM SALE OF FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME AND FROM SALE OF INVESTMENT FINANCIAL ASSETS AVAILABLE-FOR-SALE

	2018	2017
Gains net of losses arising from sale of loans at fair value through other comprehensive income	5.9	n/a
Gains net of losses arising from sale of due from other banks at fair value through other comprehensive income	0.4	n/a
Gains net of losses from sale of investment financial assets available-for-sale	n/a	19.0
Impairment of investment financial assets available-for-sale	n/a	(5.4)
Total gains net of losses arising from sale of financial instruments at fair value through other comprehensive income and from sale of investment financial assets available-for-sale	6.3	13.6

9. GAINS NET OF LOSSES / (LOSSES NET OF GAINS) ARISING FROM FOREIGN CURRENCIES AND PRECIOUS METALS

	2018	2017
Gains net of losses/(losses net of gains) arising from dealing in foreign currencies and precious metals	93.9	(14.5)
• non-derivative financial assets	59.2	(31.8)
• derivative financial instruments	34.7	17.3
Foreign exchange translation (losses net of gains)/gains net of losses	(72.5)	2.1
Total gains net of losses/(losses net of gains) arising from foreign currencies and precious metals	21.4	(12.4)

Gains net of losses/(losses net of gains) arising from dealing in foreign currencies represent foreign currency trading results and changes in value of foreign currency derivative positions, including those economically hedging net foreign currency positions.

10. OTHER GAINS NET OF LOSSES ON FINANCIAL INSTRUMENTS AT AMORTISED COST

	2018	2017
Gains net of losses arising from sale of loans and advances to customers at amortised cost including assets previously reclassified	0.7	39.2
Initial recognition of financial assets and liabilities at amortised cost		
Loans and advances to customers	0.7	(0.2)
Trading credit products	—	0.1
Total other gains net of losses financial instruments at amortised cost	1.4	39.1

Gains net of losses from sale of loans and advances to customers at amortised cost including assets previously reclassified, including debt securities. The gains reflect increases in value of these securities due to the increased market activity and improved liquidity during the holding period since their acquisition.

For the year ended 31 December 2017, gains predominantly resulted from sale of debt securities of the Russian Federation received as payment for the preference shares issued by the Bank in July 2015 as well as other government and corporate debt securities.

11. LOSSES NET OF GAINS FROM EXTINGUISHMENT OF LIABILITIES

	2018	2017
Due to other banks	(1.0)	0.1
Other borrowed funds	(0.1)	(0.1)
Customer deposits	0.6	—
Own issued debt securities (non-subordinated)	—	(0.1)
Total losses net of gains from extinguishment of liabilities	(0.5)	(0.1)

12. OTHER OPERATING INCOME

	2018	2017
Income arising from state insurance medical programme	2.9	3.1
Gains arising from disposal of property	1.8	1.3
Fines and penalties received	0.4	0.5
Dividends received on equity investment financial assets at fair value through other comprehensive income	0.3	2.4
Write-off of liabilities upon expiration	0.3	0.1
Reimbursements received and reversal of impairment of other non-financial assets	0.1	–
Other	4.3	5.7
Total other operating income	10.1	13.1

13. REVENUES LESS EXPENSES FROM OPERATING LEASING

	2017	2017
Revenue from operating lease of equipment	26.5	22.5
Expenses related to equipment leased out		
Depreciation and amortisation	(11.9)	(9.9)
Insurance	(0.9)	(0.9)
Loss arising from disposal	(0.5)	(1.7)
Taxes other than on income	(0.5)	(0.8)
Impairment of equipment	(0.1)	(0.2)
Other expenses	(1.0)	(0.6)
Total expenses related to equipment leased out	(14.9)	(14.1)
Total revenues less expenses on operating leasing	11.6	8.4

14. REVENUES AND OTHER GAINS FROM OTHER NON-BANKING ACTIVITIES

	2018	2017
Construction, development and other real estate operations		
Revenue from sale of property intended for sale in the ordinary course of business	50.9	42.7
Rental income from investment property	4.7	5.5
Other income from real estate operations	6.5	4.4
Revenues and other gains from construction, development and other real estate operations	62.1	52.6
Other non-banking activities		
Telecommunications and media	4.1	4.8
Food and agriculture	1.2	0.3
Other	3.9	3.7
Revenues from other non-banking activities	9.2	8.8
Total revenues and other gains from other non-banking activities	71.3	61.4

15. COST OF SALES AND OTHER EXPENSES FROM OTHER NON-BANKING ACTIVITIES

	2018	2017
Construction, development and other real estate operations		
Cost of sales – property intended for sale in the ordinary course of business	37.8	32.0
Administrative expenses	9.4	7.5
Expenses from write-down of property held for sale and impairment of other assets related to non-banking activities	7.6	8.4
Staff cost	2.4	2.4
Depreciation and amortisation	0.9	0.6
Cost of sales and other expenses from construction, development and other real estate operations	58.1	50.9
Other non-banking activities		
Cost of sales	4.1	3.0
Administrative expenses	2.3	4.6
Staff cost	1.2	1.1
Depreciation and amortisation	0.6	1.0
Expenses from write-down of property held for sale and impairment of other assets related to non-banking activities	–	0.9
Cost of sales and other expenses from other non-banking activities	8.2	10.6
Total cost of sales and other expenses from other non-banking activities	66.3	61.5

16. NET INSURANCE PREMIUMS EARNED

	2018	2017
Gross premiums written	120.5	97.1
Premiums inward	1.6	1.4
Change in provision for unearned premiums, gross	(40.9)	(29.7)
Premiums ceded to reinsurers	(5.1)	(5.7)
Change in reinsurers' share of provision for unearned premiums	(0.2)	0.2
Pension contributions accounted under IFRS 4 <i>Insurance Contracts</i>	45.9	19.3
Net insurance premiums earned	121.8	82.6

The movements in provision for unearned premiums were as follows:

	Provision for unearned premiums, gross	Reinsurers' share of provision for unearned premiums	Provision for unearned premiums, net
2016	49.6	(1.9)	47.7
Change in provision, gross	29.7	—	29.7
Change in reinsurers' share of provision	—	(0.2)	(0.2)
Transfer of third party liability insurance portfolio	(0.1)	—	(0.1)
2017	79.2	(2.1)	77.1
Change in provision, gross	40.9	—	40.9
Change in reinsurers' share of provision	—	0.2	0.2
Reclassification to disposal group	(108.1)	1.9	(106.2)
Transfer of third party liability insurance portfolio	(12.0)	—	(12.0)
2018	—	—	—

17. NET INSURANCE CLAIMS INCURRED, MOVEMENT IN LIABILITIES TO POLICYHOLDERS AND ACQUISITION COSTS

	2018	2017
Gross claims paid	(13.6)	(8.3)
Claims paid inward	(0.2)	(0.5)
Change in loss provisions, gross	(27.4)	(21.9)
Claims ceded to reinsurers	3.9	3.0
Change in reinsurers' share of loss provisions	2.2	3.1
Pension benefits accounted under IFRS 4 <i>Insurance Contracts</i>	(7.0)	(10.7)
Change in pension liabilities accounted under IFRS 4 <i>Insurance Contracts</i>	(47.7)	(18.1)
Acquisition costs paid net of related commission income from reinsurance ceded	(9.5)	(8.4)
Net insurance claims incurred, movement in liabilities to policyholders and acquisition costs	(99.3)	(61.8)

The movements in loss provisions were as follows:

	Loss provisions, gross	Reinsurers' share of loss provisions	Loss provisions, net
2016	28.6	(3.4)	25.2
Provision created during the period	32.6	—	32.6
Insurance claims settled	(10.7)	—	(10.7)
Change in reinsurers' share of provision	—	(3.1)	(3.1)
Transfer of third party liability insurance portfolio	(0.4)	—	(0.4)
2017	50.1	(6.5)	43.6
Provision created during the period	41.2	—	41.2
Insurance claims settled	(13.8)	—	(13.8)
Change in reinsurers' share of provision	—	(2.2)	(2.2)
Reclassification to disposal group	(72.0)	8.7	(63.3)
Changes in value of IFRS5 assets after reclassification	(5.5)	—	(5.5)
2018	—	—	—

The movements in pension liabilities accounted under IFRS 4 *Insurance Contracts* were as follows:

	Pension liabilities accounted under IFRS 4 <i>Insurance Contracts</i>
2016	125.1
Change in pension liabilities accounted under IFRS 4 <i>Insurance contracts</i>	18.1
2017	143.2
Change in pension liabilities accounted under IFRS 4 <i>Insurance contracts</i>	47.7
2018	190.9

18. OTHER OPERATING EXPENSE

	2018	2017
Expenses under customer loyalty programmes	10.9	5.6
Collection of indebtedness	2.1	2.3
Expenses related to plastic cards' emission and services	1.9	0.6
Impairment loss related to other non-financial assets accounted at cost	1.0	0.8
Losses arising from disposal of property	0.8	0.5
Losses under claims and frauds	0.7	0.5
Taxes other than on income, related to other operating activity	0.2	0.5
Other	5.4	3.3
Total other operating expense	23.0	14.1

19. STAFF COSTS AND ADMINISTRATIVE EXPENSES

	2018	2017
Staff costs	143.2	142.2
Defined contribution pension expense	14.0	13.0
Depreciation and other expenses related to premises and equipment	21.6	22.7
Advertising expenses	16.7	16.2
Leasing and rent expenses	15.5	15.3
Amortisation and other expenses related to intangibles, except for amortisation of core deposit and customer loan intangible	14.7	13.1
Charity	9.4	6.6
Professional services	9.0	6.4
Post and telecommunication expenses	4.9	5.1
Taxes other than on income	3.2	11.6
Security expenses	2.1	2.0
Transport expenses	1.6	0.8
Amortisation of core deposit and customer loan intangible	1.4	2.8
Insurance	0.3	0.2
Other	2.2	2.9
Total staff costs and administrative expenses	259.8	260.9

20. INCOME TAX

Income tax expense comprises the following:

	2018	2017
Current tax expense	48.6	58.4
Deferred income tax benefit due to the origination and reversal of temporary differences	(13.0)	(18.7)
Income tax expense	35.6	39.7

The income tax rate applicable to the majority of the Group's income in 2018 is 20% (2017: 20%). The income tax rate applicable to subsidiaries' income ranges from 0% to 35% in 2018 (2017: 0% to 35%).

	2018	2017
IFRS profit before tax	214.4	159.7
Theoretical tax expense at the applicable statutory rate of each Group entity	47.2	35.5
Tax effect of items, which are not deductible or assessable for tax purposes:		
Change in unrecognised deferred taxes	4.9	3.8
Non-deductible expenses	13.5	8.3
Effect of disposal of subsidiaries	(14.0)	—
Income, which is exempt from taxation	(6.0)	(3.7)
Income taxed at different rates	(8.9)	(3.9)
Other	(1.1)	(0.3)
Income tax expense	35.6	39.7

The Group's effective income tax rate for the year ended 31 December 2018 was 16.6% (for the year ended 31 December 2017: 24.9%). The difference between the theoretical and actual income tax expense for the year ended 31 December 2018 was mainly due to differences associated with effect of disposal of subsidiaries. The difference between the theoretical and actual income tax expense for the year ended 31 December 2017 was mainly due to differences associated with non-deductible expenses.

Differences between IFRS and taxation regulations give rise to certain temporary differences between the carrying amount of certain assets and liabilities for financial reporting purposes and for profits tax purposes. The tax effect of the movement on these temporary differences is recorded at rates from 0% to 35% (2017: from 0% to 35%). The Bank and its subsidiaries have no right to set off current tax assets and tax liabilities between legal entities, so deferred income tax assets and deferred income tax liabilities are separately assessed for each entity.

VTB BANK
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2018 (CONTINUED)

20. INCOME TAX (CONTINUED)

Origination and reversal of temporary differences	Origination and reversal of temporary differences						Impact of adopting IFRS 9 and IFRS 15 at 1 January 2018	Origination and reversal of temporary differences						2018
	2016	Credited/ (charged) to profit or loss	Credited/ (charged) to other comprehensive income	Credited/ (charged) to retained earnings	Currency translation difference	Business combination		2017	Credited/ (charged) to profit or loss	Credited/ (charged) to other comprehensive income	Credited/ (charged) to retained earnings	Currency translation difference	Business Combination and Disposal of subsidiaries	
Tax effect of deductible temporary differences:														
Fair value of loans acquired through business combinations	23.8	(0.9)	—	—	0.1	—	23.0	(3.8)	—	—	—	—	—	19.2
Allowances for impairment and provisions for other losses	14.8	(0.3)	—	0.1	(0.5)	—	14.1	27.3	(11.4)	—	—	0.4	(6.1)	24.3
Tax losses carried forward	90.4	(3.1)	—	—	(0.7)	—	86.6	—	(17.3)	—	—	(3.7)	(6.1)	59.5
Fair value of derivatives	1.2	0.4	—	—	0.1	—	1.7	—	0.1	—	—	(0.2)	(0.1)	1.5
Accruals	27.6	8.5	—	—	0.1	—	36.2	0.1	5.0	—	—	(0.2)	(5.4)	35.7
Fair value of securities	7.9	(5.4)	—	(0.3)	—	—	2.2	(2.2)	n/a	n/a	n/a	n/a	n/a	n/a
Fair value of debt financial assets	n/a	n/a	n/a	n/a	n/a	n/a	n/a	(0.1)	0.1	0.3	—	(0.1)	—	0.2
Fair value of equity financial assets	n/a	n/a	n/a	n/a	n/a	n/a	n/a	2.3	(0.6)	0.8	—	—	—	2.5
Fair value of investment property	0.1	2.3	—	—	—	—	2.4	0.1	0.8	—	—	0.1	0.1	3.5
Loans and advances to customers	11.2	7.2	—	—	0.2	—	18.6	(13.0)	8.3	1.6	—	0.3	0.2	16.0
Effect of currency translation	0.1	(0.1)	—	—	—	—	—	—	—	—	—	—	—	—
Property and equipment	3.7	2.1	—	—	—	—	5.8	—	1.5	—	—	—	—	7.3
Investments in subsidiaries and associates	—	—	—	—	—	—	—	—	25.2	—	—	—	—	25.2
Other	21.5	(7.3)	—	—	(1.2)	—	13.0	(0.5)	5.2	—	—	(0.6)	0.3	17.4
Gross deferred income tax assets	202.3	3.4	—	(0.2)	(1.9)	—	203.6	10.2	16.9	2.7	—	(4.0)	(17.1)	212.3
Unrecognised deferred income tax assets	(18.0)	(3.8)	—	—	1.0	—	(20.8)	—	(9.8)	—	—	5.0	12.8	(12.8)
Deferred income tax asset	184.3	(0.4)	—	(0.2)	(0.9)	—	182.8	10.2	7.1	2.7	—	1.0	(4.3)	199.5
Tax effect of taxable temporary differences:														
Fair value measurement of securities	(9.9)	(0.2)	(0.4)	—	0.2	—	(10.3)	10.3	n/a	n/a	n/a	n/a	n/a	n/a
Fair value of debt financial assets	n/a	n/a	n/a	n/a	n/a	n/a	n/a	(10.0)	0.1	1.1	—	0.3	0.2	(8.3)
Fair value of equity financial assets	n/a	n/a	n/a	n/a	n/a	n/a	n/a	(1.3)	—	—	—	—	—	(1.3)
Property and equipment	(14.0)	1.3	—	0.5	0.1	—	(12.1)	—	1.0	(1.4)	—	—	0.8	(11.7)
Intangible assets	(1.5)	0.4	—	—	—	—	(1.1)	—	0.3	—	—	(0.1)	0.5	(0.4)
Net investment in lease	(0.1)	(2.1)	—	—	—	—	(2.2)	—	(1.2)	—	—	—	0.2	(3.2)
Fair value of investment property	(11.3)	2.4	—	—	0.1	(2.8)	(11.6)	—	0.4	—	—	(0.1)	0.2	(11.1)
Allowances for impairment and provisions for other losses	(20.5)	2.1	—	—	0.1	—	(18.3)	6.2	(0.1)	—	—	—	0.5	(11.7)
Fair value of derivatives	(18.1)	4.4	0.2	—	(0.1)	—	(13.6)	—	1.0	—	—	(0.1)	—	(12.7)
Other borrowed funds	(35.0)	0.4	—	—	—	—	(34.6)	—	2.3	—	—	—	2.1	(30.2)
Effect of currency translation	(1.3)	—	—	—	(0.1)	—	(1.4)	—	2.3	(2.3)	—	(0.3)	—	(1.7)
Other	(20.0)	10.4	—	—	—	—	(9.6)	2.7	(0.2)	—	—	1.6	5.5	—
Deferred income tax liability	(131.7)	19.1	(0.2)	0.5	0.3	(2.8)	(114.8)	7.9	5.9	(2.6)	—	1.3	10.0	(92.3)
Deferred income tax asset, net	87.8	9.7	3.3	(0.2)	(1.9)	—	98.7	13.7	7.4	2.4	—	1.3	(3.9)	119.6
Deferred income tax liability, net	(35.2)	9.0	(3.5)	0.5	1.3	(2.8)	(30.7)	4.4	5.6	(2.3)	—	1.0	9.6	(12.4)

20. INCOME TAX (CONTINUED)

As at 31 December 2018, recognised deferred income tax assets included RUR 46.7 billion resulting from tax losses carried forward (31 December 2017: RUR 75.4 billion) primarily related to the Group members located in the Russian Federation. The existing tax losses eligible for carry forward are expected to be fully utilised by 2027.

Group determined that deferred income tax asset could be utilised, taking into account the level of predicted profitability and assumptions that in the years after 2017 (given planned reorganisations), the predicted profitability would not be lower than that in 2017-2018.

Effective 1 January 2017, new tax regulations in Russia cancelled the previously existing 10-year limit for tax loss carry forward for tax losses incurred in 2007 and subsequent periods. Further, these regulations stipulate that the taxable income in each of the years 2017-2020 cannot be reduced by prior period tax loss carry forward by more than 50%.

As at 31 December 2018 the Group had unrecognised deferred income tax asset of RUR 12.8 billion (31 December 2017: RUR 11.2 billion) in respect of unused tax loss expiring as presented below:

	2018	2017
Unused tax loss carried forward expiring by the end of:		
31 December 2019	8.1	8.0
31 December 2020	2.2	0.3
After 31 December 2020	30.2	15.0
With no expiry date	57.2	45.2
Total tax loss carry forwards	97.7	68.5

As at 31 December 2018, the aggregate amount of temporary differences associated with investments in subsidiaries, associates and joint ventures for which

deferred income tax liability has not been recognised amounted to RUR 197.0 billion (31 December 2017: RUR 317.5 billion). See also Note 48.

The following table provides disclosure of income tax effects relating to each component of other comprehensive income:

	2018			2017		
	Before tax	Tax expense/(recovery)	Net of tax	Before tax	Tax expense/(recovery)	Net of tax
Net result on financial assets available-for-sale	n/a	n/a	n/a	2.9	(0.4)	2.5
Net result on debt financial assets at fair value through other comprehensive income	(9.3)	1.9	(7.4)	n/a	n/a	n/a
Net result on equity financial assets at fair value through other comprehensive income	(3.5)	0.8	(2.7)	n/a	n/a	n/a
Actuarial losses net of gains arising from difference between pension plan assets and obligations	(0.2)	—	(0.2)	1.1	—	1.1
Cash flow hedges	—	—	—	(0.3)	0.2	(0.1)
Share of other comprehensive income of associates and joint ventures	3.5	—	3.5	(0.4)	—	(0.4)
Land and premises revaluation	7.6	(1.4)	6.2	(0.1)	—	(0.1)
Effect of translation	36.1	(2.3)	33.8	0.3	—	0.3
Reclassification to income statement on sale of debt financial assets at fair value through other comprehensive income	(6.2)	1.1	(5.1)	—	—	—
Other comprehensive income/(loss)	28.0	0.1	28.1	3.5	(0.2)	3.3

21. CASH AND SHORT-TERM FUNDS

	2018	2017
Cash on hand	328.6	289.9
Cash balances (other than mandatory) with central banks	386.0	295.5
Correspondent accounts with other banks		
• Russia	155.3	94.7
• OECD	56.9	87.3
• Other countries	9.1	6.4
Total Correspondent accounts with other banks	221.3	188.4
Less: allowance for cash and short term funds impairment	(0.1)	–
Total cash and short-term funds	935.8	773.8
Less: correspondent accounts in precious metals	(6.4)	(35.6)
Less: restricted cash	(0.1)	(0.1)
Total cash and cash equivalents	929.3	738.1

The following table shows reconciliation from the opening to the closing balance of the loss allowance of correspondent accounts with other banks at amortised cost by class. Comparative amounts for 2017 represent allowance account for credit losses and reflect measurement basis under IAS 39.

	2018				2017	
	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Purchased credit-impaired	Total	Total
Other countries						
Balance at 1 January	–	–	–	–	–	–
Net remeasurement of loss allowance	0.2	–	–	(0.1)	0.1	–
Disposal of subsidiaries	–	–	–	0.1	0.1	–
Foreign exchange	(0.1)	–	–	–	(0.1)	–
Balance at 31 December	0.1	–	–	–	0.1	–

22. TRADING FINANCIAL ASSETS

	2018	2017
Trading financial assets		
Debt securities		
• Bonds and eurobonds of Russian companies and banks	143.8	152.5
• Bonds and eurobonds of the Russian Federation	55.9	35.1
• Bonds and eurobonds of foreign companies and banks	12.1	11.2
• Bonds and eurobonds of foreign governments	6.8	17.2
• Russian municipal bonds	6.4	6.8
• Bonds of the Central Bank of the Russian Federation	–	36.0
Total debt securities	225.0	258.8
Equity securities	39.6	13.3
Trading credit products	–	4.8
Total trading financial assets	264.6	276.9
Trading financial assets, pledged under repurchase agreements		
Debt securities		
• Bonds and eurobonds of the Russian Federation	31.0	0.1
• Bonds and eurobonds of Russian companies and banks	2.7	–
• Bonds and eurobonds of foreign companies and banks	0.1	–
• Bonds and eurobonds of foreign governments	0.1	–
Total debt securities	33.9	0.1
Equity securities	0.2	0.2
Total trading financial assets, pledged under repurchase agreements	34.1	0.3
Total trading financial assets	298.7	277.2

At 31 December 2018, bonds and eurobonds of Russian companies and banks are mostly those issued by banks and companies from development real estate; equity securities are mostly represented by railway transport.

22. TRADING FINANCIAL ASSETS (CONTINUED)**Impact of adopting IFRS 9**

The following table reconciles the carrying amounts of trading financial assets under IAS 39 to the carrying amounts under IFRS 9 on transition to IFRS 9 on 1 January 2018:

	Original carrying amount under IAS 39	Reclassifi- cation	New carrying amount under IFRS 9
Trading financial assets			
Debt securities			
• Bonds and eurobonds of Russian companies and banks	152.5	(16.3)	136.2
• Bonds of the Central Bank of the Russian Federation	36.0	—	36.0
• Bonds and eurobonds of the Russian Federation	35.1	(9.4)	25.7
• Bonds and eurobonds of foreign governments	17.2	—	17.2
• Bonds and eurobonds of foreign companies and banks	11.2	(0.4)	10.8
• Russian municipal bonds	6.8	—	6.8
Total debt securities	258.8	(26.1)	232.7
Equity securities	13.3	(9.0)	4.3
Trading credit products	4.8	(4.8)	—
Total trading financial assets	276.9	(39.9)	237.0
Trading financial assets, pledged under repurchase agreements			
Debt securities			
• Bonds and eurobonds of the Russian Federation	0.1	—	0.1
Total debt securities	0.1	—	0.1
Equity securities	0.2	—	0.2
Total trading financial assets, pledged under repurchase agreements	0.3	—	0.3
Total trading financial assets	277.2	(39.9)	237.3

23. DERIVATIVE FINANCIAL INSTRUMENTS

Foreign exchange and other financial instruments are generally traded in an over-the-counter market with professional market counterparties on standardised contractual terms and conditions.

The table below includes derivative contracts outstanding at 31 December 2018 and 31 December 2017:

	2018		2017	
	Positive fair value	Negative fair value	Positive fair value	Negative fair value
Derivative financial assets and liabilities held for trading				
Foreign exchange and precious metals contracts				
• forwards	7.7	(6.5)	6.7	(1.9)
• futures	—	—	—	(0.1)
• swaps	31.8	(29.1)	21.2	(9.8)
• options	15.5	(11.7)	2.2	(3.8)
Contracts with securities				
• forward sale of equity securities	4.4	(0.1)	2.0	—
• futures on equity securities	—	(0.2)	—	(0.2)
• options	4.9	(3.1)	6.1	(6.9)
Interest Rate contracts				
• single currency interest rate swaps	22.1	(24.9)	23.5	(26.8)
• cross currency interest rate swaps	89.9	(37.5)	75.5	(51.2)
• cap/floor	1.9	(1.8)	1.3	(0.5)
• swaption	0.1	(0.1)	—	—
Contracts with other underlyings				
• CDS protection sold	0.2	(0.5)	0.7	(0.2)
• CDS protection purchased	0.6	(1.6)	0.1	(1.2)
• futures on indexes	—	(0.1)	0.1	—
• options on indexes	0.3	(0.2)	1.8	(0.8)
• swaps on indexes	0.3	(0.3)	—	—
• commodity swaps	3.8	(1.9)	3.9	(5.6)
• commodity futures	0.7	(0.1)	1.4	(1.3)
• commodity options	18.1	(20.2)	20.7	(22.7)
• commodity forwards	0.1	—	1.1	(0.3)
Embedded derivatives on structured instruments				
• embedded derivatives on foreign exchange instruments	n/a	n/a	2.4	—
• embedded derivatives on commodity instruments	n/a	n/a	4.2	—
Total derivative financial assets and liabilities held for trading	202.4	(139.9)	174.9	(133.3)
Derivative financial assets and liabilities designated as hedging instruments				
Derivatives held as fair value hedges				
• interest rate swaps	0.1	—	0.7	(0.3)
Derivatives held as cash flow hedges				
• foreign exchange swaps	—	—	—	(0.1)
• foreign exchange forwards	—	(0.3)	—	(0.3)
Total derivative financial assets and liabilities designated as hedging instruments	0.1	(0.3)	0.7	(0.7)
Total derivative financial assets and liabilities	202.5	(140.2)	175.6	(134.0)

The table below includes gains net of losses / (losses net of gains), arising from derivative contracts held for trading presented in gains net of losses arising from foreign currencies and precious metals :

	2018	2017
Foreign exchange and precious metals contracts	31.1	30.8
Foreign currency component of contracts with other basic underlyings	4.5	0.7
Foreign currency component of contracts with securities	1.0	(0.1)
Foreign currency derivatives embedded in structured instruments	—	(0.5)
Foreign currency component of interest rate swaps	(1.9)	(13.6)
Total gains net of losses from derivative contracts held for trading presented in gains net of losses arising from foreign currencies and precious metals (Note 9)	34.7	17.3

23. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)**Impact of adopting IFRS 9**

The following table reconciles the carrying amounts of derivative financial assets and liabilities under IAS 39 to the carrying amounts under IFRS 9 on transition to IFRS 9 on 1 January 2018:

	Original carrying amount under IAS 39		Reclassification		New carrying amount under IFRS 9	
	Positive fair value	Negative fair value	Positive fair value	Negative fair value	Positive fair value	Negative fair value
Derivative financial assets and liabilities held for trading						
Foreign exchange and precious metals contracts						
• forwards	6.7	(1.9)	—	—	6.7	(1.9)
• futures	—	(0.1)	—	—	—	(0.1)
• swaps	21.2	(9.8)	—	—	21.2	(9.8)
• options	2.2	(3.8)	—	—	2.2	(3.8)
Contracts with securities						
• forward sale of equity securities	2.0	—	—	—	2.0	—
• futures on equity securities	—	(0.2)	—	—	—	(0.2)
• options	6.1	(6.9)	—	—	6.1	(6.9)
Interest Rate contracts						
• single currency interest rate swaps	23.5	(26.8)	—	—	23.5	(26.8)
• cross currency interest rate swaps	75.5	(51.2)	—	—	75.5	(51.2)
• cap/floor	1.3	(0.5)	—	—	1.3	(0.5)
Contracts with other underlyings						
• CDS protection sold	0.7	(0.2)	—	—	0.7	(0.2)
• CDS protection purchased	0.1	(1.2)	—	—	0.1	(1.2)
• futures on indexes	0.1	—	—	—	0.1	—
• options on indexes	1.8	(0.8)	—	—	1.8	(0.8)
• commodity swaps	3.9	(5.6)	—	—	3.9	(5.6)
• commodity futures	1.4	(1.3)	—	—	1.4	(1.3)
• commodity options	20.7	(22.7)	—	—	20.7	(22.7)
• commodity forwards	1.1	(0.3)	—	—	1.1	(0.3)
Embedded derivatives on structured instruments						
• embedded derivatives on foreign exchange instruments	2.4	—	(2.4)	—	—	—
• embedded derivatives on commodity instruments	4.2	—	(4.2)	—	—	—
Total derivative financial assets and liabilities held for trading	174.9	(133.3)	(6.6)	—	168.3	(133.3)

24. DUE FROM OTHER BANKS

	2018	2017
Due from other banks at amortised cost		
Due from other banks		
• Russia	372.7	372.2
• OECD	21.7	75.5
• Other countries	291.7	405.9
Total gross due from other banks at amortised cost	686.1	853.6
Less: Impairment loss allowance	(0.6)	(18.6)
Total net due from other banks at amortised cost	685.5	835.0
Due from other banks at fair value through profit or loss		
Due from other banks		
• Russia	7.6	n/a
Total gross due from other banks at fair value through profit or loss	7.6	n/a
Total due from other banks	693.1	835.0

As at 31 December 2018, reverse sale and repurchase agreements with other banks at amortised cost amounted to RUR 74.4 billion (31 December 2017: RUR 33.4 billion).

These reverse sale and repurchase agreements with other banks at amortised cost were collateralised by securities with fair value of RUR 78.5 billion (31 December 2017: RUR 37.6 billion). As at 31 December 2018, amount included in due from other banks of RUR 1.1 billion is pledged against issued local mortgage-backed bonds (31 December 2017: RUR 1.0 billion).

As at 31 December 2018 Due from other banks included subordinated loans to other banking institutions at amortised cost and at fair value through profit or loss in the amount of RUR 6.9 and 7.6 billion respectively (31 December 2017: subordinated loans to other banks at amortised cost in the amount of RUR 21.2 billion, net of related credit loss reserves). These subordinated loans have lower priority in relation to other creditors of these banks and may contain contractual provisions which require full or partial write-off in case of certain triggers specified in the underlying loan agreements, typically minimal capital levels.

Impact of adopting IFRS 9

The following table reconciles the carrying amounts of due from banks under IAS 39 to the carrying amounts under IFRS 9 on transition to IFRS 9 on 1 January 2018:

	Original carrying amount under IAS 39	Reclassification	Remeasurement under IFRS 9	New carrying amount under IFRS 9
Due from other banks at amortised cost				
• Russia	372.2	(53.7)	—	318.5
• OECD	75.5	—	—	75.5
• Other countries	405.9	—	—	405.9
Total gross due from other banks at amortised cost	853.6	(53.7)	—	799.9
Less: Impairment loss allowance	(18.6)	18.2	(0.7)	(1.1)
Total net due from other banks at amortised cost	835.0	(35.5)	(0.7)	798.8
Due from other banks at fair value through profit or loss				
• Russia	—	15.4	(12.6)	2.8
Total gross due from other banks at fair value through profit or loss	—	15.4	(12.6)	2.8
Due from other banks at fair value through other comprehensive income				
• Russia	—	20.1	—	20.1
Total gross due from other banks at fair value through other comprehensive income	—	20.1	—	20.1
Total net due from other banks at fair value through other comprehensive income	—	20.1	—	20.1
Total due from other banks	835.0	—	(13.3)	821.6

24. DUE FROM OTHER BANKS (CONTINUED)

The following table shows reconciliation from the opening to the closing balance of the loss allowance of due from banks at amortised cost, including pledged under repurchase agreements by class. Comparative amounts for 2017 represent allowance account for credit losses and reflect measurement basis under IAS 39.

	2018				2017	
	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Purchased credit-impaired	Total	Total
Russia						
Balance at 1 January	0.3	–	0.1	–	0.4	1.0
Net remeasurement of loss allowance	(0.1)	–	–	–	(0.1)	17.8
Write-offs	–	–	–	–	–	(0.5)
Foreign exchange	–	–	–	–	–	0.1
Balance at 31 December	0.2	–	0.1	–	0.3	18.4
OECD						
Balance at 1 January	0.1	–	–	–	0.1	0.1
Net remeasurement of loss allowance	(0.1)	–	–	–	(0.1)	–
Balance at 31 December	–	–	–	–	–	0.1
Other countries						
Balance at 1 January	0.6	–	–	–	0.6	0.8
Transfer to 12-month ECL	0.1	(0.1)	–	–	–	n/a
Transfer to lifetime ECL not credit-impaired	(0.1)	0.1	–	–	–	n/a
Transfer to lifetime ECL credit-impaired	(0.1)	–	0.1	–	–	n/a
Net remeasurement of loss allowance	(0.4)	–	1.0	(0.1)	0.5	(0.1)
Write-offs	–	–	(1.1)	–	(1.1)	(0.4)
Disposal of subsidiaries	–	–	–	(0.3)	(0.3)	–
Foreign exchange	0.1	–	0.1	0.4	0.6	(0.2)
Balance at 31 December	0.2	–	0.1	–	0.3	0.1

The following table shows reconciliation from the opening to the closing balance of the loss allowance of due from banks at fair value through other comprehensive income. Comparative amounts for 2017 represent allowance account for credit losses and reflect measurement basis under IAS 39.

	2018			2017	
	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Total	Total
Russia					
Balance at 1 January	0.1	–	–	0.1	n/a
Net remeasurement of loss allowance	(0.1)	–	–	(0.1)	n/a
Balance at 31 December	–	–	–	–	n/a

25. LOANS AND ADVANCES TO CUSTOMERS

	2018	2017
Loans and advances to customers at amortised cost		
Loans at amortised cost to legal entities		
• Current activity financing	6,144.9	4,974.9
• Project finance and other	1,384.1	1,686.4
• Finance leases	308.0	255.0
• Reverse sale and repurchase agreements	393.9	370.2
Total gross loans at amortised cost to legal entities	8,230.9	7,286.5
Less: Impairment loss allowance	(501.4)	(437.4)
Loans and advances to legal entities at amortised cost pledged under repurchase agreements		
• Reverse sale and repurchase agreements	26.1	—
Total loans and advances to legal entities at amortised cost pledged under repurchase agreements	26.1	—
Less: Impairment loss allowance	(0.2)	—
Net loans at amortised cost to legal entities	7,755.4	6,849.1
Loans at amortised cost to individuals		
• Consumer loans and other	1,281.1	1,153.4
• Mortgages	1,442.0	1,094.7
• Credit cards	130.7	127.5
• Car loans	123.7	102.9
• Reverse sale and repurchase agreements	11.0	7.8
Total gross loans at amortised cost to individuals	2,988.5	2,486.3
Less: Impairment loss allowance	(230.3)	(164.0)
Net loans at amortised cost to individuals	2,758.2	2,322.3
Loans and advances to customers at fair value through profit or loss		
Loans at fair value through profit or loss to legal entities	107.4	n/a
Total loans and advances to customers at fair value through profit or loss	107.4	n/a
Loans and advances to customers at fair value through other comprehensive income		
Loans at fair value through other comprehensive income to legal entities	74.2	n/a
Total loans and advances to customers at fair value through other comprehensive income	74.2	n/a
Total loans and advances to customers	10,695.2	9,171.4

As at 31 December 2018, the total amount of outstanding loans issued by the Group to 10 largest groups of interrelated borrowers comprises RUR 2,575.8 billion or 22.5% of the gross loan portfolio (31 December 2017: RUR 2,111.8 billion or 21.6%).

As at 31 December 2018, the Group received securities with a fair value of RUR 473.9 billion (31 December 2017: RUR 428.5 billion) as collateral under reverse sale and repurchase agreements with customers.

As at 31 December 2018, the total amount of pledged loans to customers is RUR 113.3 billion (31 December 2017: RUR 69.3 billion). The loans are pledged against the funds accounted for other borrowed funds (Note 34) and due to other banks (Note 32). Included in the above amount of pledged loans are car loans of RUR nil (31 December 2017: RUR 3.9 billion) (Note 58). As at 31 December 2018, the carrying value of mortgage loans pledged against debt securities issued under securitization programme of Vozrozhdenie Bank, PJSC amounted to RUR 12.8 billion (Note 58).

As at 31 December 2018, the carrying value of mortgage loans pledged against debt securities issued under VEB securitization programme amounted to RUR 11.8 billion (31 December 2017: RUR 16.9 billion) (Note 58).

As at 31 December 2018, the carrying value of mortgage loans pledged against debt securities issued under DOM.RF securitization programme amounted to RUR 56.1 billion (31 December 2017: RUR 4.0 billion).

As at 31 December 2018, the gross amount of non-performing loans (refer to Note 44 for a definition of non-performing loans) was RUR 653.7 billion or 5.7% of the aggregate of the gross loan portfolio, including loans pledged under repurchase agreements (31 December 2017 (restated to follow the new definition: RUR 680.0 billion or 6.9%).

As at 31 December 2018, loans and advances to customers with the carrying amount of RUR 212.7 billion (31 December 2017: RUR 239.3 billion) represented by federal loan bonds with debt amortisation (OFZ-AD) purchased in September 2011 by former "Bank of Moscow", OJSC are included in loans to government bodies for the purpose of economic sector risk concentrations disclosure.

Refer to Note 47 on restrictions related to certain loans represented by OFZ-AD.

25. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

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

	2018		2017	
	Amount	%	Amount	%
Individuals	2,988.5	26.2	2,486.3	25.4
Oil and Gas	1,179.1	10.3	1,324.1	13.5
Building construction	1,157.6	10.1	973.8	10.0
Government bodies	904.8	7.9	492.9	5.0
Metals	803.5	7.0	800.2	8.2
Engineering and Other Manufacturing	735.0	6.4	641.1	6.6
Trade and commerce	682.3	6.0	521.6	5.3
Transport	592.9	5.2	501.3	5.1
Chemical	495.5	4.3	402.3	4.1
Energy	464.4	4.1	488.9	5.0
Telecommunications and media	450.8	3.9	307.3	3.1
Finance	371.3	3.2	331.5	3.4
Food and agriculture	366.8	3.2	278.2	2.8
Coal mining	69.2	0.6	75.7	0.8
Aircraft	9.2	0.1	6.5	0.1
Other	156.2	1.5	141.1	1.6
Total gross loans and advances to customers	11,427.1	100.0	9,772.8	100.0

Finance industry includes loans issued to holding companies of industrial groups, mergers and acquisitions financing, and loans to leasing, insurance and other non-bank financial companies.

Finance lease

	2018	2017
Gross investment in leases	273.3	219.6
Less: unearned finance lease income	(74.4)	(51.1)
Net investment in leases before allowance	198.9	168.5
Less: allowance for impairment	(23.7)	(18.3)
Net investment in leases	175.2	150.2

Future minimum lease payments

	2018	2017
Within 1 year	66.9	89.0
From 1 to 5 years	129.6	85.1
More than 5 years	76.8	45.5
Minimum lease payments	273.3	219.6

Net investments in leases

	2018	2017
Within 1 year	63.9	82.1
From 1 to 5 years	94.1	61.9
More than 5 years	40.9	24.5
Net investment in leases	198.9	168.5

25. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

The following table shows reconciliation from the opening to the closing balance of the loss allowance of loans and advances to legal entities, including pledged under repurchase agreements, at amortised cost by class and ECL stage. Comparative amounts for 2017 represent allowance account for credit losses and reflect measurement basis under IAS 39.

	2018				2017	
	12-month ECL	Lifetime ECL not credit- impaired	Lifetime ECL credit- impaired	Purchased credit- impaired	Total	Total
Current activity financing						
Balance at 1 January	29.3	11.9	291.4	1.7	334.3	310.6
Transfer to 12-month ECL	9.8	(8.4)	(1.4)	-	-	n/a
Transfer to lifetime ECL not credit-impaired	(6.9)	11.0	(4.1)	-	-	n/a
Transfer to lifetime ECL credit-impaired	(3.1)	(20.9)	24.0	-	-	n/a
Net remeasurement of loss allowance	(0.6)	79.2	35.1	4.8	118.5	73.6
Unwinding of discount	-	-	16.3	-	16.3	-
Write-offs	-	-	(61.4)	(0.9)	(62.3)	(73.3)
Recoveries of amounts previously written off	-	-	0.3	-	0.3	2.7
Changes of allowances of disposal group held for sale	-	-	-	-	-	(0.3)
Disposal of subsidiaries	-	-	(40.7)	-	(40.7)	-
Reclassification from/to ECL due to reclassification of items from/to this category	-	1.6	-	-	1.6	(2.0)
Foreign exchange	1.3	1.9	14.2	0.8	18.3	(4.3)
Balance at 31 December	29.8	76.3	273.7	6.4	386.3	307.0
Project finance and other						
Balance at 1 January	6.1	4.1	96.7	21.9	128.8	109.6
Transfer to 12-month ECL	1.4	(1.3)	(0.1)	-	-	n/a
Transfer to lifetime ECL not credit-impaired	(1.6)	3.1	(1.5)	-	-	n/a
Transfer to lifetime ECL credit-impaired	(1.0)	(2.4)	3.4	-	-	n/a
Net remeasurement of loss allowance	2.4	16.8	(39.8)	0.3	(20.3)	31.6
Unwinding of discount	-	-	3.7	0.2	3.9	-
Write-offs	-	-	(24.3)	(23.0)	(47.3)	(32.4)
Disposal of subsidiaries	-	-	(4.4)	-	(4.4)	n/a
Recoveries of amounts previously written off	-	-	5.4	1.1	6.5	0.4
Reclassification from/to ECL due to reclassification of items from/to this category	-	(1.6)	-	-	(1.6)	-
Foreign exchange	0.7	0.2	11.0	3.6	15.5	(1.0)
Balance at 31 December	8.0	18.9	50.1	4.1	81.1	108.2
Reverse sale and repurchase agreements						
Balance at 1 January	0.5	-	-	-	0.5	0.1
Transfer to lifetime ECL not credit-impaired	(0.1)	0.1	-	-	-	-
Net remeasurement of loss allowance	(0.2)	6.5	-	-	6.3	0.4
Foreign exchange	0.2	(0.1)	0.1	-	0.2	-
Balance at 31 December	0.4	6.5	0.1	-	7.0	0.5
Finance leases						
Balance at 1 January	1.5	0.1	24.8	0.2	26.6	26.2
Transfer to 12-month ECL	1.1	(0.9)	(0.2)	-	-	n/a
Transfer to lifetime ECL not credit-impaired	-	0.1	(0.1)	-	-	n/a
Net remeasurement of loss allowance	(1.5)	4.1	0.5	(0.2)	2.9	0.8
Write-offs	-	-	(2.7)	-	(2.7)	(6.7)
Disposal of subsidiaries	-	-	(2.5)	-	(2.5)	-
Reclass from/to allowance due to reclass of items from/to this category	-	-	-	-	-	2.0
Foreign exchange	(0.3)	-	2.9	0.1	2.7	(0.6)
Balance at 31 December	0.8	3.4	22.7	0.1	27.0	21.7

Allowance for finance leases represents allowances for loans to leasing companies and net investment in leases.

The Group management identified a number of industry and other portfolio specific risks, which resulted in the significant increase in the credit risk for certain segments of the loan portfolio. At present, it is not possible to identify the individual borrowers with significantly increased credit risk. Therefore, the Group management determined that a portion of the carrying value of these portfolios should be transferred into Lifetime ECL – not credit impaired category, with recognition the allowance to cover credit risks for these segments of loan portfolio in accordance with IFRS 9. Based on the analysis performed by the Group management, the amount of the corporate loan portfolio exposed to the industry and other portfolio specific risks amounted to RUR 3,001.0 billion (plus RUB 1,412.0 billion of the off-balance sheet liabilities) at 31 December 2018. In accordance with the model developed by the Group, as at 31 December 2018, loan loss allowance for the above-mentioned portion of portfolio (including off-balance sheet liabilities), as of 31 December 2018 amounted to RUR 94 billion, including the allowance for the loan portfolio of RUR 84.9 billion, and allowance for the off-balance sheet exposures of RUR 9.1 billion.

25. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

Significant changes in the gross carrying amount of loan portfolio that contributed to changes in the loss allowance were:

- acquisition of "Vozrozhdenie Bank", PJSC which increased the loan portfolio by portfolio increased the loan portfolio by RUR 157.0 billion, predominantly in a corporate portfolio, with a corresponding increase in the loss allowance measured on a 12-month basis;
- loss of control of Pochta Bank, which decreased the loan portfolio by RUR 240.8 billion, predominantly in the retail portfolio, with corresponding decrease in loan loss allowance predominantly measured on a 12-month basis;
- loss of control over VTB Ukraine, which decreased the loan portfolio by RUR 51.8 billion, predominantly in the corporate portfolio, with corresponding decrease in loan loss allowance, predominantly measured on a Lifetime ECL credit-impaired basis;
- the write-off of fully impaired loans of RUR 156.8 billion against the allowance reduced the loss allowance for financial assets measured on a Lifetime ECL credit-impaired basis;
- reclassification of 701.4 bln of corporate loans measured on a 12-month basis to Lifetime ECL not credit-impaired basis, following increase in credit risk on a portfolio basis, which contributed to an increase of loan loss allowance in a Lifetime ECL not credit-impaired basis.

The following table shows reconciliation from the opening to the closing balance of loss allowance of finance lease receivables, which are the part of finance lease corporate loans. Comparative amounts for 2017 represent allowance account for credit losses and reflect measurement basis under IAS 39.

	2018			2017	
	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Total	Total
Financial lease receivable					
Balance at 1 January	0.8	0.1	19.0	19.9	n/a
Transfer to 12-month ECL	0.2	0.0	(0.2)	0.0	n/a
Transfer to lifetime ECL not credit-impaired	0.0	0.1	(0.1)	0.0	n/a
Net remeasurement of loss allowance	(0.7)	3.3	0.0	2.6	n/a
Write-offs	0.0	0.0	(0.8)	(0.8)	n/a
Disposal of subsidiaries	0.0	0.0	(0.5)	(0.5)	n/a
Foreign exchange	(0.1)	(0.1)	2.7	2.5	n/a
Balance at 31 December	0.2	3.4	20.1	23.7	n/a

25. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

The following table shows reconciliation from the opening to the closing balance of the loss allowance of loans and advances to individuals at amortised cost by class and ECL stage. Comparative amounts for 2017 represent allowance account for credit losses and reflect measurement basis under IAS 39.

	2018				2017	
	12-month ECL	Lifetime ECL not credit- impaired	Lifetime ECL credit- impaired	Purchased credit- impaired	Total	Total
Consumer loans and other						
Balance at 1 January	25.7	7.4	157.4	—	190.5	136.9
Transfer to 12-month ECL	7.7	(7.5)	(0.2)	—	—	n/a
Transfer to lifetime ECL not credit-impaired	(6.4)	8.4	(2.0)	—	—	n/a
Transfer to lifetime ECL credit-impaired	(5.4)	(12.4)	17.8	—	—	n/a
Net remeasurement of loss allowance	15.8	14.2	18.0	—	48.0	37.1
Disposal of subsidiaries	(8.5)	(2.2)	(26.6)	—	(37.3)	—
Unwinding of discount	—	—	5.9	—	5.9	n/a
Write-offs	—	—	(38.7)	—	(38.7)	(53.2)
Recoveries of amounts previously written off	—	0.1	0.2	—	0.3	1.8
Foreign exchange	0.2	—	—	—	0.2	(0.1)
Balance at 31 December	29.1	8.0	131.8	—	168.9	122.5
Mortgages						
Balance at 1 January	1.6	1.3	12.4	0.1	15.4	16.0
Transfer to 12-month ECL	0.9	(0.8)	(0.1)	—	—	n/a
Transfer to lifetime ECL not credit-impaired	(0.4)	1.3	(0.9)	—	—	n/a
Transfer to lifetime ECL credit-impaired	(0.2)	(0.8)	1.0	—	—	n/a
Net remeasurement of loss allowance	0.2	0.4	(1.2)	—	(0.6)	1.6
Disposal of subsidiaries	—	—	(1.3)	—	(1.3)	—
Unwinding of discount	—	—	0.2	—	0.2	n/a
Write-offs	—	—	(0.7)	—	(0.7)	(8.0)
Recoveries of amounts previously written off	—	—	—	—	—	0.3
Foreign exchange	—	—	1.1	—	1.1	—
Balance at 31 December	2.1	1.4	10.5	0.1	14.1	9.9
Credit cards						
Balance at 1 January	3.9	1.1	28.5	—	33.5	22.6
Transfer to 12-month ECL	1.2	(1.2)	—	—	—	n/a
Transfer to lifetime ECL not credit-impaired	(1.5)	2.6	(1.1)	—	—	n/a
Transfer to lifetime ECL credit-impaired	(0.9)	(3.4)	4.3	—	—	n/a
Net remeasurement of loss allowance	0.9	2.0	1.5	—	4.4	6.8
Disposal of subsidiaries	(0.7)	(0.1)	(2.3)	—	(3.1)	—
Unwinding of discount	—	—	2.1	—	2.1	n/a
Write-offs	—	—	(4.7)	—	(4.7)	(7.9)
Recoveries of amounts previously written off	—	0.1	—	—	0.1	0.3
Foreign exchange	(0.1)	(0.1)	0.4	—	0.2	0.1
Balance at 31 December	2.8	1.0	28.7	—	32.5	21.9
Car loans						
Balance at 1 January	1.0	0.2	12.2	—	13.4	10.1
Transfer to 12-month ECL	0.2	(0.2)	—	—	—	n/a
Transfer to lifetime ECL not credit-impaired	(0.2)	0.2	—	—	—	n/a
Transfer to lifetime ECL credit-impaired	(0.1)	(0.2)	0.3	—	—	n/a
Net remeasurement of loss allowance	0.1	0.2	0.4	—	0.7	—
Unwinding of discount	—	—	0.5	—	0.5	—
Write-offs	—	—	(0.4)	—	(0.4)	(0.3)
Foreign exchange	—	—	0.6	—	0.6	(0.1)
Balance at 31 December	1.0	0.2	13.6	—	14.8	9.7

25. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

The following table shows reconciliation from the opening to the closing balance of the loss allowance of loans and advances to customers at fair value through other comprehensive income. Comparative amounts for 2017 represent allowance account for credit losses and reflect measurement basis under IAS 39.

	2018				2017	
	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Purchased credit-impaired	Total	Total
Loans and advances to legal entities at fair value through other comprehensive income						
Balance at 1 January	0.1	–	–	–	0.1	n/a
Foreign exchange	(0.1)	–	–	–	(0.1)	n/a
Balance at 31 December	–	–	–	–	–	n/a

26. INVESTMENT FINANCIAL ASSETS

	2018	2017
Investment financial assets measured at fair value through other comprehensive income	319.7	n/a
Investment financial assets mandatorily measured at fair value through profit or loss	21.7	n/a
Investment financial assets designated as at fair value through profit or loss	7.0	36.2
Investment financial assets measured at amortised cost	4.2	n/a
Investment financial assets available-for-sale	n/a	285.6
Total investment financial assets	352.6	321.8

Investment financial assets measured at fair value through other comprehensive income

	2018	2017
Investment financial assets measured at fair value through other comprehensive income		
Debt securities		
• Bonds and eurobonds of the Russian Federation	208.3	n/a
• Bonds of the Central Bank of the Russian Federation	35.6	n/a
• Bonds and eurobonds of foreign governments	33.2	n/a
• Bonds and eurobonds of Russian companies and banks	19.2	n/a
• Bonds and eurobonds of foreign companies and banks	0.5	n/a
• Russian municipal bonds	0.3	n/a
Total debt securities	297.1	n/a
Equity securities	9.5	n/a
Total investment financial assets measured at fair value through other comprehensive income	306.6	n/a
Investment financial assets measured at fair value through other comprehensive income, pledged under repurchase agreements		
Debt securities		
• Bonds and eurobonds of the Russian Federation	7.8	n/a
• Bonds and eurobonds of Russian companies and banks	3.1	n/a
• Bonds and eurobonds of foreign governments	2.2	n/a
Total debt securities	13.1	n/a
Total investment financial assets measured at fair value through other comprehensive income, pledged under repurchase agreements	13.1	n/a
Total investment financial assets measured at fair value through other comprehensive income	319.7	n/a

26. INVESTMENT FINANCIAL ASSETS (CONTINUED)**Investment financial assets mandatorily measured at fair value through profit or loss**

	2018	2017
Investment financial assets mandatorily measured at fair value through profit or loss		
Equity securities	21.7	n/a
Total investment financial assets mandatorily measured at fair value through profit or loss	21.7	n/a
Total investment financial assets mandatorily measured at fair value through profit or loss	21.7	n/a

Investment financial assets measured at amortised cost

	2018	2017
Investment financial assets measured at amortised cost		
• Bonds and eurobonds of foreign governments	3.9	—
• Bonds and eurobonds of foreign companies and banks	0.3	—
Total investment financial assets measured at amortised cost	4.2	—

Investment financial assets designated as at fair value through profit or loss

	2018	2017
Reverse sale and repurchase agreements to maturity	7.0	18.5
Equity securities	—	17.4
Debt securities		
• Bonds and eurobonds of foreign companies and banks	—	0.3
Total debt securities	—	0.3
Total investment financial assets designated as at fair value through profit or loss	7.0	36.2

Investment financial assets available-for-sale

	2018	2017
Investment financial assets available-for-sale		
Debt securities		
• Bonds and eurobonds of the Russian Federation	n/a	210.3
• Bonds and eurobonds of foreign governments	n/a	56.6
• Bonds and eurobonds of Russian companies and banks	n/a	4.8
• Russian municipal bonds	n/a	1.0
Total debt securities	n/a	272.7
Equity securities	n/a	12.5
Total investment financial assets available-for-sale	n/a	285.2

Investment financial assets available-for-sale, pledged under repurchase agreements

Debt securities		
• Bonds and eurobonds of foreign governments	n/a	0.4
Total debt securities	n/a	0.4
Total investments financial assets available-for-sale, pledged under repurchase agreements	n/a	0.4
Total investment financial assets available-for-sale	n/a	285.6

26. INVESTMENT FINANCIAL ASSETS (CONTINUED)**Impact of adopting IFRS 9**

The following table reconciles the carrying amounts of investment financial assets under IAS 39 to the carrying amounts under IFRS 9 on transition to IFRS 9 on 1 January 2018:

	Original carrying amount under IAS 39	Reclassifi- cation	Remeasu- rement under IFRS 9	New carrying amount under IFRS 9
Investment financial assets available-for-sale				
Debt securities				
• Bonds and eurobonds of the Russian Federation	210.3	(210.3)	—	—
• Bonds and eurobonds of foreign governments	56.6	(56.6)	—	—
• Bonds and eurobonds of Russian companies and banks	4.8	(4.8)	—	—
• Russian municipal bonds	1.0	(1.0)	—	—
Total debt securities	272.7	(272.7)	—	—
Equity securities	12.5	(12.5)	—	—
Investment financial assets available-for-sale	285.2	(285.2)	—	—
Investment financial assets available-for-sale, pledged under repurchase agreements				
Debt securities				
• Bonds and eurobonds of foreign governments	0.4	(0.4)	—	—
Total debt securities	0.4	(0.4)	—	—
Total investments financial assets available-for-sale, pledged under repurchase agreements	0.4	(0.4)	—	—
Total investment financial assets available-for-sale	285.6	(285.6)	—	—
Investment financial assets designated as at fair value through profit or loss				
Reverse sale and repurchase agreements to maturity	18.5	—	—	18.5
Equity securities	17.4	(17.4)	—	—
Debt securities				
• Bonds and eurobonds of foreign companies and banks	0.3	(0.3)	—	—
Total debt securities	0.3	(0.3)	—	—
Total investment financial assets designated as at fair value through profit or loss	36.2	(17.7)	—	18.5
Investment financial assets mandatorily measured at fair value through profit or loss				
Equity securities	—	25.6	—	25.6
Total investment financial assets mandatorily measured at fair value through profit or loss	—	25.6	—	25.6
Investment financial assets measured at amortised cost				
• Bonds and eurobonds of Russian companies and banks	—	14.2	(0.4)	13.8
• Bonds and eurobonds of the Russian Federation	—	9.3	—	9.3
• Bonds and eurobonds of foreign companies and banks	—	2.7	—	2.7
Less impairment loss allowance	—	—	(0.1)	(0.1)
Total investment financial assets measured at amortised cost	—	26.2	(0.5)	25.7
Investment financial assets measured at fair value through other comprehensive income				
Debt securities				
• Bonds and eurobonds of the Russian Federation	—	210.2	—	210.2
• Bonds and eurobonds of foreign governments	—	54.0	—	54.0
• Bonds and eurobonds of Russian companies and banks	—	23.9	—	23.9
• Bonds and eurobonds of foreign companies and banks	—	0.3	—	0.3
• Russian municipal bonds	—	1.0	—	1.0
Total debt securities	—	289.4	—	289.4
Equity securities	—	13.5	—	13.5
Total investment financial assets measured at fair value through other comprehensive income	—	302.9	—	302.9
Investment financial assets measured at fair value through other comprehensive income, pledged under repurchase agreements				
Debt securities				
• Bonds and eurobonds of foreign governments	—	0.4	—	0.4
Total debt securities	—	0.4	—	0.4
Total investments financial assets measured at fair value through other comprehensive income, pledged under repurchase agreements	—	0.4	—	0.4
Total investments financial assets measured at fair value through other comprehensive income	—	303.3	—	303.3

26. INVESTMENT FINANCIAL ASSETS (CONTINUED)

The following table shows reconciliations from the opening to the closing balance of the loss allowance of debt investment financial assets at fair value through other comprehensive income, including pledged under repurchase agreements. Comparative amounts for 2017 represent allowance account for credit losses and reflect measurement basis under IAS 39.

	2018				2017	
	12-month ECL	Lifetime ECL not credit- impaired	Lifetime ECL credit- impaired	Purchased credit- impaired	Total	Total
Debt investment financial assets at fair value through other comprehensive income						
Balance at 1 January	0.2	–	–	–	0.2	n/a
Net remeasurement of loss allowance	0.1	–	–	–	0.1	n/a
Balance at 31 December	0.3	–	–	–	0.3	n/a

The above loss allowance is not recognised in the consolidated statement of financial position because the carrying amount of debt investment financial assets at fair value through other comprehensive income, including pledged under repurchase agreements (2017: debt investment financial assets available-for-sale, including pledged under repurchase agreements) is their fair value.

The following table shows reconciliations from the opening to the closing balance of the loss allowance of debt investment financial assets at amortised cost, including pledged under repurchase agreements. Comparative amounts for 2017 represent allowance account for credit losses and reflect measurement basis under IAS 39.

	2018				2017	
	12-month ECL	Lifetime ECL not credit- impaired	Lifetime ECL credit- impaired	Purchased credit- impaired	Total	Total
Balance at 1 January	–	0.1	–	–	0.1	0.1
Write-offs	–	–	–	–	–	(0.1)
Net remeasurement of loss allowance	0.1	–	–	–	0.1	–
Changes of allowances of disposal group held for sale	(0.1)	(0.1)	–	–	(0.2)	–
Balance at the end of the period	–	–	–	–	–	–

27. LAND, PREMISES AND EQUIPMENT

	Land and premises	Equipment	Construction in progress	Equipment in operating lease	Total
Net book amount at 31 December 2017	116.5	43.4	55.4	132.9	348.2
Cost or revalued amount					
Opening balance at 1 January 2018	122.7	87.7	55.4	155.8	421.6
Acquisitions of subsidiaries (Note 48)	4.0	0.8	0.1	–	4.9
Disposal of subsidiaries (Note 48)	(3.4)	(13.5)	(0.2)	–	(17.1)
Additions	3.1	5.4	18.7	40.0	67.2
Transfers and reclassifications	21.9	2.8	(24.3)	(5.0)	(4.6)
Disposals	(0.8)	(4.6)	–	(0.4)	(5.8)
Impairment	(14.0)	–	(2.9)	–	(16.9)
Reversal of impairment	1.4	–	–	–	1.4
Revaluation	7.6	–	–	–	7.6
Elimination of accumulated depreciation of revalued fixed assets	(8.0)	–	–	–	(8.0)
Effect of translation	0.3	1.2	–	29.2	30.7
Closing balance at 31 December 2018	134.8	79.8	46.8	219.6	481.0
Accumulated depreciation					
Opening balance at 1 January 2018	6.2	44.3	–	22.9	73.4
Depreciation charge	2.7	8.9	–	10.5	22.1
Disposal of subsidiaries (Note 48)	(0.8)	(5.7)	–	–	(6.5)
Disposals	(0.1)	(2.5)	–	(0.1)	(2.7)
Transfers and reclassifications	(0.3)	(0.8)	–	(2.8)	(3.9)
Elimination of accumulated depreciation of revalued fixed assets	(8.0)	–	–	–	(8.0)
Effect of translation	0.3	0.6	–	3.4	4.3
Closing balance at 31 December 2018	–	44.8	–	33.9	78.7
Net book amount at 31 December 2018	134.8	35.0	46.8	185.7	402.3

27. LAND, PREMISES AND EQUIPMENT (CONTINUED)

	Land and premises	Equipment	Construction in progress	Equipment in operating lease	Total
Net book amount at 31 December 2016	119.8	32.4	65.5	135.0	352.7
Cost or revalued amount					
Opening balance at 1 January 2017	122.9	72.8	65.5	151.9	413.1
Acquisitions of subsidiaries	1.0	0.3	0.4	–	1.7
Disposal of subsidiaries	(3.1)	(0.2)	–	–	(3.3)
Additions	2.5	17.9	18.6	33.8	72.8
Transfers and reclassifications	14.6	0.7	(22.4)	(20.3)	(27.4)
Disposals	(2.3)	(2.8)	–	(4.0)	(9.1)
Impairment	(13.2)	(0.8)	(6.5)	–	(20.5)
Reversal of impairment	0.3	–	–	0.1	0.4
Revaluation	(0.1)	–	–	–	(0.1)
Effect of translation	0.1	(0.2)	(0.2)	(5.7)	(6.0)
Closing balance at 31 December 2017	122.7	87.7	55.4	155.8	421.6
Accumulated depreciation					
Opening balance at 1 January 2017	3.1	40.4	–	16.9	60.4
Depreciation charge	3.4	7.7	–	8.9	20.0
Disposal of subsidiaries	(0.3)	(0.1)	–	–	(0.4)
Disposals	(0.5)	(2.2)	–	(0.4)	(3.1)
Transfers and reclassifications	(0.1)	(1.1)	–	(2.0)	(3.2)
Effect of translation	0.6	(0.4)	–	(0.5)	(0.3)
Closing balance at 31 December 2017	6.2	44.3	–	22.9	73.4
Net book amount at 31 December 2017	116.5	43.4	55.4	132.9	348.2

Transfers and reclassifications include both transfers between the categories of the land, premises and equipment, and reclassifications to/from investment property and property intended for sale in the ordinary course of business in other assets.

Land and premises were revalued at fair value at 31 December 2018. The valuation was carried out by an independent firm of appraisers, who hold a recognised and relevant professional qualification and who had experience in the valuation of assets in similar locations and in a similar category. Fair value was determined by reference to market-based evidence.

If the premises were measured using the cost model, the carrying amounts would be as follows:

	2018	2017
Cost	172.4	161.6
Less: accumulated depreciation and impairment	(23.7)	(22.2)
Net carrying amount	148.7	139.4

28. INVESTMENT PROPERTY

	2018	2017
Investment property at 1 January	210.4	235.5
Acquisitions of subsidiaries (Note 48)	4.0	12.5
Disposal of subsidiaries (Note 48)	(6.1)	(1.6)
Additions	3.5	2.1
Disposals	(4.8)	(27.4)
Reclassified (to)/from premises	(0.7)	0.6
Reclassified (to)/from property intended for sale in the ordinary course of business	0.4	3.5
Net losses from changes in fair value	(14.4)	(23.1)
Capitalisation of expenses	4.9	9.2
Effect of translation	1.4	(0.4)
Reclassified (to)/from assets of disposal groups held for sale	(1.3)	0.4
Reclassified (to)/from other accounts	(0.1)	(0.9)
Investment property at 31 December	197.2	210.4

Where the Group is the lessor, the future minimum lease payments receivable under non-cancellable operating leases are as follows:

	2018	2017
Not later than 1 year	4.6	3.7
Later than 1 year and not later than 5 years	11.2	13.1
Later than 5 years	–	–
Total operating lease payments receivable	15.8	16.8

28. INVESTMENT PROPERTY (CONTINUED)

For the year ended 31 December 2018 the Group recognised rental income as part of income arising from non-banking activities of RUR 4.7 billion (Note 14) and direct operating expenses of RUR 1.0 billion in relation to investment property that generated rental income (for the year ended 31 December 2017: RUR 5.5 billion and RUR 0.7 billion, respectively).

In 2018, the Group's investment property increased due to business combination in the total amount of RUR 4.0 billion (2017: RUR 12.5 billion) (Note 48).

In 2018, the Group's investment property decreased due to the disposal of subsidiaries in the total amount of RUR 6.1 billion (2017: RUR 1.6 billion) (Note 48).

In 2018, the Group obtained the property of RUR 2.3 billion (2017: RUR 0.9 billion) through foreclosure of

collateral under mortgage loans. The acquired investment properties were valued by an independent, professionally qualified appraiser at fair value at the acquisition date.

As at 31 December 2018 investment property in the amount of RUR 23.7 billion was under construction in progress or development (31 December 2017: RUR 22.9 billion).

The fair values of the investment properties were estimated using comparatives and the income approach under the highest and best use assumption. Actually used key valuation assumptions and fair value sensitivity to their changes are disclosed in Note 45.

29. GOODWILL AND OTHER INTANGIBLE ASSETS

The movements in goodwill and other intangible assets were as follows:

	Core deposit and customer loan intangible	Computer software	Relations with the major lessee	Other rights	Brands and trademarks	Goodwill	Total
Net book amount at 31 December 2017	1.5	21.9	15.9	2.0	0.1	116.0	157.4
Cost less impairment							
Opening balance at 1 January 2018	21.2	34.8	18.1	2.8	0.2	116.0	193.1
Additions	—	10.2	—	—	—	—	10.2
Acquisition through business combinations (Note 48)	—	0.3	—	—	—	—	0.3
Disposals	—	(0.7)	—	—	—	—	(0.7)
Disposals of subsidiaries (Note 48)	—	(3.8)	—	—	—	—	(3.8)
Write-offs of fully amortised items	(21.2)	(1.6)	—	—	—	—	(22.8)
Write-offs through impairment	—	(1.0)	—	—	—	(0.1)	(1.1)
Effect of translation	—	1.2	3.7	0.1	0.1	—	5.1
Transfers	—	0.1	—	(1.3)	—	(0.3)	(1.5)
Closing balance at 31 December 2018	—	39.5	21.8	1.6	0.3	115.6	178.8
Accumulated amortisation							
Opening balance at 1 January 2018	19.7	12.9	2.2	0.8	0.1	—	35.7
Amortisation charge	1.4	4.6	1.4	0.2	—	—	7.6
Disposals	—	(0.7)	—	—	—	—	(0.7)
Disposals of subsidiaries (Note 48)	—	(1.9)	—	—	—	—	(1.9)
Write-offs of fully amortised items	(21.2)	(1.6)	—	—	—	—	(22.8)
Effect of translation	0.1	0.7	0.6	—	—	—	1.4
Transfers	—	(0.4)	—	(0.1)	—	—	(0.5)
Closing balance at 31 December 2018	—	13.6	4.2	0.9	0.1	—	18.8
Net book amount at 31 December 2018	—	25.9	17.6	0.7	0.2	115.6	160.0

29. GOODWILL AND OTHER INTANGIBLE ASSETS (CONTINUED)

	Core deposit and customer loan intangible	Computer software	Relations with the major lessee	Other rights	Brands and trademarks	Goodwill	Total
Net book amount at 31 December 2016	4.3	13.9	17.8	2.8	0.1	116.2	155.1
Cost less impairment							
Opening balance at 1 January 2017	30.2	24.5	19.1	3.6	0.2	116.2	193.8
Additions	—	10.6	—	0.2	0.1	—	10.9
Acquisition through business combinations	—	0.1	—	0.1	—	2.2	2.4
Disposals	(9.0)	(1.3)	—	(0.1)	—	—	(10.4)
Disposals of subsidiaries	—	—	—	(0.6)	—	—	(0.6)
Write-offs through impairment	—	—	—	(0.4)	—	(2.7)	(3.1)
Effect of translation	—	—	(1.0)	0.1	(0.1)	0.3	(0.7)
Transfers	—	0.9	—	(0.1)	—	—	0.8
Closing balance at 31 December 2017	21.2	34.8	18.1	2.8	0.2	116.0	193.1
Accumulated amortisation							
Opening balance at 1 January 2017	25.9	10.6	1.3	0.8	0.1	—	38.7
Amortisation charge	2.8	3.5	1.0	0.1	—	—	7.4
Disposals	(9.0)	(1.2)	—	(0.1)	—	—	(10.3)
Disposals of subsidiaries	—	—	—	—	—	—	—
Effect of translation	—	0.1	(0.1)	—	—	—	—
Transfers	—	(0.1)	—	—	—	—	(0.1)
Closing balance at 31 December 2017	19.7	12.9	2.2	0.8	0.1	—	35.7
Net book amount at 31 December 2017	1.5	21.9	15.9	2.0	0.1	116.0	157.4

The table below presents the carrying amount of goodwill, core deposit and customer loan intangible, and relations with the major lessee intangible allocated to relevant cash-generating units (CGU) of the following entities:

CGU	2018				CGU	2017			
	Carrying amount of goodwill	Carrying amount of core deposit and customer loan intangible	Relations with the major lessee intangible	Total		Carrying amount of goodwill	Carrying amount of core deposit and customer loan intangible	Relations with the major lessee intangible	Total
"VTB Bank", PJSC					"VTB Bank", PJSC and Bank VTB 24", PJSC				
- CIB	76.1	—	—	76.1	- IB-CIB	5.4	—	—	5.4
					- LD and TB- CIB	70.7	—	—	70.7
- MSB	26.8	—	—	26.8	- MCB	25.9	1.2	—	27.1
- RB	11.1	—	—	11.1	- SB	0.9	—	—	0.9
					- RB	11.1	0.3	—	11.4
"Avia Capital Management Ltd."	—	—	17.6	17.6	"Avia Capital Management" Ltd.	—	—	15.9	15.9
Other subsidiaries	1.6	—	—	1.6	Other subsidiaries	2.0	—	—	2.0
Net book amount	115.6	—	17.6	133.2	Net book amount	116.0	1.5	15.9	133.4

Avia Capital Management Ltd.

Group recognised an intangible asset (relations with the major lessee) that arose following the acquisition of a subsidiary in 2013. It was allocated to the Avia Capital Management Ltd cash flow generating unit (further "CGU") and tested for impairment as a part of this CGU in accordance with IAS 36 Impairment of Assets.

As at 31 December 2018 and 2017, the recoverable amount was calculated as value in use of the CGU. The key assumptions in determining the value in use were the discount rate in USD which represents the cost of

equity and was calculated under CAPM (the Capital Asset Pricing Model) at 11.25% (31 December 2017: 11.2%), as well as the effective funding rate in USD, gradually increasing in the forecasted period (2019-2030) from 4.95% to 5.49% (31 December 2017: gradually increasing in the forecasted period (2018-2030) from 3.83% to 5.18%). The funding rate was calculated under the Rouble funding strategy with a further swap into USD via the use of derivative financial instruments ("DFIs") (loans and DFIs were concluded with related parties). The discount rate (cost of equity) used is pre-tax, and reflects the specific risks related to the given CGU.

29. GOODWILL AND OTHER INTANGIBLE ASSETS (CONTINUED)**Avia Capital Management Ltd. (continued)**

As at 31 December 2018, the recoverable amount of the Avia Capital Management Ltd. CGU exceeded its carrying amount by RUB 6.8 billion (31 December 2017: RUB 2.1 billion). The CGU's carrying amount would be equal to the recoverable amount either at a discount rate of 15.37% in USD (31 December 2017: 12.18%) or with the use of an effective funding rate in USD gradually increasing in the forecasted period (2019-2030) from 6.17% to 6.84% (31 December 2017: from 4.35% to 5.70% in the forecasted period (2018-2030)) (all other inputs held constant).

“VTB Bank”, PJSC

In 2018, the Group management defined in the operational structure of “VTB Bank”, PJSC the following key cash flow generating units (“CGUs”):

- Corporate-Investment banking (“CIB”);
- Medium and Small banking (“MSB”);
- Retail banking (“RB”).

Each of the abovementioned segments has its internal unified systems:

- Management system under the leadership of a separate member of the Management Board of VTB Bank;
- Decision-making process and process of allocating resources;
- Bonus system.

In the previous periods Group management defined as separate units within CIB segment investment-banking business with large clients (“IB-CIB”) and other operations with large clients (loan, deposit and transaction banking operations) (“LD and TB-CIB”). After unification of employee bonus systems Group management analyses these two units on a combined basis within CIB structure.

As at 1 January 2018, the Group approved new rules of operations allocation assignment to MSB and RB segments. Starting from 1 January 2018, operations with “small business” corporate customers are allocated to MSB segments and excluded from RB segment (Note 4).

Management reports for each CGU are prepared on a monthly basis and are reviewed by management bodies of VTB Bank, including the Management board as part of operational decision-making.

For the purposes of goodwill impairment test, the recoverable amount of the above individual CGUs was determined based on the net present value of expected cash flows.

Carrying amount of CGU

At 31 December 2018 the carrying amount of the relevant CGUs was determined through allocation of the adjusted VTB shareholders' equity. VTB shareholders' equity was adjusted for investment in subsidiaries and

other deductions related to regulatory Group Treasury functions. Subsequently the adjusted VTB shareholders' equity was allocated to CGUs proportionately based on their share in assets and open risk position for credit related commitments on an aggregate basis for the Bank.

Goodwill in the total amount of RUB 114.0 billion, recognised on the acquisition of other banks that were subsequently reorganised with their assets transferred on VTB's balance, was allocated to CGUs based the amount of acquired assets, generating cash flows.

The goodwill recognised on the acquisition of former “TransCreditBank”, JSC and former “Bank VTB North-West”, OJSC of RUB 8.8 billion was allocated to CIB and MSB.

The goodwill recognised on the acquisition of “Bank of Moscow”, OJSC of RUB 101.8 billion is allocated to CIB, MSB and RB CGUs.

The goodwill recognised on the acquisition of Bank “VTB 24”, PJSC of RUB 3.4 billion is allocated to RB CGUs.

As at 31 December 2018 goodwill and intangible assets of core deposit and customer loan intangible were allocated to the relevant CGUs as follows:

	Goodwill	Intangible assets	Total
CIB	76.1	–	76.1
MSB	26.8	–	26.8
RB	11.1	–	11.1
Total	114.0	–	114.0

As at 31 December 2017 goodwill and intangible assets of core deposit and customer loan intangible were allocated to the relevant CGUs as follows:

	Goodwill	Intangible assets	Total
IB-CIB	5.4	–	5.4
LD and TB-CIB	70.7	–	70.7
MCB	25.9	1.2	27.1
SB	0.9	–	0.9
RB	11.1	0.3	11.4
Total	114.0	1.5	115.5

For the purpose of impairment testing the carrying amount of the relevant CGUs together with the allocated goodwill and intangible assets were compared to the recoverable amount of the respective CGUs.

DCF Model

The Group determines the recoverable amounts of each CGU on the basis of value in use for a 3-year forecast period up to 2021 and post-forecast period of 2022, calculated using the VTB Bank business model. Future cash flows were discounted to their present value at a rate that reflected investors expected returns in the forecasted periods. Cash flows beyond 2022 period were extrapolated using estimated total growth rate of 4.5% p.a.

29. GOODWILL AND OTHER INTANGIBLE ASSETS (CONTINUED)**“VTB Bank”, PJSC (continued)****DCF Model (continued)**

Relatively stable forecast of the development of the economy and the banking sector underlies the estimates, assuming an average economic growth rate of 1.4-1.8%, target inflation rate of 4.0% with periodic fluctuations due to instability of the world economy, situation in the regions of oil extraction, changes in the tax regulation of RF (VAT).

Estimates of future cash flows were based on the most recent financial statements, as well as figures, forecasts and budgets for the relevant CGUs, in addition to the economic and market forecasts that chief decision makers approve for internal management purposes.

The following assumptions were used in the DCF model in respect of expected cash flows and the discount rate.

COR: The Cost of Risk, representing the loan impairment provision to loans ratio for each CGU, was projected on the basis of each CGU's key strategic targets and historical data.

NIM: The Net Interest Margin was projected on the basis of a CGU's key strategic targets, expected business profitability and the historical level for each CGU.

CIR: The Cost to Income ratio was projected on the basis of a CGU's key strategic targets, expected cost reduction, efficiencies following the legal merger and the historical levels for each CGU.

Discount rate: The CAPM-based discount rate was determined on the basis of RUB and foreign currency risk-free interest rates, a market risk premium and beta

as a measure of systematic market risk. The market risk premium and beta were derived from public sources of information, while the risk-free interest rates for the terminal period were derived both from public and internal sources of information.

The Group applied different discount rate for different future periods based on its expectation of decrease of the risk free rate with potential short-term increase in 2019.

Variations in all of these components might impact the calculation of expected cash flows and might have a material effect on the recoverable amounts of respective CGUs.

As at 31 December 2018, the range of key assumptions for the relevant CGUs for the projection period (2019-2022) was as follows:

CGU	COR, b.p.	NIM, % p.a.	CIR, % p.a.	Discount rate, % p.a.
CIB	80-95	2.1-2.6	27.4-28.1	
MSB	178-181	4.5-5.0	32.8-38.5	13.3-14.7
RB	154-159	4.1-4.7	38.0-51.7	

As at 31 December 2017, the key assumptions for the relevant CGUs for the projection period (2018-2021) were as follows:

CGU	COR, b.p.	NIM, % p.a.	CIR, % p.a.	Discount rate, % p.a.
IB-CIB	20-7	3.7-4.3	33.0	
LD and TB-CIB	148-97	2.0-2.5	24.1-24.4	12.3-12.0
MCB	227-187	4.4-4.1	39.8-37.0	
SB	142-197	12.0-14.1	27.8-19.7	
RB	158-157	5.1-5.3	56.6-44.3	

Sensitivity of recoverable amount to possible changes in key assumptions

The tables show the impact that possible changes in our key assumptions might have on the recoverable amount of the relevant CGUs in terms of the goodwill impairment recognition. As at 31 December 2018 the possible changes in the key assumptions in respect the CGUs other than CIB have not led to goodwill impairment (31 December 2017: other than LD and TB-CIB and MCB).

As at 31 December 2018:

CGU	Key assumption	Reasonably possible change	Goodwill impairment, RUR billion	Recoverable amount exceeds carrying amount, RUR billion	Change in key assumptions resulting in recoverable amount to equal carrying amount
CIB	NIM	-0.60%	(36.0)	221.6	-0.5%

29. GOODWILL AND OTHER INTANGIBLE ASSETS (CONTINUED)

“VTB Bank”, PJSC (continued)

Sensitivity of recoverable amount to possible changes in key assumptions (continued)

As at 31 December 2017:

CGU	Key assumption	Reasonably possible change	Goodwill impairment, RUR billion	Recoverable amount exceeds carrying amount, RUR billion	Change in key assumptions resulting in recoverable amount to equal carrying amount
LD and TB-CIB	NIM	-0.30%	(70.8)		-0.04%
	COR	20 b.p.	(53.4)		4.7 b.p.
	COR	40 b.p.	(70.8)		4.7 b.p.
	CIR	2.00%	(4.0)	16.5	1.61%
	CIR	4.00%	(24.4)		1.61%
	Discount rate	0.50%	(7.3)		0.34%
	Discount rate	1.00%	(28.2)		0.34%
MCB	NIM	-0.60%	(5.1)	45.1	-0.54%

The following table summarises uncertainties of key assumptions used in the DCF model:

Input	Assumptions	Uncertainties of Assumptions
CIB		
CIR	Continued focus on operating efficiency	Cost savings are not realised as anticipated
NIM	- Recovery of Russian markets over the forecast period - Expected level of the market interest rates and likely decrease in the CB key rate in middle-term horizon - Decreasing cost of liabilities in VTB, resulting from implementation of the Group's plans to optimise the funding structure	Unfavourable margin development and adverse competition levels in key products beyond expected levels Significant share of large corporates in VTB's loan book limits the Group's pricing power to re-price loans if the key rate is increased
COR	COR is based on anticipated dynamics of the loans	Unexpected market conditions and possible additional sanctions against RF-entities that will increase loan loss risks
Discount rate	Discount rate used is a reasonable estimate of a suitable market rate for the profile of the business	Major industry threats, i.e. market volatility, sovereign debt burden, increasing costs from possible regulatory changes
MSB		
CIR	Strict discipline applied to operating expenses	Cost savings are not realised as anticipated
NIM	- Recovery of Russian markets over the forecast period - Expected level of the market interest rates and likely decrease in the CB key rate in middle-term horizon	Unfavourable margin development and adverse competition levels in key products beyond expected levels
COR	Strict discipline applied to cost of risk	Significant economic decline to increase credit loss provisions
Discount rate	Discount rate used is a reasonable estimate of a suitable market rate for the profile of the business.	Major industry threats, i.e. market volatility, sovereign debt burden, increasing costs from possible regulatory changes
RB		
CIR	Development of mobile applications for interaction with customers, back office reallocation to regions with lower labour costs	Initial stage may be long and high cost
NIM	General economic conditions improve, which would result in the Group reassessing its risk appetite and help to increase the share of high margin banking products	Unfavourable margin development and adverse competition levels in key products beyond expected levels
COR	Solid management of cost of risk despite growth in share of higher margin but more risky products	Significant economic decline potentially resulting in higher unemployment rates, increasing credit loss provisions
Discount rate	Discount rate used is a reasonable estimate of a suitable market rate for the profile of the business	Major industry threats, i.e. market volatility, sovereign debt burden, increasing costs from possible regulatory changes

29. GOODWILL AND OTHER INTANGIBLE ASSETS (CONTINUED)**“VTB Bank”, PJSC (continued)****Sensitivity of recoverable amount to possible changes in key assumptions (continued)**

Current economic and industry risks such as volatility of the key interest rate determined by the CBR (“key rate”), oil prices, foreign exchange rates might negatively impact actual cash flows as compared to forecasted cash flows and result in impairment of goodwill allocated to CGUs. Management’s forecast of NIM, WACC and

loan portfolio growth takes into consideration existing expectations regarding the future changes in the key rate. Should the actual reductions in the key rate be slower than it was expected by the management, it might have negative influence on the actual future cash flows and rates.

30. OTHER ASSETS

	2018	2017
Other financial assets at amortised cost:		
Amounts in course of settlement	32.7	7.6
Accrued commission income	11.5	8.5
Advances issued to leasing equipment suppliers	9.8	13.1
Accrued income on operating leases	4.4	5.3
Trade receivables and prepayments	4.3	8.1
Initial margin and other performance collateral	1.4	13.4
Reinsurance and insurance receivables	—	8.0
Other	6.4	5.2
Total other financial assets at amortised cost before allowance for impairment	70.5	69.2
Less: loss allowance	(2.8)	(3.6)
Total other financial assets at amortised cost	67.7	65.6
Other financial assets at fair value through profit or loss:		
Amounts in course of settlement related to regular way transactions with financial instruments	—	0.3
Other	—	0.1
Total other financial assets at fair value through profit or loss	—	0.4
Total other financial assets	67.7	66.0
Insurance assets:		
Deferred acquisition costs	1.6	4.2
Reinsurers’ share of loss provisions	—	6.5
Reinsurers’ share of provision for unearned premiums	—	2.1
Total insurance assets	1.6	12.8
Other non-financial assets accounted at cost less impairment:		
Property intended for sale in the ordinary course of business	109.5	118.7
Other assets related to non-banking activities	20.6	23.6
Inventories	19.4	10.5
Prepayments	9.0	22.5
Deferred expenses	7.2	7.4
Tax prepayments	5.6	8.0
Equipment purchased for subsequent leasing	0.8	3.2
Other	4.1	23.5
Total other non-financial assets accounted at cost less impairment	176.2	217.4
Other non-financial assets at fair value:		
Precious metals	41.8	112.2
Total other non-financial assets at fair value	41.8	112.2
Total other non-financial assets	218.0	329.6
Total other assets	287.3	408.4

As at 31 December 2018 amounts in course of settlement includes settlements with Deposit Insurance Agency for the reimbursement of bankrupt banks’ deposits in the amount of RUR 16.3 billion (31 December 2017: RUR 0.4 billion).

As at December 2018, inventories include the amount of RUR 5.6 billion (31 December 2017: RUR 10.2 billion) representing foreclosed collateral (goods, equipment, etc.) under default loans before further decision (Note 44).

As at 31 December 2018 and 2017, other assets related to non-banking activities were predominantly related to real estate and construction.

As at 31 December 2018, property intended for sale in the ordinary course of business under construction in progress or development amounted to RUR 79.5 billion (31 December 2017: RUR 85.7 billion) and property intended for sale in the ordinary course of business ready for use by buyer amounted to RUR 30.0 billion (31 December 2017: RUR 33.0 billion).

30. OTHER ASSETS (CONTINUED)

	2018	2017
Property intended for sale in the ordinary course of business at 1 January	118.7	115.9
Impact of adopting IFRS 15 at 1 January 2018 (Note 3)	(1.5)	–
Balance at 1 January 2018 after adoption	117.2	115.9
Acquisitions of subsidiaries (Note 48)	–	9.7
Additions	0.3	–
Disposals	(39.3)	(32.0)
Reclassified to premises	(0.1)	–
Reclassified to investment property	(0.4)	(3.5)
Impairment	(7.3)	(8.1)
Capitalisation of expenses	39.1	37.3
Reclassified to assets of disposal groups held for sale	–	(0.2)
Reclassified to other accounts	–	(0.4)
Property intended for sale in the ordinary course of business at 31 December	109.5	118.7

Impact of adopting IFRS 9 and IFRS 15

The following table reconciles the carrying amounts of other assets under IAS 39 and IAS 2 to the carrying amounts under IFRS 9 and IFRS 15 on transition on 1 January 2018:

	Original carrying amount under IAS 39 or IAS 2	Reclassification	Remeasurement under IFRS 9	Recognition of revenue under IFRS 15 before taxation	New carrying amount under IFRS 9 or IFRS 15
Other financial assets at amortised cost					
Other	5.2	0.1	–	–	5.3
Less: loss allowance	(3.6)	–	(0.2)	–	(3.8)
Other financial assets at fair value through profit or loss					
Other	0.1	(0.1)	–	–	–
Other non-financial assets accounted at cost less impairment					
Property intended for sale in the ordinary course of business	118.7	–	–	(1.5)	117.2
Other assets related to non-banking activities	23.6	–	–	0.2	23.8

The movements in allowances for impairment of other financial assets at amortised cost were as follows (comparative amounts for 2017 represent allowance account for credit losses and reflect measurement basis under IAS 39):

	2018			2017	
	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Total	Total
Balance at 1 January	1.0	1.3	1.5	3.8	3.6
Transfer to lifetime ECL credit-impaired	0.1	–	(0.1)	–	n/a
Net remeasurement of loss allowance	0.4	0.3	(0.1)	0.6	0.9
Write-offs	(0.4)	(0.5)	(0.3)	(1.2)	(1.1)
Recoveries of amounts written-off in previous period	–	0.1	–	0.1	0.2
Disposal of subsidiaries	(0.2)	–	–	(0.2)	–
Reclassification from/to ECL due to reclassification of items from/to this category	(0.5)	–	0.2	(0.3)	–
Foreign exchange	0.1	(0.1)	–	–	–
Balance at 31 December	0.6	1.0	1.2	2.8	3.6

31. DISPOSAL GROUPS AND NON-CURRENT ASSETS HELD FOR SALE

The Group has non-current assets and investments in the disposal groups held for sale, including subsidiaries acquired exclusively with a view to resale, accounted for in accordance with IFRS 5. The Management of the Group is committed to dispose of these non-current assets and investments in the near future, within one year from the initial classification as a disposal group.

		2018	2017
Assets of disposal groups held for sale:			
Teghout Investments Ltd	100% owned subsidiary	22.0	n/a
Premises	non-current asset held for sale	n/a	n/a
VTB Bank (Belgrade), JSC	100% owned subsidiary	n/a	6.1
Burger King Russia (Cyprus), Ltd	16.62% of shares in associate	n/a	4.6
Irrico Ltd.	65.8% owned subsidiary	n/a	4.0
Hotel Altai, JSC	100% owned subsidiary	n/a	1.0
Hotel Voshod, JSC	100% owned subsidiary	n/a	0.9
Investment property	non-current asset held for sale	n/a	0.3
Other	100% owned subsidiary	n/a	0.3
Total assets of disposal groups and non-current assets held for sale		22.0	17.2
Liabilities of disposal groups held for sale:			
Teghout Investments Ltd	100% owned subsidiary	–	n/a
VTB Bank (Belgrade), JSC	100% owned subsidiary	n/a	5.2
Irrico Ltd.	65.8% owned subsidiary	n/a	1.5
Other	100% owned subsidiary	n/a	0.3
Total liabilities of disposal groups held for sale		–	7.0

In August 2018, the Group obtained control over Teghout Investments, Ltd as a result of debt settlement and accounted for this investment as a subsidiary acquired exclusively with a view to resale under IFRS 5 as the sale is considered highly probable. As at 31 December 2018 the Group accounted for investments Teghout Investments, Ltd as a disposal group held for sale under IFRS 5 presented in segment "CIB" and considered that sale was highly probable

In July 2018 The Bank sold 100.0% of shares in VTB Bank (Belgrade), JSC, classified as disposal group held for sale, to a non-related party for the total consideration of RUR 0.9 billion with RUR 0.3 billion profit recognized attributed to segment "Treasury".

In April 2018 the Group sold 100.0% of shares in Mosgorlombard-Auto, LLC classified as assets held for sale, to a non-related party of the total consideration of RUR 0.1 billion. The net assets of Mosgorlombard-Auto, LLC as at the date of disposal amounted to RUR 0.1 billion.

Starting from March 2018 the Group ceased to classify investment in Irrico Ltd. as a disposal Group held for sale under IFRS 5 as the sale is no longer considered to be highly probable.

In February 2018 the Group sold 100.0% of shares in Hotel Altai, OJSC classified as assets held for sale, to a non-related party for the total consideration of RUR 1.0 billion. The net assets of Hotel Altai, OJSC as at the date of disposal amounted to RUR 1.0 billion.

In February 2018 the Group sold 16.62% of shares in associated entity Burger King Russia (Cyprus, Ltd), classified as assets held for sale, to a non-related party for the total cash consideration of 4.6 RUR billion with no gain/loss recognised.

In January 2018 the Group sold 100.0% of shares in Hotel Voshod, JSC classified as assets held for sale, to a non-related party for the total consideration of RUR 0.9 billion. The net assets of Hotel Voshod, JSC as at the date of disposal amounted to RUR 0.9 billion.

Major classes of non-current assets and assets of disposal groups held for sale are as follows:

	2018	2017
Assets of a disposal group held for sale:		
Cash and short-term funds	–	0.5
Mandatory cash balances with central banks	–	0.4
Due from other banks	–	1.1
Loans and advances to customers	–	3.4
Investment financial assets	–	0.5
Investments in associates and joint ventures	–	4.6
Premises and equipment	22.0	4.2
Intangible assets and goodwill	–	0.3
Investment property	–	–
Other assets	–	1.8
Non-current assets held for sale		
Investment property	–	0.4
Premises and equipment	–	–
Total assets of disposal groups and non-current assets held for sale	22.0	17.2

31. DISPOSAL GROUP AND NON-CURRENT ASSETS HELD FOR SALE (CONTINUED)

Major classes of liabilities of disposal groups held for sale are as follows:

	2018	2017
Due to other banks	–	1.1
Customer deposits	–	5.1
Trade creditors and prepayments received	–	–
Deferred income tax liability	–	–
Other liabilities	–	0.7
Subordinated debt	–	0.1
Total liabilities of disposal groups held for sale	–	7.0

32. DUE TO OTHER BANKS

	2018	2017
Term loans and deposits	1,006.1	694.8
Correspondent accounts and overnight deposits of other banks	104.0	114.6
Sale and repurchase agreements	315.6	0.9
Total due to other banks	1,425.7	810.3

The table below shows the amounts of pledged assets and carrying amount of associated liabilities as at 31 December 2018 and 31 December 2017.

	2018			2017		
	Amount of the assets pledged	Carrying amount of the associated liabilities	Net position	Amount of the assets pledged	Carrying amount of the associated liabilities	Net position
Term loans and deposits						
• loans and advances to customers (Note 25)	1.3	0.7	0.6	1.6	1.1	0.5
Sale and repurchase agreements						
• trading financial assets (Note 22)	33.8	29.4	4.4	0.1	0.3	(0.2)
• investment financial assets (Note 26)	11.5	10.7	0.8	0.4	0.4	–
• loans and advances to customers (Note 25)	25.9	22.3	3.6	–	–	–
• financial assets received under reverse sale and repurchase agreements	258.0	253.2	4.8	0.2	0.2	–
Total Sale and repurchase agreements	329.2	315.6	13.6	0.7	0.9	(0.2)
Total	330.5	316.3	14.2	2.3	2.0	0.3

33. CUSTOMER DEPOSITS

	2018	2017
Government bodies		
• Current/settlement deposits	70.4	118.3
• Term deposits	1,048.4	1,048.4
Other legal entities		
• Current/settlement deposits	1,505.1	1,277.0
• Term deposits	3,336.7	3,072.5
Individuals		
• Current/settlement deposits	1,085.3	906.4
• Term deposits	3,320.4	2,715.2
Sale and repurchase agreements	37.4	6.9
Total customer deposits	10,403.7	9,144.7

As at 31 December 2018, the Group's 10 largest groups of interrelated customers had aggregated balances amounting to RUR 2,683.1 billion or 25.8% of total customer deposits (Note 54) (31 December 2017: RUR 2,562.0 billion or 28.0%).

As at 31 December 2018, deposits of RUR 39.7 billion (31 December 2017: RUR 386.5 billion) were held as collateral against irrevocable commitments under import letters of credit and guarantees (Note 52).

33. CUSTOMER DEPOSITS (CONTINUED)

Economic sector risk concentrations within customer deposits are as follows:

	2018		2017	
	Amount	%	Amount	%
Individuals	4,407.9	42.4	3,621.6	39.6
Oil and Gas	1,322.1	12.7	1,321.5	14.5
Government bodies	1,118.8	10.8	1,166.7	12.8
Finance	841.4	8.1	709.4	7.8
Building construction	524.1	5.0	426.0	4.7
Engineering and Other Manufacturing	417.1	4.0	431.3	4.7
Trade and commerce	306.2	2.9	254.8	2.8
Transport	265.2	2.5	305.9	3.3
Telecommunications and media	222.3	2.1	160.5	1.8
Metals	208.2	2.0	69.2	0.8
Energy	184.1	1.8	133.7	1.5
Food and agriculture	95.2	0.9	71.5	0.8
Chemical	67.7	0.7	51.1	0.6
Coal mining	46.0	0.4	15.0	0.2
Aircraft	5.6	0.1	20.1	0.2
Other	371.8	3.6	386.4	3.9
Total customer deposits	10,403.7	100.0	9,144.7	100.0

As at 31 December 2018 financial assets pledged against sale and repurchase agreements represent trading financial assets with fair value of RUR 0.3 billion (31 December 2017: RUR 0.2 billion) (Note 22),

investment assets with fair value of RUR 0.2 billion and securities received under reverse sale and repurchase agreements with fair value of RUR 38.2 billion (31 December 2017: RUR 8.5 billion).

34. OTHER BORROWED FUNDS

	2018	2017
Funds from local central banks:	57.4	71.1
• Term deposits from local central banks	56.0	71.1
• Sale and Repurchase Agreements	1.4	—
Syndicated loans	9.2	9.3
Other borrowings	263.1	224.1
Total other borrowed funds	329.7	304.5

The table below shows the amounts of pledged assets and carrying amount of associated liabilities as at 31 December 2018 and 31 December 2017.

	2018			2017		
	Amount of the assets pledged	Carrying amount of the associated liabilities	Net position	Amount of the assets pledged	Carrying amount of the associated liabilities	Net position
Funds from local central banks:						
Term deposits						
• loans and advances to customers (Note 25)	39.9	32.6	7.3	41.7	42.1	(0.4)
• investment financial assets (Note 26)	1.7	1.6	0.1	0.9	0.9	—
• due from other banks (Note 24)	—	—	—	0.7	0.7	—
Total Term deposits	41.6	34.2	7.4	43.3	43.7	(0.4)
Sale and repurchase agreements						
• investment financial assets (Note 26)	1.4	1.4	—	—	—	—
Other borrowings						
• loans and advances to customers (Note 25)	5.1	102.4	(97.3)	26.0	93.8	(67.8)
Total	48.1	138.0	(89.9)	69.3	137.5	(68.2)

In September 2011, "Bank of Moscow", OJSC received a RUR 294.8 billion deposit from the related party DIA at 0.51% p.a. maturing in 10 years under the plan of support (the "Plan") of "Bank of Moscow", OJSC approved by the CBR and the DIA. During the fourth quarter 2014, the DIA agreed to the deposit extension due to adverse effects of the current political and macro-economic environment on "Bank of Moscow", OJSC and its clients, which in turn influenced the execution of the Plan. In December 2014, the CBR and the DIA approved the extension of the deposit until September 2026 at 0.51% p.a.

As at 31 December 2018, the carrying amount of the deposit amounted to RUR 102.4 billion (31 December 2017: RUR 91.2 billion) and was included in Other borrowings. The contractual amount of the deposit was RUR 265.8 billion at 31 December 2018 (31 December 2017: RUR 266.0 billion). The deposit was collateralised by loans and advances to customers with the carrying amount of RUR 5.1 billion at 31 December 2018 (31 December 2017: RUR 22.1 billion) (Note 25).

35. DEBT SECURITIES ISSUED

	2018	2017
Bonds	159.2	244.4
Promissory notes	98.6	77.3
Deposit certificates	1.3	1.0
Total debt securities issued	259.1	322.7

Promissory notes represent notes primarily issued in the local market as an alternative to customer/bank deposits. As at 31 December 2018 promissory notes issued included both discount and interest bearing

promissory notes denominated mainly in RUR with maturity ranging from demand to December 2044 (31 December 2017: from demand to December 2044).

The bonds represent eurobonds issued mostly under EMTN program and local bonds issued by VTB and other Group members with the carrying amounts at the end of the reporting periods as follows:

	Rates, p.a.	Maturity	2018	2017
Local bonds	3.00% to 9.25%	2019-2057	99.6	83.3
USD Eurobonds (EMTN)	6.25% to 6.55%	2020-2035	59.6	151.9
CHF Eurobonds (EMTN)	n/a	n/a	—	9.2
Total bonds			159.2	244.4

Local bonds include short-term bonds issued under an overnight bond programme on the Moscow Stock Exchange.

The table below shows the amounts of pledged assets and carrying amount of associated liabilities as at 31 December 2018 and 31 December 2017.

	2018			2017		
	Amount of the assets pledged	Carrying amount of the associated liabilities	Net position	Amount of the assets pledged	Carrying amount of the associated liabilities	Net position
Local bonds						
• loans and advances to customers (Note 25)	41.1	16.8	24.3	16.9	12.6	4.3
• due from other banks (Note 24)	1.1	0.8	0.3	1.0	1.0	—
• Cash and short-term funds	1.6	0.3	1.3	—	—	—
Total	43.8	17.9	25.9	17.9	13.6	4.3

36. SUBORDINATED DEBT

	Rates, p.a.	Maturity	2018	2017
VTB Bank, PJCS:				
RUR 100 billion subordinated deposit	from 3.5% to 6.89%	2044	101.2	101.7
USD 1.5 billion subordinated Eurobonds	6.95%	2022	94.1	78.0
CHF 350 million subordinated Eurobonds	5.00%	2024	16.2	13.5
Vozrozhdenie Bank, PJSC:				
RUR 1.0 billion subordinated deposit	9.25%	2020	1.0	n/a
RUR 1.0 billion subordinated deposit	9.25%	2020	1.0	n/a
RUR 1.0 billion subordinated deposit	9.25%	2020	1.0	n/a
Total subordinated debt			214.5	193.2

37. OTHER LIABILITIES

	2018	2017
Other financial liabilities at amortised cost:		
Amounts in course of settlement	25.8	15.3
Accrued expenses	16.5	7.5
Trade creditors and prepayments received	14.7	12.0
Advances received from lessees	4.9	3.7
Deferred income	0.9	1.3
Dividends payable	0.7	1.1
Liabilities related to option purchase agreements, which resulted in potential voting rights	–	10.1
Reinsurance and insurance payables	–	2.9
Other	2.5	5.5
Total other financial liabilities at amortised cost	66.0	59.4
Other financial liabilities at fair value through profit or loss:		
Obligation to deliver securities	22.1	35.4
Other	–	0.3
Total other financial liabilities at fair value through profit or loss	22.1	35.7
Other financial liabilities designated as at fair value through profit or loss:		
Non-controlling interests in consolidated mutual funds	2.7	2.6
Other	2.4	1.1
Total other financial liabilities designated at fair value through profit or loss	5.1	3.7
Provisions for credit related commitments and financial guarantees (Note 52)	15.0	4.1
Total other financial liabilities	108.2	102.9
Insurance liabilities:		
Pension liabilities accounted under IFRS 4 Insurance contracts	190.9	143.2
Provision for unearned premiums	–	79.2
Loss provisions	–	50.1
Total insurance liabilities	190.9	272.5
Other non-financial liabilities accounted at cost:		
Other liabilities related to non-banking activities	64.4	97.1
Payable to employees	44.2	42.2
Liabilities to pay taxes	12.5	22.7
Provisions for performance guarantees and legal claims (Note 52)	11.4	14.8
Liabilities on pension plans	3.1	3.2
Deferred income	2.1	0.7
Other	15.5	26.4
Total other non-financial liabilities accounted at cost	153.2	207.1
Total other liabilities	452.3	582.5

In 4th quarter of 2018, the Group fulfilled the liability related to option purchase agreements in the amount of RUR 10.1 billion through loan settlement.

As at 31 December 2018 and 2017, other liabilities related to non-banking activities are predominantly related to real estate and construction.

Impact of adopting IFRS 9 and IFRS 15

The following table reconciles the carrying amounts of other liabilities under IAS 39 and IAS 2 to the carrying amounts under IFRS 9 and IFRS 15 on transition on 1 January 2018:

	Original carrying amount under IAS 39 or IAS 2	Reclassification	Remeasurement under IFRS 9	Recognition of revenue under IFRS 15 before taxation	New carrying amount under IFRS 9 or IFRS 15
Other financial liabilities at amortised cost					
Other	5.5	0.2	–	–	5.7
Other financial liabilities at fair value through profit or loss					
Other	0.3	(0.2)	–	–	0.1
Provisions for credit related commitments	4.1	–	4.1	–	8.2
Other non-financial liabilities accounted at cost					
Provisions for performance guarantees and legal claims	14.8	–	2.0	–	16.8
Other liabilities related to non-banking activities	97.1	–	–	(2.7)	94.4

38. SHARE CAPITAL

Authorised, issued and fully paid share capital of the Bank comprises:

	2018		2017	
	Number of shares	Nominal amount	Number of shares	Nominal amount
Ordinary shares	12,960,541,337,338	138.1	12,960,541,337,338	138.1
Type 1 preference shares	21,403,797,025,000	214.0	21,403,797,025,000	214.0
Type 2 preference shares	3,073,905,000,000	307.4	3,073,905,000,000	307.4

Contributions to the Bank's share capital were originally made in RUR, foreign currency and gold bullion. All ordinary shares have nominal value of RUR 0.01, rank equally and carry one vote. Preference shares Type 1 have a nominal value of RUR 0.01 per share, preference shares Type 2 have a nominal value of RUR 0.1 per share. Type 1 and Type 2 preference shares are non-convertible and non-voting preference shares with dividends payable subject to the decision of the General Meeting of VTB shareholders.

As at 31 December 2018 the total authorised ordinary share capital comprised 14,000,000,000,000 shares

(31 December 2016: 14,000,000,000,000 shares) with a par value of RUR 0.01 each.

For the year ended 31 December 2018 the net change in Group members' balances of the Bank's ordinary shares decreased by 25,426,340,523 (for the year ended 31 December 2017: decreased by 1,637,859,501) and the number of treasury shares decreased to 10,644,718,753 (31 December 2017: 36,071,059,276). As a result, the number of the outstanding ordinary shares at 31 December 2018 amounted to 12,949,896,618,585 (31 December 2017: 12,924,470,278,062).

39. PERPETUAL LOAN PARTICIPATION NOTES

In August 2012 and November 2012, VTB issued Perpetual Loan Participation Notes for the amount of USD 1.0 billion (RUR 32.5 billion) and USD 1,250 million (RUR 39.2 billion) respectively. The transaction included the issuance of Perpetual Loan Participation Notes by VTB Eurasia Limited (Ireland), a consolidated structured entity, which used the proceeds to provide a subordinated loan to VTB. The Perpetual loan participation notes have an unlimited term and are redeemable at VTB's option starting from December 2022 at their principal amount. Coupon rate is fixed at 9.5% p.a. and will be reset in 10.5 years and then every 10 years as 10 year US Treasury yield increased by 806.7 b.p. Coupon payments are paid semi-annually from December 2012 and may be cancelled or deferred in accordance with the terms of the notes. Such cancellation or deferral is at the discretion of VTB.

Due to the undefined maturity and optional non-cumulative cancellation of coupon payments, the Group accounts for the Perpetual loan participation notes as an equity instrument and as a Tier I eligible instrument for the purpose of Basel Capital Adequacy Ratio calculation. Further, the CBR approved the inclusion of the subordinated loan in the statutory capital ratio calculation of VTB Bank.

The Group accounts for the USD-denominated Perpetual loan participation notes in the amount of RUR equivalent amount using the foreign exchange rate at the reporting date with foreign exchange translation effects recorded in retained earnings. Issuance costs were also recorded in retained earnings. As at 31 December 2018, the carrying amount of the Perpetual Loan Participation Notes is RUR 156.3 billion (31 December 2017: RUR 129.6 billion).

Under the current terms of the Perpetual Loan Participation Notes, the payment of coupon is not mandatory, therefore, coupon amounts due under Perpetual Loan Participation Notes are recorded on their payment dates in June and December of each year, subject to VTB's decision to make such payments (Note 41).

In their capacity as market-makers, VTB Group subsidiaries buy and sell Perpetual loan participation notes in the market, usually with a short holding period. During the holding period, Perpetual loan participation notes are included in Treasury shares and bought back perpetual loan participation notes in equity.

40. OTHER RESERVES

Movements in other reserves were as follows:

	Fair value reserve for debt and equity investment financial assets and cash-flow hedges	Assets of disposal groups held for sale revaluation reserve	Land and premises valuation reserve	Currency translation difference	Total
2016	3.7	0.8	19.7	20.6	44.8
Total comprehensive income/(loss) for the period	2.8	0.1	(0.1)	(0.6)	2.2
Transfer of premises revaluation reserve upon disposal or depreciation	—	(0.9)	(0.7)	—	(1.6)
Acquisition of non-controlling interests and other capital transactions	—	—	—	0.7	0.7
2017	6.5	—	18.9	20.7	46.1
Impact of adopting IFRS 9 at 1 January 2018 (Note 3)	8.0	—	—	—	8.0
Balance at 1 January 2018 after adoption	14.5	—	18.9	20.7	54.1
Total comprehensive income/(loss) for the period	(15.4)	—	6.5	38.0	29.1
Transfer of premises revaluation reserve upon disposal or depreciation	—	—	(0.8)	—	(0.8)
2018	(0.9)	—	24.6	58.7	82.4

41. DIVIDENDS AND AMOUNTS PAID UNDER PERPETUAL LOAN PARTICIPATION NOTES

In accordance with the VTB dividend policy as approved by the Supervisory Council 29 January 2016 dividends are distributed based on an annual IFRS net profit. The Supervisory Council proposes the amount of dividends for the approval by the Annual General Meeting of VTB. The approved dividend amounts are paid out to eligible shareholders within 25 working days.

Following the decision approved by the Extraordinary General Meeting of VTB shareholders 8 December 2016 the amount of dividends on Type 1 preference shares and Type 2 preference shares may be determined upon results of the first three months, six months and nine months of the reporting year, and/ or upon results of the reporting year by the General Shareholders Meeting on the recommendation of the Supervisory Council.

In May 2018, the Annual General Meeting of VTB shareholders declared dividends for 2017 for ordinary shares in the total amount of RUR 44.8 billion (RUR 0.00345349138975912 per ordinary share); for Type 1 preference shares in the total amount of RUR 11.8 billion (RUR 0.000551499742855177 per Type 1 preference share); for Type 2 preference shares in the total amount of RUR 16.9 billion (RUR 0.00551499742855177 per Type 2 preference share). Dividends declared were paid in June 2018.

In February 2018, the Annual General Meeting of VTB Capital AD shareholders approved dividends for 2017 in the amount of RUR 783,000.0 (EUR 11,090.0) for each Class B share, all payable to non-controlling shareholders, and paid in full in March 2018. The total amount of dividends to non-controlling shareholders was RUR 0.2 billion.

In June 2018, the Annual General Meeting of "Post Bank", PJSC shareholders approved dividends for 2017 in the amount of RUR 1.0 billion for distribution by line basis for each ordinary share issued. The total amount of dividends to non-controlling shareholders was RUR 0.5 billion. Dividends declared were paid in July-August 2018.

In August 2018, the Extraordinary General Meeting of Citer Invest B.V. shareholders approved interim dividends for 2017 in the amount of RUR 479,017,156.20 for each Class B share, and RUR 3,297,305,255.57 for the sole Class C share. The total amount of dividends to non-controlling shareholders was RUR 3.3 billion. Dividends declared were paid in September-October 2018.

In September 2018, the Annual General Meeting of VTB Africa S.A. shareholders approved dividends for 2017 in amount of RUR 58.96 (AOA 266.444) per ordinary share including dividends payable to non-controlling shareholders in amount of RUR 0.2 billion.

In September and November 2018, the Annual General Meeting of Vedomstvo-Kapital, JSC shareholders approved dividends for the period of 6 months 2018 in the amount of RUR 2,500,000.0 for each ordinary share and for the period of 9 months 2018 in the amount of RUR 2,500,000.0 for each ordinary share. The dividends were paid in full in October - December 2018. The total amount of dividends paid to non-controlling shareholders was RUR 0.1 billion.

In April 2017, Annual General Meeting of VTB shareholders declared dividends for 2016 for ordinary shares in the total amount of RUR 15.2 billion (RUR 0.00117 per ordinary share); for Type 1 preference shares in the total amount of RUR 11.1 billion (RUR 0.00052 per Type 1 preference share); for Type 2 preference shares in the total amount of RUR 18.1 billion (RUR 0.0058849 per Type 2 preference share). Dividends declared were paid in May-June 2017.

In May 2017, the Annual General Meeting of VTB Capital AD shareholders approved dividends for 2016 in the amount of RUR 362,614 (EUR 5,658) for each Class B share, all payable to non-controlling shareholders, and paid in full in June 2017. The total amount of dividends to non-controlling shareholders was RUR 0.1 billion.

In August 2017, the Annual General Meeting of VTB Africa S.A. shareholders approved dividends for the previous years starting from 2013 to 2016 in amount of RUR 249.632 (AOA 713.9136) per ordinary share including dividends payable to non-controlling shareholders in amount of RUR 0.8 billion.

In June and December 2018 VTB paid the amounts under Perpetual Loan Participation Notes in the total amount of USD 213.7 million (RUR 13.7 billion). In June and December 2017 VTB paid the amounts under Perpetual Loan Participation Notes in the total amount of USD 213.7 million (RUR 12.3 billion).

RISK

42. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS	75
43. OPERATING ENVIRONMENT OF THE GROUP	76
44. FINANCIAL AND INSURANCE RISK MANAGEMENT	78
- CREDIT RISK	80
- MARKET RISK	95
- INTEREST RATE RISK EXPOSURE AND SENSITIVITY ANALYSIS	95
- CURRENCY RISK AND VAR ANALYSIS	98
- PRICE RISK	99
- LIQUIDITY RISK AND CONTRACTUAL MATURITY ANALYSIS	99
- CURRENT AND NON-CURRENT ASSETS AND LIABILITIES	101
- GEOGRAPHICAL CONCENTRATION	104
- INSURANCE RISK	105
45. FAIR VALUE MEASUREMENT	106
46. CAPITAL MANAGEMENT AND CAPITAL ADEQUACY	123

42. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS

The Group makes estimates and assumptions that affect the amounts recognised in the consolidated financial statements, and the carrying amounts of assets and liabilities within the next financial year. Estimates and judgments are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgments, apart from those involving estimations, in the process of applying the accounting policies. These estimates are based on information available as of the date of the financial statements. Actual results can differ significantly from such estimates. Judgments that have the most significant effect on the amounts recognised in the consolidated financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

Classification of financial assets

The Group determines the business model within which the assets are held and assesses whether the contractual terms of the financial asset are solely payments of principal and interest on the principal amount outstanding.

Business model assessment includes assessing the risks that affect the performance of the business model and performance of the portfolio.

Assessment whether contractual cash flows are solely payments of principal and interest includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition.

Impairment of financial assets

The Group assesses whether credit risk on the financial asset has increased significantly since initial recognition and incorporates forward-looking information in the measurement of ECL (Note 44).

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use or fair value less cost to sell of the cash-generating units, to which goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2018 was RUR 115.6 billion (31 December 2017: RUR 116.0 billion) (Note 29).

Impairment of intangible assets with finite useful lives

The Group assesses whether intangible assets with finite lives are impaired whenever there is an indication that the intangible asset may be impaired. This requires an estimation of the value in use or fair value less cost to sell of the corresponding intangible asset. Estimating the value in use requires the Group to make an estimate of

the expected future cash flows from the intangible asset and also to choose a suitable discount rate in order to calculate the present value of those cash flows (Note 29).

Land and premises

The fair value of land and premises is determined by using valuation techniques. Further details of the judgements and assumptions made are presented in Note 45.

Property intended for sale in the ordinary course of non-banking activities

Property intended for sale in the ordinary course of non-banking activities is stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. Net realisable value for completed property is assessed with reference to market conditions and prices existing at the reporting date and is determined by the Group having taken suitable external advice and in the light of recent market transactions. Net realisable value for property under construction is assessed with reference to the selling market prices at the reporting date for similar completed property, less estimated cost to complete the construction provided in the current construction budget, adjusted for the time value of money if material.

Lack of control over entities in which the Group holds more than half of voting right

The Group considers that it does not have control over certain investees although it owns more than 50% of their voting rights. Factors considered by the Group include placement of the company under external administration and other factors leading to inability to exercise effective control over the investee's operations (Notes 31, 49).

Control over entities in which the Group holds less than half of voting right

The Group has control over certain investees in accordance with IFRS 10 although it owns less than 50% of their voting rights. Factors considered by the Group include existence of potential voting rights, contractual arrangement between the Bank and other vote holders and other factors leading to ability to exercise control over the investee's operations (Note 47).

Existence of significant influence in other entities

The Group may have voting rights in other entities approaching to, but lower than 20%. In assessing whether the Group has significant influence over such entities, judgment is exercised to determine whether the Group has the power to participate in the financial and operating policy decisions of the investee including the ability to block certain changes which are unfavourable to the Group but without control or joint control in those entities. The Group's investments in those entities where the Group has significant influence are detailed in Note 49.

42. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)**Deferred income tax asset recognition**

Income tax expense in respect of the current tax assets and liabilities is recognised based on the income tax rates enacted by the end of the reporting period in relevant tax jurisdictions where the Group is presented. Income tax expense in respect of the deferred income tax assets and liabilities is measured at the income tax rates that are expected to be applied to the period when deferred assets are realised or liability are settled based on the income tax rates officially enacted by the end of the reporting period.

The recognised deferred income tax asset represents income taxes recoverable through future deductions from taxable profits, and is recorded in the statement of financial position. Deferred income tax assets are recorded to the extent that realisation of the related tax benefit is probable. The future taxable profits and the amount of tax benefits that are forecasted probable in the future are based on a medium term business plan prepared by management. The Group considers consolidating tax profitable entities with tax loss making entities for tax purposes. Refer to Note 20.

Structured entities

Structured entities are designed so that voting or similar rights are not the dominant factor in deciding who controls the entity. Judgment is also required to determine whether the substance of the relationship between the Group and a structured entity indicates that the structured entity is controlled by the Group.

The Group does not consolidate structured entities that it does not control. As it can sometimes be difficult to determine whether the Group does control a structured entity, management makes judgments about its exposure to the risks and rewards, as well as about its ability to make operational decisions for the structured entity is in question. In many instances, elements that are presented, considered in isolation, indicate control or lack of control over a structured entity, but when considered together make it difficult to reach a clear conclusion. In cases where more arguments are in place towards existence of control, the structured entity is consolidated. Refer to Note 51 for further information about the Group's exposure to structured entities.

Fair value estimation of financial instruments where significant unobservable inputs have been used

Details of fair value estimation of unquoted shares classified as financial assets at fair value through profit or loss, investment financial assets available-for-sale and Investments in associates and joint ventures designated as at fair value through profit or loss are provided in Note 45. Assessment of significance of particular fair value measurement input requires management judgment and is disclosed in Note 45.

Investment property

The fair value of investment properties is determined by using valuation techniques. For further details of the judgements and assumptions made, refer to Note 45.

Net investment in a foreign operation

The Group classified certain intercompany amounts due from and loans to several foreign subsidiaries as part of the Group's net investment in these foreign operations. The settlement for these intercompany transactions is neither planned nor likely to occur in the foreseeable future.

As at 31 December 2018, net accumulated gains arising from the foreign exchange differences on these transactions in the amount of RUR 0.9 billion were included as part of the currency translation difference (Note 40) in the Group's equity (31 December 2017: net accumulated losses in the amount of RUR 23.1 billion). In 2018 and 2017, the net foreign exchange differences on these transactions amounted to RUR 5.5 billion (net gain) and RUR 2.5 billion (net loss), respectively. In 4 quarter 2018, due to deconsolidation of a subsidiary bank previously recognized net accumulated losses arising from the foreign exchange differences were transferred to profit or loss (Note 48).

Litigations

The Group is involved in a number of litigations. The Group uses its judgement to evaluate their expected outcome, and to estimate the necessary provision. Note 52 discloses information on claims where outflow of economic benefits was deemed to be possible, and provides information on the provision created on those claims where the outflow of economic benefits was deemed to be probable.

43. OPERATING ENVIRONMENT OF THE GROUP**The Russian Federation**

The Group conducts the majority of its operations in the Russian Federation (Russia). The Russian Federation displays certain characteristics of an emerging market. The legal, tax and regulatory frameworks continue to develop and are subject to frequent changes and varying interpretations. Its economy is particularly sensitive to oil and gas prices. The Russian economy is susceptible also to the ongoing political tension in the region and international sanctions against certain Russian companies and individuals.

These matters may have significant impact on the Group's future operations and financial position, the effect of which is difficult to predict. The future economic and regulatory situation and its impact on the Group's operations may differ from management's current expectations. Additionally, certain economic factors, including contraction of real incomes of households, reduced corporate liquidity and profitability and increased corporate and personal insolvencies, may affect the Group's borrowers' ability to repay the amounts due to the Group.

43. OPERATING ENVIRONMENT OF THE GROUP (CONTINUED)**The Russian Federation (continued)**

Adverse changes in economic conditions may result in deterioration in the value of collateral held against loans and other obligations. The Group considered available current macro-economic information in its impairment assessments.

As of 31 December 2018 and 31 December 2017, select Russian macro-economic indicators were as follows:

- (1) The CBR key interest rate was 7.75% p.a. and 7.75% p.a., respectively;
- (2) The CBR foreign exchange rate was RUR 69.4706 per USD 1 and RUR 57.6002 per USD 1, respectively.

Ukraine

In 2014 and 2015, the economic and political situation in Ukraine deteriorated significantly. As a result, Ukraine has experienced a fall in gross domestic product, a significant negative balance of payments and a sharp reduction in foreign currency reserves. The National Bank of Ukraine imposed certain restrictions on foreign currency operations. Restrictions have also been introduced for certain cross-border settlements, including payments of dividends. International rating agencies have downgraded sovereign debt ratings for Ukraine.

While the monetary restrictions are being phased out gradually and the gross domestic product trends stabilised recently, the aforementioned factors still impacted the operating environment in 2018 to a considerable degree.

The combination of the above events has resulted in tighter credit conditions and deterioration of asset quality.

The persistent restrictions imposed by government and regulatory authorities of Ukraine caused loss of control over Ukraine-based subsidiary bank of the Group (Note 48).

Other jurisdictions

In addition to Russia, the Group conducts operations in Belarus, Kazakhstan, Azerbaijan, Armenia and Georgia,

certain European countries (Austria, Germany, Great Britain) and several other countries. Difficult economic and financial market situation in certain of these jurisdictions led to a decrease or negative growth of GDP, currency devaluation, reduced consumption, as well as a decline in investment activities.

The Group operates in the UK via a subsidiary bank. Negotiations between the UK and the EU in relation to an exit deal remain complicated. The draft agreement includes a 21-month transition period (to 31 December 2020) to smooth the exit process and allow for further negotiations in relation to a trade agreement between the EU and the UK. However, the UK parliament has rejected the draft agreement and is considering changes to the agreement which would have to be negotiated with the EU. At this time there seems to be little willingness at the EU to accept any changes to the draft which means that there is a real risk that the UK will leave the EU without an overarching deal (the so-called "hard Brexit"). There also still remains a possibility that the UK will extend the timetable, or even not leave the EU (possibly via a second referendum).

Due to the uncertainty surrounding the final Brexit deal and the subsequent UK relationship with the EU, the net effect on business and markets cannot be accurately gauged. The Bank has been analysing different BREXIT scenarios and their impact on the Bank's client offering and trading business, and is taking measures to minimize the potential impact.

Sanctions

Since the second half of 2014 the Group operates under limited sectorial sanctions imposed by several countries on the Group. The Group considers these sanctions in its activities, continuously monitors them and analyses the effect of the sanctions on the Group's financial position and its financial performance.

While management believes it is taking appropriate measures to support the sustainability of the Group's business in the current circumstances, unexpected further deterioration in the areas described above could negatively affect the Group's results and financial position in a manner not currently determinable.

44. FINANCIAL AND INSURANCE RISK MANAGEMENT

The Group is exposed to financial risks, including credit, liquidity and market risks.

According with “VTB Group Consolidated Risk Management Concept” and the Group’s business model risk management system of VTB Group has a matrix structure which:

- includes local (at the Company Group level) and consolidated (at the Group level in general) levels of risk management with a high degree of centralization of a group function of a risk management;
- is structured in the context of global business lines of the Group (corporate and investment business, medium and small business, retail business) and its risk specifics and also broken down by types of risk.

Risk management organization structure in VTB Group includes:

- collegial bodies (committees) of the Group;
- central office (chief risk manager of the Group and risk competence centres of the Group);
- local governing bodies, working collegial bodies (committees), structural divisions / authorized officers of the Group’s participants.

In each bank of VTB Group risks are managed by the appropriate authorities, primary by Supervisory Council (Board of Directors) and Management Board. The standard organizational structure of VTB Group’s banks includes a Chief Risk Officer and one or several Risk divisions responsible for risk management. In the subsidiary financial companies whose activity implies exposure to financial risks (such as “VTB Leasing”, “VTB Factoring” and “VTB Capital”) the general principles of risk management organization are the same as in banks of Group.

The consolidated risk management function of VTB Group is centralised and is carried out by VTB Bank. The main divisions responsible for risk management at the level of Group in VTB Bank organizational structure are Department of Integrated Risk Management, Corporate Credit Risk Department, Retail Credit Risks Department (in accordance with changes in the organisational system of the VTB, effective starting November 2018).

VTB Bank’ Supervisory Council according to requirements of the Bank of Russia carries out risk management functions of Group (in particular, approves and regularly reconsiders the risk and capital management strategy of the Group, including key risk appetite parameters, considers regular significant risks and capital adequacy of the Group and its participant’s reports). The Management Board of VTB bank has overall responsibility for risk management at VTB Group.

Additionally on the Group level a number of collegial bodies performs day-to-day coordination of consolidated risk management activities. General supervision of risk management in the Group’s participants is executed by the Group Management Committee (“GMC”).

Being a high-level Group’s management coordination body, GMC takes decisions in the area of the Group’s risk management policies and procedures based on delegated powers. Decisions and recommendations of the GMC are basis for the respective management decisions of VTB Group’s participants.

Risk management methodological and operational issues are considered by special committees / coordination commissions under GMC and authorized divisions / risk competence centres of the Group.

The Group Risk Committee (“GRC”) functions under the GMC. The principal tasks of the GRC include:

- setting of priorities, the development, approval and implementation of the group-wide documents (methodologies, regulations) defining risk management methods (approaches, standards) in VTB Group;
- development of the system of aggregated limitations (limits, internal ratios, target goals), including the existing risk appetite control system in the VTB Group;
- regular review (monitoring, analysis) of the current profile and the level of risks assumed by the Group (within the competence of the Committee);
- elaboration and coordination of the necessary measures to be taken in the context of the current and perspective risk management in VTB Group. (including the issues concerning the development of unified risk management approaches / standards in the Group and monitoring / coordination of their implementation).

In particular, GRC is actively involved in the elaboration and monitoring of implementation of risk management strategic initiatives in VTB Group.

GRC includes:

- managers and representatives of VTB Bank’s divisions involved in consolidated risk control including Department of Integrated Risk Management, Corporate Credit Risk Department, Retail Credit Risks Department and Financial Department;
- managers and representatives of VTB Bank’s divisions which are responsible for global business lines;
- chief risk officers of a number key VTB Group subsidiaries.

44. FINANCIAL AND INSURANCE RISK MANAGEMENT (CONTINUED)

The Commission on the Implementation of Risk Management Methods and Business Continuity Management in VTB Group functions under the GRC. Its responsibilities include:

- coordination of work and consideration of the proposals of the Group companies concerning implementation of effective risk management methods and procedures in the VTB Group;
- creation of conditions to optimize the interaction of VTB Bank and its subsidiaries in respect of the risk function in the VTB Group;
- establishment of a general information and methodological platform for risk management operating processes within the Group, including the issues of coordination of project activities of VTB Bank and subsidiary companies and issues of business continuity in VTB Group companies;
- assessment of responses to non-standard and emergency situations in VTB Group companies;
- coordination and control of the recovery of critical activities of VTB Group, as a result of non-standard and emergency situations.

The International CIB Risk Management Committee functions under GMC, its main responsibilities include:

- unification of approaches to risk management in International CIB companies in accordance with VTB Group requirements and international best practices;

- centralisation of International CIB risk management and increasing the efficiency of risk management divisions by eliminating duplication of functions and internal arbitration between International CIB companies;
- ensuring unification of IT infrastructure for International CIB risk management.

The Retail Risks Committee of VTB Group was abolished; performed functions were reshuffled in GRC.

Information on other committees and coordination commissions under GMC (credit committees; assets and liabilities management committee) of financial risks management of VTB Group is disclosed below in sections by types of risks.

One of the key approaches to VTB Group' financial risks management is ensuring VTB Group activities with respect to the risk-appetite.

VTB Group risk-appetite is a system of quantitative and quality measures, which defines a target aggregated level / risk profile that VTB Group is capable and/or willing to accept taking into account requirements of interested parties (shareholders, regulators, the management, rating agencies, investors) in order to achieve the established strategic goals.

CREDIT RISK

Credit risk means the risk of Group' losses, reduction of revenue and /or extra costs arising from non-performance or improper performance of financial obligations by counterparty to Group companies according to terms of the contract.

VTB Group's exposures to credit risk arise principally from banking activities such as granting loans to corporate and retail customers, interbank lending, issuance of unpaid letters of credit and guarantees, securities and derivative financial instruments business and leasing business.

Credit risk management within the VTB Group is based on a combination of the following approaches:

- local credit risk management at the level of individual Group members;
- consolidated credit risk management at the Group level.

As part of the local credit risk management system, the Group members assume and manage credit risks independently (including insurance, hedging, etc.) in the scope of the established powers and limits with regard to risk indicators, in accordance with the national regulations and the standards of the Group. The Group

members are responsible for the results of their lending activity, for the quality of their loan portfolios and for monitoring and control of credit risk level in their portfolios.

As per the "VTB Group Consolidated Risk Management Concept", adopted by the GMC, the consolidated credit risk management comprises the following functions:

- consideration and approval of the Group-wide strategy, policies, unified basic principles and approaches related to the lending / investment activities and credit risk management;
- control of the current credit risk level (concentration) on a consolidated basis and elaboration of the necessary measures to mitigate risks (potential losses).

Consolidated credit risk management covers the main types of assets and off-balance sheet (contingent) exposures of the Group members, which bear credit risk and require control of their concentration at the Group level. In the context of consolidated control and reporting the scope and parameters of such operations are defined by the co-coordinating bodies of the Group.

44. FINANCIAL AND INSURANCE RISK MANAGEMENT (CONTINUED)**CREDIT RISK (CONTINUED)**

The key elements of consolidated credit risk management in the VTB Group are as follows:

- periodic review of the credit risk policies of the VTB Group, harmonising and streamlining of credit policies of the subsidiaries with the Group's credit policy;
- setting of consolidated limits, portfolio limits (including limits on common counterparties / groups of related counterparties, countries, industry sectors), internal indicative limitations of large credit exposure;
- unifying credit procedures and methods of credit risk assessment (credit rating systems – for corporate customers and financial institutions, and also rating (scoring) systems – for retail customers);
- optimization of business procedures for problem (low-quality) assets, incl. with the involvement of the third parties on the terms and conditions of the contract in compliance with current legislation;
- improving the credit decision system quality;
- unification and standardisation of the technological processes of credit products production and realization with “mass” credit conditions;
- assessment of economic capital (Capital-at-Risk) sufficient to cover Group credit risks;
- consolidated analytical reporting on credit risks;
- stress-testing;
- making/monitoring provisions for expected credit losses according to IFRS.

The Group-wide policies and other documents, which are adopted by the GMC and its relevant sub-committees, outline the main approaches and standards of risk management and organisation of credit operations in the Group. These principles should be complied with by each subsidiary bank and separate financial companies of the Group. The Group's credit policy covers, particularly, the following areas:

- roles and responsibilities of different bodies and divisions in the area of Group lending and credit risk management;
- regulations related to the approval and revision of credit policies in VTB subsidiary banks;
- Group-wide uniform basic methods, models, approaches to credit risk assessment and management;
- principles of pricing policy (interest rates and commissions), security policy and others.

Subsidiary banks should implement credit risk management system as well as credit policies and procedures in compliance with the Group's standards.

Credit risk policies are adopted by each subsidiary bank and are subject to a regular review, usually once in one or two years

The general (typical) procedure for adopting credit policies is as follows:

- the draft credit policies or significant amendments are subject to the preliminary consideration and agreement by VTB bank;

- the credit policies and amendments should be approved by the Supervisory Council (Board of Directors) of the subsidiary bank;
- VTB bank may propose amendments to the credit policies of a subsidiary bank as part of centralised regulation and credit risk control for the Group, provided that such amendments are in line with local regulations.

The authorities of management and executive bodies of the Group members in relation to decision making and lending transactions are determined by their constituent documents and applicable statutory legislation. On a Group-wide basis credit risk management is overseen and co-ordinated by the following collegiate bodies:

- the GMC;
- the GRC and its Commission on the Implementation of Risk Management Methods;
- VTB Group Corporate Investment Business Credit Committee (“GCIBCC”),
- VTB Group Medium Business Credit Committee (“GMBCC”).

GCIBCC and GMBCC are permanent collective decision-making (relevant to Corporate Investment Business Global line and Medium Business Global line customers respectively) committees under the GMC. GCIBCC chaired by the VTB Bank Management Board Member responsible for the group-wide risk management and GMBCC chaired by Corporate Credit Risk Department representative and includes representatives of divisions (Risk, Legal, Corporate Business Support, Investment Banking, Treasury etc.). The key tasks of this committee are as follows:

- taking decisions on VTB Group risk concentration policy (relevant to Corporate Investment Business Global line and Medium Business Global line customers respectively);
- setting consolidated limits for the credit risk;
- consideration of some individual operations and large-scale transactions of Group members.

VTB Group is set to reduce the risk factors related to loan concentration per separate large corporate customers / group of related customers and to ensure credit risk diversification. For this purpose the benchmark for the share of VTB Group largest borrowers in Group's corporate loan portfolio is set. VTB Group Companies are recommended to determine reasonable local levels of similar benchmarks within their local credit policies/ risk strategies, based on the Group's acceptable credit risk concentration target.

In VTB Bank the Corporate Credit Risk Department (CCRD) is responsible for corporate credit risk management on a Group-wide basis including development of credit risk management system, relevant Group data consolidation and consolidated limits monitoring.

44. FINANCIAL AND INSURANCE RISK MANAGEMENT (CONTINUED)**CREDIT RISK (CONTINUED)**

Retail Credit Risk Department (RCRD) coordinates retail credit risk management across the Group and is responsible for:

- developing standards of retail risk management in VTB Group;
- developing systems of retail credit risk limits;
- developing standards of decision making procedure in VTB Group;
- developing standards of monitoring and reporting of retail credit risks (methodology and formats);
- consolidating reports on retail lending of the Group;

- monitoring performance and management of retail loan portfolios across the Group.

In 2018 on the Group Risk Committee RCRD approves the "Basic statements of retail credit risk management in the VTB Group". The VTB subsidiary banks, which engage in retail credit granting, apply to these group standards, other group-wide documents (in the field of retail risk management) and Credit policies applicable to VTB Group retail lending, approved by the GMC.

Credit risk monitoring at the Group level is supported by regular reporting from subsidiaries to the CCRD and RCRD for assessing of credit risk exposures on a consolidated basis.

Credit risk grades

		2018	2017
Credit risk grades	Description	Category	Reference provision rate
Pass	Acceptable risk level assets by internal probability of default calculation viewed as target segment by the Bank in context of loan portfolio growth. Specific lending transactions could be ranked in this category on the basis of expected loss assessment (as the basic parameter of quantitative evaluation of risk in this segment).	Pass	0% to 2%
Watch	Higher-level risk assets ranked untargeted by the Bank in context of new loans, by internal probability of default calculation.	Watch	from 2% to 5%
Sub-standard	High-risk assets exposed to substantial credit risk factors or assets ranked unacceptable by the Bank in context of new loans, by internal probability of default calculation. This category may also include loans the Group was forced to restructure. Such loans are currently serviced in accordance with the schedule but criteria for Default status rescinding for them were not yet met because not enough time has passed since restructuring or significant part of loan was not yet repaid under the terms of restructured loan.	Sub-standard	from 5% to 20%
Doubtful	Default classified assets with substantial amount of expected losses	Doubtful	from 20% to 50%
Non-performing loans (NPL)	The Group defines non-performing loans (NPL) as lifetime ECL credit-impaired financial assets with contractual principal and (or) interest payments overdue more than 90 days and POCI loans with principal and (or) interest payments becoming overdue more than 90 days after the date of initial recognition. Loans with no contractual payments until maturity, grace period on principal and or interest payments, as well as restructured loans are not considered NPL unless amounts due contractually become more than 90 days overdue.	Loss	from 50% to 100%.

Definitions

Expected Credit Loss (ECL) is a probability-weighted estimate of the present value of future cash shortfalls (i.e., the weighted average of credit losses, with the respective risks of default occurring in a given time period used as weights). An ECL measurement is unbiased and should be determined by evaluating a range of possible outcomes.

An ECL measurement is based on four components used by the Group:

Exposure at Default (EAD) – an estimate of exposure at a future default date, taking into account expected changes in exposure after the reporting date, including repayments of principal and interest, and expected

drawdowns on committed facilities.

Probability of Default (PD) – an estimate of the likelihood of default to occur over a given time period.

Loss Given Default (LGD) – an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from any collateral. It is usually expressed as a percentage of the EAD.

Discount Rate – a tool to discount an expected loss from the present value at the reporting date. The discount rate represents the effective interest rate (EIR) for the financial instrument or an approximation thereof.

44. FINANCIAL AND INSURANCE RISK MANAGEMENT (CONTINUED)**CREDIT RISK (CONTINUED)****Definitions (continued)**

Lifetime period – the maximum period over which ECL should be measured. For loans with fixed maturity, the lifetime period is equal to the remaining contractual period. For loan commitments and financial guarantee contracts, this is the maximum contractual period over which an entity has a present contractual obligation to extend credit. For credit cards issued to individuals, it is the period that is based on internal statistics, and it is equal to 2 years.

Lifetime ECL – losses that result from all possible default events over the remaining lifetime period of the financial instrument.

12-month ECL – the portion of lifetime ECLs that represent the ECLs resulting from default events on a financial instrument that are possible within 12 months after the reporting date that are limited by the remaining contractual life of the financial instrument.

Forward looking information – the information that includes the key macroeconomic variables impacting credit risk and expected credit losses for each portfolio segment. A pervasive concept in measuring ECL in accordance with IFRS 9 is that it should consider forward-looking information.

Credit Conversion Factor (CCF) – a coefficient that shows that the probability of conversion of an off-balance sheet amounts to exposure on the balance within a defined period. It can be calculated for a 12-month or lifetime period. Based on the analysis performed, the Group considers that 12-month and lifetime CCFs are the same.

Purchased or originated credit impaired (POCI) financial assets - financial assets that are credit-impaired upon initial recognition.

Default and credit-impaired assets – a loan is in default, or credit-impaired, when it meets one or more of the following criteria:

- the borrower is more than 90 days past due on its contractual payments
- the bank has sold the borrower's debt with losses
- the borrower meets the unlikeliness-to-pay criteria and other qualitative factors listed below:
 - distressed restructuring
 - the borrower is deceased (retail loans)
 - the borrower is insolvent (bankruptcy)
- the borrower is classified in 4th or 5th category according to CBR 590-P "Regulation on the procedure for making loan loss provisions and provisions for loan debts and similar debts by credit institutions" with significant increase in prudential provisions.

Default criteria redefined in accordance with BCBS recommendations (Basel II) and is applied consistently across all financial instruments and customer segments. The default definition stated above is applied to all types of financial assets of the Group.

Significant increase in credit risk (SICR)

The SICR assessment is performed on an individual basis and on a portfolio basis. For loans issued to legal entities, interbank loans and debt securities accounted for at AC or at FVOCI, SICR is assessed on an individual basis by monitoring the triggers stated below. The criteria used to identify a SICR are monitored and reviewed periodically for appropriateness by the Corporate Credit Risk Department, Retail Credit Risks Department.

The Group considers a financial instrument to have experienced a SICR when one or more of the following quantitative, qualitative or backstop criteria have been met.

For loans issued to corporate and interbank borrowers:

- The number of days past due is higher than 31 days but lower than 90 days.
- A significant increase in credit risk, expressed in the relative threshold based on internal ratings. SICR is determined based on comparison between credit risk ratings as of the origination date and credit risk rating as of the reporting date for each financial asset individually. Decrease of credit risk rating sufficient to indicate SICR is determined by the Group for each credit risk rating based on relative increase in probability of default with decrease of credit risk rating.
- "Potentially problem exposure" watch list status according to the internal credit risk monitoring process.
- Information is available regarding significant increase in credit risk within a group of financial instruments with similar credit risk characteristics.

For retail loans:

- The number of days past due is higher than 31 but lower than 90 days.
- A significant increase in credit risk, expressed in the relative increase in the risk of a default (PD as a measure of the default risk) since initial recognition. SICR is determined based on comparison between credit risk ratings as of the origination date and credit risk rating as of the reporting date for each financial asset individually. Decrease of credit risk rating sufficient to indicate SICR is determined by the Group for each credit risk rating based on relative increase in probability of default with decrease of credit risk rating.
- Existence or forecast of adverse changes in commercial, financial or economic conditions that adversely affect the creditworthiness of the borrower.
- The loan had experienced a forced restructuring and such restructuring was due to deterioration of the borrower's creditworthiness, and at the reporting date, the loan is in the recovery state.

44. FINANCIAL AND INSURANCE RISK MANAGEMENT (CONTINUED)**CREDIT RISK (CONTINUED)**

If there is evidence that the SICR criteria are no longer met, the instrument will be transferred back to Stage 1. If an exposure has been transferred to Stage 2 Based on a qualitative indicator, the Group monitors whether that indicator continues to exist or has changed.

General principle of ECL measurement

For non-POCI financial assets, ECLs are generally measured based on the risk of default over one of two different time periods, depending on whether the credit risk of the borrower has increased significantly since initial recognition. This approach can be summarised in a three-stage model for ECL measurement:

- Stage 1: a group of financial instruments for which there has been recorded no significant increase in the level of the credit risk since initial recognition and provisions for this group are created in the amount of 12-month ECL, and interest income is calculated based on the gross book value.
- Stage 2: a group of financial instruments for which there has been recorded a significant increase in the level of credit risk since the initial recognition and provisions for which are created in the amount of ECL for the whole lifetime, and interest income is calculated based on the gross book value.
- Stage 3: a group of credit-impaired financial instruments, the provisions for which are created in the amount of ECL for the whole lifetime, and the interest income is accrued based on the amortised cost.

ECL for POCI financial assets is always measured on a lifetime basis (Stage 3), and at the reporting date, the Group only recognises the cumulative changes in lifetime expected credit losses since initial recognition.

The Group performs an assessment on an individual basis for credit-impaired financial assets taking into account the principles, listed below.

The Group performs an assessment on a portfolio basis for the following types of loans: retail loans, loans issued to SMEs and particular categories of corporate borrowers. This approach incorporates aggregating the portfolio into homogeneous segments based on borrower-specific information, such as delinquency, the historical data on losses and forward-looking macroeconomic information.

Principles of assessment on individual basis - ECL assessments on an individual basis are done by weighting the estimates of credit losses for different possible outcomes against the probabilities of each outcome. The Group defines at least two possible outcomes for each loan, one of which leads to credit loss in spite of the probability of such a scenario. Individual assessment is mainly based on the expert judgement. Expert judgements are regularly tested in order to decrease the difference between estimates and actual losses. Retail loans with residual above RUR 400 million are assessed individually.

Principles of assessment on portfolio basis – to assess the staging of exposure and to measure a loss allowance on a collective basis, the Group combines its exposures into segments on the basis of shared credit risk characteristics, such as that exposures to risk within a group are homogeneous. If the Group is not able to combine financial instruments on the basis of shared credit risk characteristics, and credit risk for these financial instruments considered to increase significantly from initial recognition, the Group recognizes lifetime ECL for financial assets with significantly increased credit risk.

Backtesting – the Group regularly reviews its methodology and assumptions to reduce any difference between the estimates and the actual loss of credit. Such backtesting is performed at least once a year.

The results of backtesting the ECL measurement methodology are communicated to Group Management and further steps for tuning models and assumptions are defined after discussions between authorised persons.

ECL measurement – description of estimation techniques

Distribution of legal entities loans, debt securities and credit-related contingencies is determined by principles specified in Bank's methodologies for borrower's ranking and defines homogenous segments.

The ECL is determined by predicting credit risk parameters (EAD, PD and LGD) for each future period during the lifetime period for each individual exposure or collective segment. These three components are multiplied together and adjusted for the likelihood of survival (i.e. the exposure has been repaid or defaulted in an earlier month). This effectively calculates an ECL for each future period, which is then discounted back to the reporting date and summed up. The discount rate used in the ECL calculation is the original effective interest rate or an approximation thereof, for POCI financial assets – credit risk adjusted EIR.

The EADs are determined based on the expected payment profile, which varies by product type:

- for amortising products and bullet repayment loans, EAD is based on the contractual repayments.
- for revolving products, the EAD is predicted by taking the current drawn balance and adding a "credit conversion factor (CCF)" that accounts for the expected drawdown of the remaining limit by the time of default. These assumptions vary by product type, current limit utilisation and other borrower-specific behavioural characteristics. As assessment of the CCF for credit lines is based on the latest available historic data about residuals on balance and off-balance accounts of defaulted credit lines. For other off balance sheet exposures CCF is determined based on available historical data and expert judgment.

44. FINANCIAL AND INSURANCE RISK MANAGEMENT (CONTINUED)**CREDIT RISK (CONTINUED)**

Two types of PDs are used for calculating ECLs: 12-month and Lifetime PD:

- 12-month PDs – the estimated probability of a default occurring within the next 12 months (or over the remaining life of the financial instrument if less than 12 months). This parameter is used to calculate 12-month ECLs;
- Lifetime PDs – the estimated probability of a default occurring over the remaining life of the financial instrument. This parameter is used to calculate lifetime ECLs. An assessment of a Lifetime PD is based on the latest available historic default data and adjusted for forward looking information.

ECL measurement – description of estimation techniques (continued)

An assessment of a 12-month PD is based on:

- statistical analysis of the internal historic default and internal/external ratings. Calibrated PD checked on the latest available information.
- expert rating models are used in case no historical or external information is available, however expert rating models are applied to limited number of segments.
- Approach for PD calibration should lead to concordance of weighted average model PD to central tendency (average default rate for the economic cycle) and also to proportionality of PD change with change of rating grade to predictive power of a ranking model.

Then obtained 12-month PDs were adjusted for forward-looking information.

Forward-looking information has been incorporated into the determination of 12-month PDs by considering the dynamics of the macro-factors, including annual real GDP, average annual RUB/USD exchange rate, and average annual price for a barrel of URALS oil.

Forecasts of economic variables (the "base economic scenario") are confirmed by the Management Committee Presidium of VTB Bank on a yearly basis and provide estimate of the economy over the next 12 months.

The impact of the economic variables on the PD has been determined by performing statistical regression analysis (using an ensemble of single factor models) to understand the impact changes in these variables historically had on default rates. In addition to the base economic scenario, the Group considers other possible scenarios along with scenario weighting. The scenarios are determined by a statistical analysis, taking into account the percentiles of distributions of annual growth rates of each chosen macro-factor.

To calculate Lifetime PD, the Group uses different statistical approaches depending on the segment and product type, such as the extrapolation of 12-month PDs based on migration matrixes, developing lifetime PD curves based on the historical default data, hazard rate approach, approach based on an assumption of convergence of marginal PDs to the central tendency on the horizon of the economic cycle length or other. In certain cases, in order to determine lifetime PD the Group may use expert judgement, which is based on comprehensive analysis of credit risk of particular borrower and/or group of borrowers, including macroeconomic projections.

The duration of the economic cycle is defined as the length of the period of fluctuations in the economic situation, covering at least one stage of recession and recovery in accordance with indicators characterizing the dynamics of economic development of the Russian Federation.

LGD represents the Group's expectation of the extent of loss on a defaulted exposure and assessed on the latest available recovery statistics. LGD is applied to non-defaulted exposures.

For loans secured by real estate, cash and liquid securities (e.g. REPO), the Group calculates LGD based on specific characteristics of the collateral, such as projected collateral values, historical discounts on sales, other factors, and a history of collateral repossessions and sales.

For conventional borrowers the Group calculates LGD based on recovery of previously defaulted loans. The Group considers actual amounts recovered and projected recoveries on multi-scenario, probability weighted basis.

All cash flows received in respect of defaulted loans are discounted to the date of default using original effective interest rate.

44. FINANCIAL AND INSURANCE RISK MANAGEMENT (CONTINUED)**CREDIT RISK (CONTINUED)****Maximum credit risk exposure**

The following table discloses the Group's maximum credit risk exposure:

	2018	2017
Balance sheet exposure:		
Cash and short-term funds (excluding cash on hand)	607.3	483.9
Trading credit products at fair value through profit or loss	—	4.8
Debt securities	580.3	550.8
Trading financial assets	225.0	258.8
• debt securities of Russian companies and banks	143.8	152.5
• debt securities of Russian Federal and municipal authorities	62.3	41.9
• debt securities of foreign companies and banks	12.1	11.2
• debt securities of foreign government and municipal authorities	6.8	17.2
• debt securities of the Central Bank of the Russian Federation	—	36.0
Trading financial assets, pledged under repurchase agreements	33.9	0.1
• debt securities of Russian companies and banks	2.7	—
• debt securities of Russian Federal and municipal authorities	31.0	0.1
• debt securities of foreign government and municipal authorities	0.1	—
• debt securities of foreign companies and banks	0.1	—
Investment financial assets available-for-sale	n/a	272.7
• debt securities of Russian Federal and municipal authorities	n/a	211.3
• debt securities of foreign government and municipal authorities	n/a	56.6
• debt securities of Russian companies and banks	n/a	4.8
Investment financial assets available-for-sale, pledged under repurchase agreements	n/a	0.4
• debt securities of foreign government and municipal authorities	n/a	0.4
Investment financial assets mandatorily measured at fair value through profit or loss	0.1	n/a
• debt securities of foreign government and municipal authorities	0.1	n/a
Investment financial assets mandatorily measured at fair value through profit or loss, pledged under repurchase agreements	0.1	n/a
• debt securities of foreign government and municipal authorities	0.1	n/a
Investment financial assets measured at fair value through other comprehensive income	297.1	n/a
• debt securities of Russian Federal and municipal authorities	208.6	n/a
• debt securities of foreign government and municipal authorities	33.2	n/a
• debt securities of the Central Bank of the Russian Federation	35.6	n/a
• debt securities of Russian companies and banks	19.2	n/a
• debt securities of foreign companies and banks	0.5	n/a
Investment financial assets measured at fair value through other comprehensive income, pledged under repurchase agreements	13.1	n/a
• debt securities of Russian government and municipal authorities	7.8	—
• debt securities of Russian companies and banks	3.1	—
• debt securities of foreign government and municipal authorities	2.2	n/a
Investment financial assets designated as at fair value through profit or loss	7.0	18.8
• reverse sale and repurchase agreements to maturity	7.0	18.5
• debt securities of foreign companies and banks	—	0.3
Investment financial assets at amortised cost	4.2	—
• debt securities of foreign government and municipal authorities	3.9	—
• debt securities of foreign companies and banks	0.3	—
Due from other banks	693.1	835.0
Due from other banks at amortised cost	685.5	835.0
• Russia	372.4	353.8
• Other countries	291.4	405.8
• OECD	21.7	75.4
Due from other banks measured at fair value through profit or loss	7.6	n/a
• Russia	7.6	n/a
Loans and advances to customers	10,695.2	9,171.4
Loans to legal entities at amortised cost	7,729.5	6,849.1
• Current activity financing	5,758.6	4,667.9
• Project finance and other	1,303.0	1,578.2
• Reverse sale and repurchase agreements	386.9	369.7
• Finance leases	281.0	233.3
Loans and advances to customers at amortised cost pledged under repurchase agreements	25.9	—
• Reverse sale and repurchase agreements	25.9	—
Loans to individuals at amortised cost	2,758.2	2,322.3
• Mortgages	1,427.9	1,084.8
• Consumer loans and other	1,112.2	1,030.9
• Car loans	108.9	93.2
• Credit cards	98.2	105.6
• Reverse sale and repurchase agreements	11.0	7.8
Loans to legal entities measured at fair value through profit or loss	107.4	n/a
• Current activity financing	97.0	n/a
• Project finance and other	10.4	n/a
Loans to legal entities measured at fair value through other comprehensive income	74.2	n/a
• Current activity financing	74.2	n/a
Exposure arising from credit default swaps	0.8	0.8
• CDS protection purchased	0.6	0.1
• CDS protection sold	0.2	0.7
Other financial assets	67.7	65.6
Total balance sheet exposure	12,644.4	11,112.3

44. FINANCIAL AND INSURANCE RISK MANAGEMENT (CONTINUED)**CREDIT RISK (CONTINUED)****Maximum credit risk exposure (continued)**

	2018	2017
Off-balance sheet exposure:		
• Financial guarantees issued	70.4	412.8
• Import letters of credit	45.9	46.4
• Undrawn credit lines (irrevocable)	31.8	21.4
• Commitments to extend credit	2.7	3.7
Total off-balance sheet exposure	150.6	484.3
Total maximum exposure to credit risk	12,795.0	11,596.6

Where financial instruments are recorded at fair value the amounts shown above represent the current credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in values.

Credit quality by class of due from other banks

The following table shows analysis by credit quality of the due from other banks (gross). Comparative amounts for 2017 are presented based on IAS 39.

	2018				2017			
	12-month ECL	Lifetime ECL not credit- impaired	Lifetime ECL credit- impaired	Purchased credit – impaired	Total	Individually assessed	Collectively assessed	Total
Due from other banks at amortised cost								
Russia	372.6	–	0.1	–	372.7	99.1	719.8	818.9
• pass	372.6	–	–	–	372.6	n/a	n/a	n/a
• NPL	–	–	0.1	–	0.1	n/a	n/a	n/a
OECD	21.7	–	–	–	21.7	24.2	51.3	75.5
• pass	21.7	–	–	–	21.7	n/a	n/a	n/a
Other countries	291.6	–	0.1	–	291.7	16.7	388.3	405.0
• pass	291.6	–	–	–	291.6	n/a	n/a	n/a
• NPL	–	–	0.1	–	0.1	n/a	n/a	n/a

44. FINANCIAL AND INSURANCE RISK MANAGEMENT (CONTINUED)**CREDIT RISK (CONTINUED)****Credit quality by class of debt securities**

Credit quality of debt investment financial assets (gross), including pledged under repurchase agreements, at 31 December 2018 is presented in the table below. Represented assets are categorized as credit risk pass.

	2018				
	12-month ECL	Lifetime ECL not credit- impaired	Lifetime ECL credit- impaired	Purchased credit- impaired	Total
Debt investment financial assets measured at fair value through other comprehensive income:					
• Bonds and eurobonds of the Russian Federation	208.3	—	—	—	208.3
• Bonds and eurobonds of foreign governments	33.2	—	—	—	33.2
• Bonds and eurobonds of foreign companies and banks	0.5	—	—	—	0.5
• Bonds and eurobonds of Russian companies and banks	19.2	—	—	—	19.2
• Russian municipal bonds	0.3	—	—	—	0.3
• Bonds of the Central Bank of the Russian Federation	35.6	—	—	—	35.6
• Promissory notes of Russian companies and banks	—	—	—	—	—
Total debt investment financial assets measured at fair value through other comprehensive income	297.1	—	—	—	297.1
Debt investment financial assets measured at fair value through other comprehensive income, pledged under repurchase agreements:					
• Bonds and eurobonds of the Russian Federation	7.8	—	—	—	7.8
• Bonds and eurobonds of foreign governments	2.2	—	—	—	2.2
• Bonds and eurobonds of foreign companies and banks	—	—	—	—	—
• Bonds and eurobonds of Russian companies and banks	3.1	—	—	—	3.1
• Russian municipal bonds	—	—	—	—	—
• Promissory notes of Russian companies and banks	—	—	—	—	—
Total debt investment financial assets measured at fair value through other comprehensive income, pledged under repurchase agreements	13.1	—	—	—	13.1
Debt investment financial assets at amortised cost:					
• Bonds and eurobonds of the Russian Federation	—	—	—	—	—
• Bonds and eurobonds of foreign governments	3.9	—	—	—	3.9
• Bonds and eurobonds of foreign companies and banks	0.3	—	—	—	0.3
• Bonds and eurobonds of Russian companies and banks	—	—	—	—	—
• Russian municipal bonds	—	—	—	—	—
• Promissory notes of Russian companies and banks	—	—	—	—	—
Total debt investment financial assets at amortised cost	4.2	—	—	—	4.2

44. FINANCIAL AND INSURANCE RISK MANAGEMENT (CONTINUED)**CREDIT RISK (CONTINUED)**

Credit quality of debt securities, which are neither past due nor impaired at 31 December 2017 is presented based on IAS 39 in accordance with the long-term credit rating as presented below:

A rated			B (I) rated			B (II) rated			C rated		
Standard & Poor's	Moody's	Fitch IBCA	Standard & Poor's	Moody's	Fitch IBCA	Standard & Poor's	Moody's	Fitch IBCA	Standard & Poor's	Moody's	Fitch IBCA
AAA	Aaa	AAA	BBB+	Baa1	BBB+	BB+	Ba1	BB+	CCC+	Caa1	CCC+
AA+	Aa1	AA+	BBB	Baa2	BBB	BB	Ba2	BB	CCC	Caa2	CCC
AA	Aa2	AA	BBB-	Baa3	BBB-	BB-	Ba3	BB-	CCC-	Caa3	CCC-
AA-	Aa3	AA-				B+	B1	B+	CC	Ca	CC
A+	A1	A+				B	B2	B	C	C	C
A	A2	A				B-	B3	B-	D		D
A-	A3	A-									

Credit quality by class of debt securities (continued)

Credit quality of trading debt securities, which are neither past due nor impaired at 31 December 2017, is presented in the tables below:

	A rated	B (I) rated	B (II) rated	C rated	Unrated	Total
Trading debt securities						
• Bonds and eurobonds of Russian companies and banks	—	40.4	107.1	—	5.0	152.5
• Bonds of the Central Bank of the Russian Federation	—	—	—	—	36.0	36.0
• Bonds and eurobonds of the Russian Federation	—	34.7	0.3	—	0.1	35.1
• Bonds and eurobonds of foreign governments	12.5	3.9	0.8	—	—	17.2
• Bonds and eurobonds of foreign companies and banks	6.2	1.2	2.0	0.1	1.7	11.2
• Russian municipal bonds	—	0.1	6.7	—	—	6.8
Trading debt securities, pledged under repurchase agreements						
• Bonds and eurobonds of the Russian Federation	—	0.1	—	—	—	0.1
Total neither past due nor impaired trading debt securities	18.7	80.4	116.9	0.1	42.8	258.9

Credit quality of investment debt securities, which are neither past due nor impaired at 31 December 2017 is presented in the tables below:

	A rated	B (I) rated	B (II) rated	C rated	Unrated	Total
Investment debt securities available-for-sale						
• Bonds and eurobonds of the Russian Federation	—	210.3	—	—	—	210.3
• Bonds and eurobonds of foreign governments	51.6	—	4.1	—	0.9	56.6
• Bonds and eurobonds of Russian companies and banks	—	0.1	1.3	—	3.4	4.8
• Russian municipal bonds	—	—	0.6	—	0.4	1.0
Investment debt securities available-for-sale, pledged under repurchase agreements						
• Bonds and eurobonds of Russian companies and banks	—	—	0.4	—	—	0.4
• Bonds and eurobonds of foreign governments	—	—	—	—	—	—
Investment debt securities designated as at fair value through profit or loss						
• Bonds and eurobonds of foreign companies and banks	—	—	—	—	0.3	0.3
Total neither past due nor impaired investment debt securities	51.6	210.4	6.4	—	5.0	273.4

44. FINANCIAL AND INSURANCE RISK MANAGEMENT (CONTINUED)**CREDIT RISK (CONTINUED)****Credit quality by class of loans and advances to customers**

The table below shows credit quality by class of loans and advances to customers at amortised cost (gross) at 31 December 2018.

	2018				
	12-month ECL	Lifetime ECL not credit- impaired	Lifetime ECL credit- impaired	Purchased credit- impaired	Total
Loans and advances to legal entities					
<i>Current activity financing</i>					
• Pass	4,730.4	99.2	-	56.7	4,886.3
• Watch	103.8	25.0	-	-	128.8
• Sub-Standard	21.3	636.1	71.6	-	729.0
• Doubtful	-	-	24.9	-	24.9
• NPL	n/a	n/a	372.1	3.8	375.9
<i>Project finance and other</i>					
• Pass	950.5	27.5	-	-	978.0
• Watch	8.8	7.4	-	-	16.2
• Sub-Standard	0.5	144.0	180.8	14.9	340.2
• Doubtful	-	-	1.7	-	1.7
• NPL	n/a	n/a	44.7	3.3	48.0
<i>Reverse sale and repurchase agreements</i>					
• Pass	357.0	0.4	-	-	357.4
• Watch	0.7	-	-	-	0.7
• Sub-Standard	-	35.8	-	-	35.8
• Doubtful	-	-	-	-	-
• NPL	n/a	n/a	-	-	-
<i>Finance leases</i>					
• Pass	184.8	3.0	-	22.1	209.9
• Watch	1.6	0.3	-	-	1.9
• Sub-Standard	1.8	37.7	41.6	-	81.1
• Doubtful	-	-	0.2	-	0.2
• NPL	n/a	n/a	14.9	-	14.9
Loans and advances to legal entities pledged under repurchase agreements					
<i>Reverse sale and repurchase agreements</i>					
• Pass	26.1	-	-	-	26.1
• Watch	-	-	-	-	-
• Sub-Standard	-	-	-	-	-
• Doubtful	-	-	-	-	-
• NPL	n/a	n/a	-	-	-
Total loans and advances to legal entities	6,387.4	1,005.0	763.6	100.8	8,257.0

44. FINANCIAL AND INSURANCE RISK MANAGEMENT (CONTINUED)**CREDIT RISK (CONTINUED)****Credit quality by class of loans and advances to customers (continued)**

	2018				
	12-month ECL	Lifetime ECL not credit- impaired	Lifetime ECL credit- impaired	Purchased credit- impaired	Total
Loans and advances to individuals					
<i>Mortgages</i>					
• Pass	1,367.8	—	—	0.1	1,367.9
• Watch	19.4	0.1	—	—	19.5
• Sub-Standard	0.7	31.6	0.1	0.2	32.6
• Doubtful	—	—	2.1	—	2.1
• NPL	n/a	n/a	19.6	0.3	19.9
<i>Consumer loans and other</i>					
• Pass	859.9	0.1	—	—	860.0
• Watch	209.8	0.1	—	—	209.9
• Sub-Standard	35.6	32.5	0.1	—	68.2
• Doubtful	—	—	3.4	—	3.4
• NPL	n/a	n/a	139.6	—	139.6
<i>Credit cards</i>					
• Pass	92.9	—	—	—	92.9
• Watch	2.2	—	—	—	2.2
• Sub-Standard	2.1	3.4	—	—	5.5
• Doubtful	—	—	0.2	—	0.2
• NPL	n/a	n/a	29.9	—	29.9
<i>Car loans</i>					
• Pass	96.4	—	—	—	96.4
• Watch	9.9	—	—	—	9.9
• Sub-Standard	1.1	1.4	—	—	2.5
• Doubtful	—	—	0.2	—	0.2
• NPL	n/a	n/a	14.7	—	14.7
<i>Reverse sale and repurchase agreements</i>					
• Pass	10.8	—	—	—	10.8
• Watch	0.1	—	—	—	0.1
• Sub-Standard	0.1	—	—	—	0.1
• Doubtful	—	—	—	—	—
• NPL	n/a	n/a	—	—	—
Total loans and advances to individuals	2,708.8	69.2	209.9	0.6	2,988.5

44. FINANCIAL AND INSURANCE RISK MANAGEMENT (CONTINUED)**CREDIT RISK (CONTINUED)****Credit quality by class of loans and advances to customers (continued)**

The table below shows credit quality by class of loans and advances to customers (gross) at 31 December 2017, individually assessed. For individually assessed loans, if no impairment had been recognised as a result of individual assessment the allowance was calculated on a collective basis.

	Not impaired		Sub-standard	Impaired		Total
	Pass	Watch		Doubtful	Loss	
Loans to legal entities	249.9	19.4	540.1	122.7	330.6	1,262.7
Current activity financing	76.0	19.3	140.7	88.7	255.0	579.7
Project finance and other	137.0	—	386.7	17.7	61.4	602.8
Reverse sale and repurchase agreements	29.5	—	—	—	—	29.5
Finance leases	7.4	0.1	12.7	16.3	14.2	50.7
Loans to individuals	0.7	0.1	0.4	0.1	3.4	4.7
Mortgages	0.1	0.1	0.4	0.1	2.5	3.2
Consumer loans and other	0.6	—	—	—	0.6	1.2
Credit cards	—	—	—	—	0.1	0.1
Car loans	—	—	—	—	0.2	0.2
Total loans and advances to customers individually assessed	250.6	19.5	540.5	122.8	334.0	1,267.4

The table below shows credit quality by class of loans and advances to customers (gross) at 31 December 2017, collectively assessed.

	Not impaired		Sub-standard	Impaired		Total
	Pass	Watch		Doubtful	Loss	
Loans to legal entities	5,344.5	507.2	137.3	13.7	21.1	6,023.8
Current activity financing	3,889.0	369.2	103.8	12.4	20.8	4,395.2
Project finance and other	935.8	130.0	17.5	0.1	0.2	1,083.6
Reverse sale and repurchase agreements	335.4	5.3	—	—	—	340.7
Finance leases	184.3	2.7	16.0	1.2	0.1	204.3
Loans to individuals	2,271.3	7.3	18.7	22.9	161.4	2,481.6
Mortgages	1,072.9	2.3	3.6	7.7	5.0	1,091.5
Consumer loans and other	1,000.1	3.1	12.0	13.3	123.7	1,152.2
Credit cards	100.0	1.5	2.3	1.2	22.4	127.4
Car loans	90.5	0.4	0.8	0.7	10.3	102.7
Reverse sale and repurchase agreements	7.8	—	—	—	—	7.8
Total loans and advances to customers collectively assessed	7,615.8	514.5	156.0	36.6	182.5	8,505.4

The table below shows credit quality by class of loans and advances to customers (gross) at 31 December 2017, neither past due nor impaired.

	Pass	Watch	Sub-standard	Total
Loans to legal entities	5,571.5	504.9	629.1	6,705.5
Current activity financing	3,944.7	367.0	199.8	4,511.5
Project finance and other	1,072.4	129.9	403.7	1,606.0
Reverse sale and repurchase agreements	364.9	5.3	—	370.2
Finance leases	189.5	2.7	25.6	217.8
Loans to individuals	2,247.3	4.7	0.2	2,252.2
Mortgages	1,056.9	0.7	—	1,057.6
Consumer loans and other	994.2	2.6	0.1	996.9
Credit cards	99.1	1.4	—	100.5
Car loans	89.3	—	0.1	89.4
Reverse sale and repurchase agreements	7.8	—	—	7.8
Total loans and advances to customers	7,818.8	509.6	629.3	8,957.7

44. FINANCIAL AND INSURANCE RISK MANAGEMENT (CONTINUED)**CREDIT RISK (CONTINUED)****Credit quality by class of loans and advances to customers (continued)**

Analysis of loans and advances to customers (gross) individually impaired by economic sector at 31 December 2017 is presented in the table below.

	2017
Building construction	118.7
Finance	63.5
Manufacturing	51.7
Trade and commerce	44.2
Energy	39.7
Transport	39.8
Food and agriculture	30.3
Metals	22.4
Telecommunications and media	17.0
Oil and gas	6.6
Chemical	6.4
Individuals	3.5
Government bodies	0.1
Other	12.9
Total loans and advances to customers individually impaired	456.8

As at 31 December 2017, the Group has a pool of collectively assessed impaired loans and advances in the amount of RUR 219.1 billion.

Ageing analysis (by days of delay in repayment) of past due, but not impaired loans and advances to customers (gross) by class at 31 December 2017 is presented in the table below.

	From 1 to 30 days	From 31 to 60 days	From 61 to 90 days	From 91 to 180 days	From 181 days to 1 year	More than 1 year	Total
Loans to legal entities	22.4	3.1	0.7	4.5	7.0	55.2	92.9
Current activity financing	20.8	2.0	0.6	4.5	4.8	53.8	86.5
Project finance and other	—	0.5	—	—	—	0.5	1.0
Finance leases	1.6	0.6	0.1	—	2.2	0.9	5.4
Loans to individuals	35.6	4.8	2.1	2.7	1.0	0.1	46.3
Mortgages	14.4	2.1	1.8	2.4	1.0	0.1	21.8
Consumer loans and other	16.4	2.3	0.1	0.1	—	—	18.9
Credit cards	3.2	0.1	—	—	—	—	3.3
Car loans	1.6	0.3	0.2	0.2	—	—	2.3
Total loans and advances to customers past due but not impaired	58.0	7.9	2.8	7.2	8.0	55.3	139.2

Credit quality by class of credit related commitments

The table below shows credit quality by class of credit related commitments.

	2018			2017	
	12-month ECL	Lifetime ECL not credit- impaired	Lifetime ECL credit- impaired	Total	Total
Loan commitments (irrevocable)					
• Pass	53.9	20.5	—	74.4	—
• Watch	2.7	—	—	2.7	—
• Sub-Standard	—	3.8	0.1	3.9	—
• Doubtful	—	—	0.1	0.1	—
Financial guarantees					
• Pass	57.0	0.5	—	57.5	—
• Watch	6.4	0.2	—	6.6	—
• Sub-Standard	0.4	6.0	1.0	7.4	—
• Doubtful	—	—	—	—	—

44. FINANCIAL AND INSURANCE RISK MANAGEMENT (CONTINUED)**CREDIT RISK (CONTINUED)****Collateral and other credit enhancements**

Exposure to credit risk is managed, in part, by obtaining collateral and guarantees issued by state authorities, entities and individuals.

The amount and type of collateral accepted by the Group depends on credit risk assessment of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters.

Collateral received by the Group from borrowers as a result of loan settlement is usually represented by real estate, financial instruments and other assets.

Securities and guarantees are also obtained from counterparties for all types of lending.

The list of acceptable forms of credit support is subject to periodical review. Different forms of credit support may be used in combination. In cases when a loan is secured by guarantees received, the Group performs an analysis of the guarantor's financial performance, except for the state authorities.

The Group has a set of requirements applicable to each form of credit support. The value of the pledged property is determined by reference to its market value taking into account a liquidity margin. The value of the assets determined for these purposes must be sufficient to recover principal, interest, commissions and expenses related to the enforcement of the pledge. A liquidity margin related to different types of pledges varies from 10% to 70%.

The valuation and acceptance of each type and item of collateral may vary depending on individual circumstances. Generally, the Group takes collateral with a view to ensure that an adequate margin is

obtained and maintained throughout the term of the facility, where applicable. The appropriate department responsible for collateral assessment establishes parameters for each individual facility.

In cases where a loan is secured by a pledge, the borrower is required to insure such assets and name the Group as the beneficiary of the insurance policy. The Group takes a complex approach to pledged assets insured. It depends on the level of risk involved in the loan operation, the borrower's financial condition and the risk of loss of the pledged property.

Collateral is taken to enhance an acceptable credit proposal, rather than being used as the sole rationale for any credit approval. Where facilities are approved against security, full details, including the type, value, and the frequency of review of the security should be detailed in the Application for Credit Facility Form. Where practical, a bank officer conducts inspection the physical existence of collateral offered.

The Group reassesses the fair value of pledged property with frequency stated for each form of pledge and, if necessary, requires additional collateral or other acceptable forms of credit support.

Collateral repossessed

The Group's policy is to dispose of repossessed properties in accordance with the established internal and legal procedures. The proceeds are used to reduce or repay the outstanding claim.

During 2018 and 2017 the Group obtained assets by taking possession in accordance with additional agreements with its borrowers of collateral held as security in exchange for the indebtedness of these borrowers.

The carrying values and the nature of assets received as the collateral repossessed during the relevant year are as follows:

	2018	2017
Trading financial assets	10.1	–
Investments in associates	4.7	26.8
Investment property	2.7	2.1
Premises and equipment	1.9	–
Other assets	0.7	5.4
Total collateral repossessed during the period	20.1	34.3

After finalisation of transferring procedures, these assets were accounted in accordance with the Group accounting policies and included in the relevant items in the statement of financial position.

The table below shows carrying amount and the nature of the assets obtained and held as at the reporting date:

	2018	2017
Investment property	90.1	90.6
Premises and equipment	49.6	49.5
Investments in associates	18.5	25.6
Trading financial assets	14.9	–
Other assets	5.6	10.2
Investment financial assets	0.9	1.4
Property held for sale	0.1	–
Total collateral repossessed	179.7	177.3

44. FINANCIAL AND INSURANCE RISK MANAGEMENT (CONTINUED)**MARKET RISK**

Market Risk, for the purpose hereof, shall mean a risk of worsening of either the Group financial result or its capital base under the IFRS due to unfavorable changes in the value of the Group assets/liabilities affected by market indicators – risk factors.

In VTB Group Asset and Liability Management Committee (“ALCO”) acts as a permanent collegial body under GMC for consolidated assets and liabilities management. The main goals of ALCO functioning are resolution of the following issues:

- VTB Group consolidated assets and liabilities management;
- VTB Group treasury risks management;
- determination of principles of internal and external pricing in VTB Group;
- determination of approaches to capital allocation by types of risks in VTB Group;
- determination of approaches to capital distribution between VTB Group companies.

The Coordination commission on management of assets and liabilities and interaction with financial institutions functions under ALCO in 2017, its main responsibilities include:

- ensuring an effective functioning of a consistent group principles, procedures and limits system of assets and liabilities management;
- realization of an effective interaction within intragroup frames of business rules with financial institutions.

Group Risk Committee (GRC) participates in management of market risk setting the operational and framework limits and allocating the risk appetite for Trading book across group members and business lines.

VTB Group market risk Policy (the Policy) sets out procedures for identification and monitoring of market risks, market risk limit structure and hierarchy from VTB Group level to the level of the group members and separate divisions; sets out procedures for control over compliance with the limits and restrictions and also for response to them when being exceeded; it also sets out the Group market risk reporting procedure.

According to the Policy market risk assessment and management is carried out in the context of the following types of Books:

- Trading Book, consists of positions held for trading or to hedge elements of the Trading book;
- Treasury bond portfolio, consists of operations executed by Treasury with bonds which are carried at fair value;
- Banking Book, consists of interest bearing instruments which are carried at amortized cost or instruments that are used to hedge the elements of Banking book. It also includes risk from SPPI-failed corporate loans.

Based on the analytical division of the whole VTB Group portfolio (provided above) the following directions of Market risk are identified:

- Interest rate risk of Banking book;
- Foreign exchange (FX) risk of Banking book and Treasury bond portfolio All Group FX exposure is divided by the nature of operations that generate the risk and thus it's divided for Trading book FX risk and Banking book FX risk.
- Market risk of Trading book and Treasury bond portfolio.

INTEREST RATE RISK EXPOSURE OF BANKING BOOK AND SENSITIVITY ANALYSIS

The Group is exposed to interest rate risk of the Banking Book (IRRBB). Interest rate risk – risk of financial loss (damage) due to unfavourable change in the Basic yield curve corresponding to assets, liabilities and off-balance sheet claims and commitments under the IFRS sensitive to interest rate change.

Banking Book shall include interest bearing instruments/operations, which are not subject to marking-to-market under the IFRS and which do not belong either to Trading Operations or Treasury Debt Securities Portfolio.

The Department of Integrated Risk Management submits a report to the ALCO on a monthly basis on interest rate risk profile of the Group and of individual banks of the Group, including net present

value of assets and liabilities exposed to interest rate risk, Economic Capital, and sensitivity analysis of Net Interest Income as well as of present value of assets and liabilities to stress scenario of interest rates changes as well as to 100 b.p. Valuations are made by using Kamakura Risk Manager software.

To mitigate IRRBB the ALCO set up limits and triggers on Economic Capital and on sensitivity of Net Interest Income to cover interest rate risk of the Group and/or of individual banks of the Group.

The Treasury manages and hedges Group exposures by entering into interest rate derivative transactions within the limits and parameters set by the ALCO.

44. FINANCIAL AND INSURANCE RISK MANAGEMENT (CONTINUED)**INTEREST RATE RISK EXPOSURE OF BANKING BOOK AND SENSITIVITY ANALYSIS (CONTINUED)**

As at 31 December 2018, the Group has the following interest rate exposures based on information provided internally to key management personnel. Included in the table are Group's monetary assets and liabilities, categorised by the contractual repricing date. IRRBB exposures include SPPI-failed corporate loans and exclude transactions of internal funding of the trading portfolio.

	On demand and up to 1 month	From 1 month to 3 months	From 3 months to 6 months	From 6 months to 1 year	From 1 year to 3 years	From 3 years to 5 years	More than 5 years	Total
Assets								
Interest bearing assets								
RUR	1,650.7	605.8	473.6	586.9	1,784.2	1,276.3	1,514.6	7,892.1
USD	1,159.0	707.0	51.0	74.7	146.4	179.8	35.7	2,353.6
EUR	360.6	699.4	97.7	678.9	44.4	86.0	31.5	1,998.5
Other currencies	72.0	42.5	9.9	28.4	133.5	36.0	6.1	328.4
Total assets	3,242.3	2,054.7	632.2	1,368.9	2,108.5	1,578.1	1,587.9	12,572.6
Liabilities								
Interest bearing liabilities								
RUR	3,410.0	1,857.0	1,013.6	715.4	344.6	6.9	380.2	7,727.7
USD	327.0	249.5	158.9	640.7	778.2	255.9	2.5	2,412.7
EUR	520.8	106.8	73.6	98.7	192.1	108.8	5.8	1,106.6
Other currencies	23.9	8.0	9.8	44.2	144.0	35.9	1.7	267.5
Total liabilities	4,281.7	2,221.3	1,255.9	1,499.0	1,458.9	407.5	390.2	11,514.5
Net repricing gap	(1,039.4)	(166.6)	(623.7)	(130.1)	649.6	1,170.6	1,197.7	1,058.1

As at 31 December 2017, the Group has the following interest rate exposures based on information provided internally to key management personnel. Included in the table are Group's monetary assets and liabilities, categorised by the contractual repricing date.

	On demand and up to 1 month	From 1 month to 3 months	From 3 months to 6 months	From 6 months to 1 year	From 1 year to 3 years	From 3 years to 5 years	More than 5 years	Total
Assets								
Interest bearing assets								
RUR	1,680.9	313.5	421.7	606.1	1,566.3	929.9	1,168.0	6,686.4
USD	829.0	590.7	180.1	358.1	212.9	165.6	50.7	2,387.1
EUR	506.8	386.1	74.2	107.8	41.0	28.0	30.2	1,174.1
Other currencies	111.6	12.9	32.5	70.8	19.3	9.6	4.1	260.8
Total assets	3,128.3	1,303.2	708.5	1,142.8	1,839.5	1,133.1	1,253.0	10,508.4
Liabilities								
Interest bearing liabilities								
RUR	2,962.9	1,153.4	879.2	458.3	149.6	20.4	401.0	6,024.8
USD	584.1	202.9	246.6	250.7	814.4	240.3	7.6	2,346.6
EUR	355.9	33.2	50.3	20.2	40.7	357.2	17.2	874.7
Other currencies	20.2	8.1	17.5	122.0	24.0	1.3	1.4	194.5
Total liabilities	3,923.1	1,397.6	1,193.6	851.2	1,028.7	619.2	427.2	9,440.6
Net repricing gap	(794.8)	(94.4)	(485.1)	291.6	810.8	513.9	825.8	1,067.8

The interest rate sensitivities set out in the tables below represent an effect on the historical net interest income for one-year period in case of a parallel shift in all yield curves. The calculations are based on the Group's actual interest rate risk exposures of the Banking Book at the relevant reporting dates. It also includes risk from SPPI-failed corporate loans. The Group includes in the interest position calculation and sensitivity analysis instruments at both floating and fixed rates.

44. FINANCIAL AND INSURANCE RISK MANAGEMENT (CONTINUED)**INTEREST RATE RISK EXPOSURE OF BANKING BOOK AND SENSITIVITY ANALYSIS (CONTINUED)**

Interest rate sensitivity analysis as at 31 December 2018 as an effect on net interest income is as follows.

Currency	Interest rate increase, b.p.	Effect on net interest income	Interest rate decrease, b.p.	Effect on net interest income
RUR	75	(23.3)	(100)	31.0
USD	50	5.0	(15)	(1.5)
EUR	20	1.3	(1)	(0.1)
Total		(17.0)		29.4

Interest rate sensitivity analysis as at 31 December 2017 as an effect on net interest income is as follows.

Currency	Interest rate increase, b.p.	Effect on net interest income	Interest rate decrease, b.p.	Effect on net interest income
RUR	50	(11.4)	(150)	34.2
USD	70	3.7	(8)	(0.4)
EUR	25	1.2	(1)	—
Total		(6.5)		33.8

The total interest rate sensitivity of NII disclosed in the above tables, is attributable to assets and liabilities of the Banking Book sensitive to possible changes of interest rates including savings accounts of individuals, SPPI-failed corporate loans portfolio, but excluding other current/ settlement accounts of customers and transactions of internal funding of the trading portfolio.

Management considers sensitivity of current/settlement customer accounts to fluctuations of interest rates in the financial market as low based on historical performance and competitive environment.

Interest rate sensitivity analysis as at 31 December 2018 as an effect on the net present value (NPV) of SPPI-failed corporate loans portfolio with fixed interest rates calculated by Kamakura Risk Manager software as at 31 December 2018 is as follows:

Currency	Interest rate increase (b.p.)	Effect on NPV	Interest rate decrease (b.p.)	Effect on NPV
RUR	75	(0.1)	(100)	0.2
EUR	20	(0.1)	(1)	—
Other	50	(0.6)	(15)	0.2
Total		(0.8)		0.4

44. FINANCIAL AND INSURANCE RISK MANAGEMENT (CONTINUED)**FOREIGN EXCHANGE RISK OF BANKING BOOK**

Foreign exchange ("FX") risk of Banking book arises from open positions of the Banking Book in foreign currencies. Group policy is to hold the lowest possible levels of FX risk of Banking book.

The Group manages its FX risk of Banking book by seeking to match the currency of its assets with that of its liabilities on a currency-by-currency basis within established limits and triggers for economic capital set by the GRC and regulatory OCP limits set by the CBR.

The Department of Integrated Risk Management of VTB performs evaluations of economic capital to cover Currency risk of Banking book by using hypothetical

stress scenario of fluctuation of foreign currencies against RUR, analyses the structure of open currency positions and prepares reports for the ALCO on a monthly basis. The ALCO approves the methodology of the currency risk analysis, management and control procedures and sets limits on open currency positions.

The Treasury manages and hedges currency risk of Banking book on a daily basis by entering into foreign exchange spot and forward/option transactions within the limits set by Group ALCO. The Bank on a daily basis monitors compliance with these limits and the relevant CBR limits.

As at 31 December 2018 and 2017, the Group had the following exposures to FX risk of Banking book, which include balance sheet positions and off-balance sheet foreign currency derivatives positions of the Banking Book against RUR (open structural currency positions).

Currency	Open positions	
	2018	2017
USD	177.3	122.6
EUR	68.2	52.8
CHF	(4.1)	(1.3)
HKD	1.5	1.0
BYN	10.5	7.7
JPY	(2.5)	–
AMD	8.1	5.1
AOA	4.3	4.5
GEL	7.0	3.8
UAH	(1.9)	2.8
CNY	2.5	(2.3)
A98	–	(0.2)
KZT	1.2	0.7
GBP	1.5	(5.4)
AZN	3.2	(5.8)
Other	0.4	0.7

FX sensitivity analysis as at 31 December 2018 as an effect on FX income is as follows:

Currency	Currency up (%)	Effect on FX income	Currency down (%)	Effect on FX income
USD	14.0	24.8	(14.0)	(24.6)
EUR	14.0	9.6	(14.0)	(9.6)
Other		4.6		(4.6)
Total		39.0		(39.0)

FX sensitivity analysis as at 31 December 2017 as an effect on FX income is as follows:

Currency	Currency up (%)	Effect on FX income	Currency down (%)	Effect on FX income
USD	11.0	13.5	(11.0)	(13.5)
EUR	12.5	6.6	(12.5)	(6.6)
Other		2.3		(2.0)
Total		22.4		(22.1)

The FX sensitivity, disclosed in the above table, is attributable to the Banking Book sensitive to possible changes of foreign exchange rates against RUR.

Inclusion of USD 2.25 billion of perpetual loan participation notes in open structural currency position calculation will result in the following sensitivity of the Banking book in USD: as of 31 December 2018 - RUR 2.9 billion and RUR (2.9) billion respectively; as of 31 December 2017 - RUR (0.8) billion and RUR 0.8 billion, respectively.

44. FINANCIAL AND INSURANCE RISK MANAGEMENT (CONTINUED)**PRICE RISK**

The Group is exposed to the market risk in Trading book and Treasury bond portfolio which is related to a negative revaluation of instruments due to the change of values of various risk factors including quotes of bonds, equities, commodity instruments, fx rates, interest rates, credit spreads, volatilities of risk factors and correlations between risk factors.

Although Treasury bond portfolio is separated from the Trading book due to the different goals of positions held within these portfolios, market risk of Treasury bond portfolio is managed the same way as market risk of Trading book.

In order to bound Group market risk the set of limits is used. All the limits can be divided into the two following groups: framework limits (VaR-limit, Stop-Loss limit, Stress-Loss limit) and operational limits which restrict the concentration in particular indicators or types of assets in portfolio (limit for DV01, FX Delta and etc.).

The Department of Integrated Risk Management is responsible for calculation and reporting Group Market risk profile, review of limits structure and preparation of suggestions on the mitigation and managing of Market risk in Trading book and Treasury bond portfolio.

On a weekly basis Department of Integrated Risk Management controls Group market risk limits utilisation. Local risk management teams control local market risk limits on a daily basis. On a weekly basis Department of Integrated Risk Management reports limits usage to the Business Departments, on a monthly basis Department of Integrated Risk Management provides detailed information on Group market risk profile of Trading book and Treasury bond portfolio to ALCO.

Stress-test result and VaR are used for the assessment of Market risk of Trading book and Treasury bond portfolio. Methodology used for estimation of these risk measures is approved by GRC and shared between all Group members.

Stress testing

The revaluation result of Group Trading book and Treasury bond portfolio is modelled based on historical changes in risk-factors (observed in conditions of severe changes of macroeconomic indicators) and on hypothetical risk-factors changes.

The scenario analysis showed that in 2018 the largest market risk severe impacts would be due to a severe rise in RUB risk free rates and widening of credit spreads.

VaR

Parameters used for VaR estimation are the following:

- historical period – 2 years;
- holding period – 1 trading day;
- confidence level – 95%;
- method – historical simulation.

Total Group's VaR 1d.95% measure for Trading book and Treasury bond portfolio for 2018 amounts to RUR 1.1 billion (2017: RUR 0.5 billion). The year to year rise in VaR is primarily driven by increase of position amount.

LIQUIDITY RISK AND CONTRACTUAL MATURITY ANALYSIS

Liquidity risk is a risk resulting from inability of the Group to meet in full its obligations when they fall due and without borrowing funds at rates higher than market rates. The Group's exposure to liquidity risk arises due to a mismatch of maturities of assets and liabilities.

Liquidity risk management within the Group is carried out at two main levels:

- Bank/company level: Each bank / company of the Group manages its liquidity on an individual basis to meet its obligations and to comply with the requirements of its national regulator and standards of the Group.
- Group level: Liquidity of the Group is managed on the basis of centralised control and management of key activities of the Group including:
 - universal policy and approaches to liquidity management;
 - integrated methodology of liquidity risk;
 - centralised system of on-going reporting and data warehousing.

The tools used by VTB for measurement, management and mitigation of liquidity risk include:

- Contractual maturity analysis (gap analysis) and cash flow forecasts including planned transactions; forecasted roll-over of clients' term funds (deposits and promissory notes); possible outflow of unstable "on-demand" funds (clients' current accounts and Nostro accounts).
- Analysis of deposit base concentration;
- Stress-test analysis;
- Setting of internal liquidity indicators/limits, including (1) the minimum amount of highly liquid assets to cover possible outflow of resources on demand/one day and other short-term liabilities (up to 30 days); (2) Liquidity of Treasury portfolio limits which are monitored on a daily basis;
- Allocation and utilisation of securities from Treasury portfolio, which provide financing from the CBR through reverse repo operations and help manage short-term liquidity; and
- Development of emergency plans (funding contingency plans).

44. FINANCIAL AND INSURANCE RISK MANAGEMENT (CONTINUED)**LIQUIDITY RISK AND CONTRACTUAL MATURITY ANALYSIS (CONTINUED)**

VTB and other banks of the Group are also subject to liquidity requirements set by regulatory authorities, including those set by the CBR in the form of prudential ratios.

The Department of Integrated Risk Management analyses cash flow of the Group and prepares liquidity report for ALCO on a monthly basis. VTB's Treasury manages short-term liquidity on an ongoing basis through its cash position and portfolio of highly liquid securities and prepares information on short-term liquidity of the Bank and reports to the ALCO on a weekly basis.

The Inflow column in the tables below includes gross amounts to be received by the Group within a certain time band upon contractual maturities/redemptions of financial instruments (assets/claims). Outflow column includes gross amounts to be repaid by the Group in a certain time band upon contractual maturities/redemptions of financial instruments (liabilities/obligations except current and settlement accounts). Gap represents the difference between Inflow and Outflow columns. Gap Cumulative column represents the cumulative gap. FX Swap Cumulative column represents the cumulative gaps of notional amounts of foreign exchange transactions (FX Swaps, FX Spot and Forwards, NDFs). Dynamic Gap (total) Cumulative column represents the cumulative gap including FX Swap Cumulative. Opening balance represents highly liquid assets, which mostly consist of cash and correspondent accounts with other banks.

The performed analysis confirms that in spite of a substantial portion of customer accounts being on demand or short-term, diversification of these deposits by number and type of depositors, and the past experience of the Group would indicate that these customer accounts and time deposits provide, in a substantial part, a long-term and stable source of funding for the Group. Also portfolios of Treasury Securities held for trading could be used for short-term liquidity management through reverse sale and repurchase operations.

VTB Group medium-term liquidity needs are managed through interbank and customer deposits (new borrowings and renewal of existing deposits), repurchase agreements and in the form of collateralised loans (against corporate loans or securities) which allow the Group to reduce the negative medium-term liquidity gaps.

VTB Group has a substantial volume of additional funding facilities made available by Bank of Russia to bridge negative medium term liquidity gaps.

Currency mismatches in the structure of liquidity gaps are managed with the use of foreign exchange transactions (FX Swaps).

Traditionally, at the end of the year, the state authorities place the funds in short term instruments, and as a result, a significant part of these resources has maturity up to 1 month. While the performed analysis confirms that, given the efforts of CBR to extend refinancing facilities to the banking system and the expected inflow of funds on customer accounts of budget organisations, the Group will be able to roll over the major part of these resources.

As at 31 December 2018, VTB Group had the following cash flow by remaining contractual maturities.

Time Band	Inflow	Outflow	Gap	Gap Cumulative	FX Swap Cumulative	Dynamic Gap (total) Cumulative
RUR positions						
Opening balance	—	—	372.1	372.1	—	372.1
Up to 1 month	440.1	(2,372.2)	(1,932.1)	(1,560.0)	(308.8)	(1,868.8)
From 1 to 3 months	589.9	(2,257.3)	(1,667.4)	(3,227.4)	(115.3)	(3,342.7)
From 3 months to 1 year	2,011.0	(1,626.1)	384.9	(2,842.5)	(51.1)	(2,893.6)
From 1 to 3 years	3,622.2	(412.4)	3,209.8	367.3	(2.7)	364.6
More than 3 years	5,470.9	(915.9)	4,555.0	4,922.3	(32.3)	4,890.0
Other currency positions						
Opening balance	—	—	483.2	483.2	—	483.2
Up to 1 month	345.3	(439.1)	(93.8)	389.4	274.8	664.2
From 1 to 3 months	387.0	(442.1)	(55.1)	334.3	119.0	453.3
From 3 months to 1 year	645.1	(1,271.8)	(626.7)	(292.4)	22.5	(269.9)
From 1 to 3 years	1,495.5	(1,418.0)	77.5	(214.9)	19.8	(195.1)
More than 3 years	2,201.1	(881.0)	1,320.1	1,105.2	30.0	1,135.2
Total						
Opening balance	—	—	855.3	855.3	—	855.3
Up to 1 month	785.4	(2,811.3)	(2,025.9)	(1,170.6)	(34.0)	(1,204.6)
From 1 to 3 months	976.9	(2,699.4)	(1,722.5)	(2,893.1)	3.7	(2,889.4)
From 3 months to 1 year	2,656.1	(2,897.9)	(241.8)	(3,134.9)	(28.6)	(3,163.5)
From 1 to 3 years	5,117.7	(1,830.4)	3,287.3	152.4	17.1	169.5
More than 3 years	7,672.0	(1,796.9)	5,875.1	6,027.5	(2.3)	6,025.2

44. FINANCIAL AND INSURANCE RISK MANAGEMENT (CONTINUED)**LIQUIDITY RISK AND CONTRACTUAL MATURITY ANALYSIS (CONTINUED)**

As at 31 December 2017, VTB Group had the following cash flow by remaining contractual maturities.

Time Band	Inflow	Outflow	Gap	Gap Cumulative	FX Swap Cumulative	Dynamic Gap (total) Cumulative
RUR positions						
Opening balance	–	–	297.7	297.7	–	297.7
Up to 1 month	348.7	(2,026.5)	(1,677.8)	(1,380.1)	(284.8)	(1,664.9)
From 1 to 3 months	520.0	(1,623.7)	(1,103.7)	(2,483.8)	(165.3)	(2,649.1)
From 3 months to 1 year	1,987.2	(1,575.3)	411.9	(2,071.9)	(57.7)	(2,129.6)
From 1 to 3 years	2,939.3	(358.4)	2,580.9	509.0	(105.7)	403.3
More than 3 years	4,421.6	(1,008.2)	3,413.4	3,922.4	(112.2)	3,810.2
Other currency positions						
Opening balance	–	–	478.1	478.1	–	478.1
Up to 1 month	584.8	(311.4)	273.4	751.5	384.2	1,135.7
From 1 to 3 months	265.8	(287.5)	(21.7)	729.8	184.6	914.4
From 3 months to 1 year	1,060.3	(1,029.9)	30.4	760.2	92.1	852.3
From 1 to 3 years	1,578.4	(1,514.9)	63.5	823.7	147.7	971.4
More than 3 years	1,621.3	(1,056.3)	565.0	1,388.7	147.8	1,536.5
Total						
Opening balance	–	–	775.8	775.8	–	775.8
Up to 1 month	933.5	(2,337.9)	(1,404.4)	(628.6)	99.4	(529.2)
From 1 to 3 months	785.8	(1,911.2)	(1,125.4)	(1,754.0)	19.3	(1,734.7)
From 3 months to 1 year	3,047.5	(2,605.2)	442.3	(1,311.7)	34.4	(1,277.3)
From 1 to 3 years	4,517.7	(1,873.3)	2,644.4	1,332.7	42.0	1,374.7
More than 3 years	6,042.9	(2,064.5)	3,978.4	5,311.1	35.6	5,346.7

The table below shows undiscounted cash flows payable under financial liabilities and credit-related commitments at 31 December 2018 by their remaining contractual maturity.

	On demand and up to 1 month	From 1 month to 3 months	From 3 months to 6 months	From 6 months to 1 year	More than 1 year	Total
Non-derivative liabilities:						
Due to other banks	956.3	615.5	0.3	0.5	147.2	1,719.8
Customer deposits	4,940.4	1,826.9	912.5	1,403.1	1,542.2	10,625.1
Other borrowed funds	2.8	1.2	8.6	12.9	507.7	533.2
Debt securities issued	68.2	11.3	16.1	23.9	170.6	290.1
Other liabilities	69.0	12.3	3.2	3.0	5.7	93.2
Subordinated debt	–	3.6	3.3	7.8	416.7	431.4
Total cash flows payable under non-derivative liabilities	6,036.7	2,470.8	944.0	1,451.2	2,790.1	13,692.8
Derivative financial instruments – gross settled:						
Positive fair value of derivatives						
(Inflow)	(109.3)	(157.9)	(90.7)	(223.7)	(498.6)	(1,080.2)
Outflow	96.2	119.3	85.4	235.7	481.2	1,017.8
Negative fair value of derivatives:						
(Inflow)	(103.0)	(166.8)	(90.3)	(291.4)	(314.6)	(966.1)
Outflow	104.4	180.8	99.8	274.5	329.8	989.3
Derivative financial instruments – net settled:						
(Inflow)	(20.6)	(4.4)	(6.5)	(7.2)	(31.5)	(70.2)
Outflow	18.5	4.4	4.2	5.8	15.8	48.7
Credit related commitments	152.6	–	–	–	–	152.6

44. FINANCIAL AND INSURANCE RISK MANAGEMENT (CONTINUED)**LIQUIDITY RISK AND CONTRACTUAL MATURITY ANALYSIS (CONTINUED)**

The table below shows undiscounted cash flows payable under financial liabilities and credit-related commitments at 31 December 2017 by their remaining contractual maturity.

	On demand and up to 1 month	From 1 month to 3 months	From 3 month to 6 months	From 6 months to 1 year	More than 1 year	Total
Non-derivative liabilities:						
Due to other banks	765.2	11.9	1.6	0.3	33.1	812.1
Customer deposits	4,155.8	1,622.4	1,061.3	685.5	1,778.0	9,303.0
Other borrowed funds	1.2	4.0	4.5	127.0	372.2	508.9
Debt securities issued	33.4	64.8	94.8	39.0	122.2	354.2
Other liabilities	87.9	5.4	1.1	2.0	2.4	98.8
Subordinated debt	—	6.0	2.7	9.6	536.5	554.8
Total cash flows payable under non-derivative liabilities	5,043.5	1,714.5	1,166.0	863.4	2,844.4	11,631.8
Derivative financial instruments – gross settled:						
Positive fair value of derivatives (Inflow)	(917.5)	(178.1)	(164.3)	(205.4)	(416.4)	(1,881.7)
Outflow	912.4	170.6	144.3	192.8	377.2	1,797.3
Negative fair value of derivatives:						
(Inflow)	(761.9)	(104.8)	(75.6)	(172.5)	(299.5)	(1,414.3)
Outflow	770.4	110.6	73.9	187.3	309.8	1,452.0
Derivative financial instruments – net settled:						
(Inflow)	(9.2)	(7.5)	(8.7)	(13.1)	(35.7)	(74.2)
Outflow	12.9	6.3	11.0	8.7	15.0	53.9
Credit related commitments	488.4	—	—	—	—	488.4

Included in amounts due to customers are term deposits of individuals. In accordance with the Russian legislation, the Group is obliged to repay such deposits upon demand of a depositor.

CURRENT AND NON-CURRENT ASSETS AND LIABILITIES

The table below shows assets and liabilities at 31 December 2018 by their remaining contractual maturity (expected maturity match the remaining contractual maturity) by which the Group has right to realise the assets and settle the liabilities. The Group considers assets and liabilities with remaining contractual maturity of “Less than 1 year” as current and assets and liabilities with remaining contractual maturity of “More than 1 year” and “Maturity undefined” as non-current.

	Less than 1 year	More than 1 year	Maturity undefined	Total
Assets				
Cash and short-term funds	935.8	—	—	935.8
Mandatory cash balances with central banks	99.3	11.8	—	111.1
Trading financial assets	298.7	—	—	298.7
Derivative financial assets	117.5	85.0	—	202.5
Due from other banks	581.9	111.2	—	693.1
Loans and advances to customers	1,995.8	8,699.4	—	10,695.2
Investment financial assets	102.2	219.2	31.2	352.6
Investments in associates and joint ventures	—	—	283.2	283.2
Assets of disposal group and non-current assets held for sale	22.0	—	—	22.0
Land, premises and equipment	—	—	402.3	402.3
Investment property	—	—	197.2	197.2
Goodwill and other intangible assets	—	—	160.0	160.0
Deferred income tax asset	—	—	119.6	119.6
Other assets	169.7	7.7	109.9	287.3
Total assets	4,322.9	9,134.3	1,303.4	14,760.6
Liabilities				
Due to other banks	1,390.9	34.8	—	1,425.7
Customer deposits	9,001.1	1,402.6	—	10,403.7
Derivative financial liabilities	81.8	58.4	—	140.2
Other borrowed funds	23.2	306.5	—	329.7
Debt securities issued	111.4	147.7	—	259.1
Liabilities of disposal group held for sale	—	—	—	—
Deferred income tax liability	—	—	12.4	12.4
Other liabilities	186.0	220.3	46.0	452.3
Subordinated debt	5.4	209.1	—	214.5
Total liabilities	10,799.8	2,379.4	58.4	13,237.6

44. FINANCIAL AND INSURANCE RISK MANAGEMENT (CONTINUED)**CURRENT AND NON-CURRENT ASSETS AND LIABILITIES (CONTINUED)**

Management believes that although equity securities included in financial assets held for trading category have no contractual maturity these equity securities could be sold in less than one year and therefore they are included in respective contractual maturity category. Debt securities included in financial assets held for trading category are also classified as instruments with contractual maturity less than one year as Management believes that these debt securities could be sold in less than one year and it has no intentions to hold these debt securities until maturity.

The table below shows assets and liabilities at 31 December 2017 by their remaining contractual maturity (expected maturity match the remaining contractual maturity) by which the Group has right to realise the assets and settle the liabilities.

	Less than 1 year	More than 1 year	Maturity undefined	Total
Assets				
Cash and short-term funds	773.8	—	—	773.8
Mandatory cash balances with central banks	82.7	14.4	—	97.1
Trading financial assets	277.2	—	—	277.2
Derivative financial assets	73.1	102.5	—	175.6
Due from other banks	683.5	151.5	—	835.0
Loans and advances to customers	1,891.0	7,280.4	—	9,171.4
Investment financial assets	64.1	227.8	29.9	321.8
Investments in associates and joint ventures	—	—	117.1	117.1
Assets of disposal group and non-current assets held for sale	17.2	—	—	17.2
Land, premises and equipment	—	—	348.2	348.2
Investment property	—	—	210.4	210.4
Goodwill and other intangible assets	—	—	157.4	157.4
Deferred income tax asset	—	—	98.7	98.7
Other assets	269.6	8.7	130.1	408.4
Total assets	4,132.2	7,785.3	1,091.8	13,009.3
Liabilities				
Due to other banks	777.4	32.9	—	810.3
Customer deposits	7,419.9	1,724.8	—	9,144.7
Derivative financial liabilities	73.9	60.1	—	134.0
Other borrowed funds	129.3	175.2	—	304.5
Debt securities issued	222.8	99.7	0.2	322.7
Liabilities of disposal group held for sale	7.0	—	—	7.0
Deferred income tax liability	—	—	30.7	30.7
Other liabilities	269.4	273.3	39.8	582.5
Subordinated debt	3.1	190.1	—	193.2
Total liabilities	8,902.8	2,556.1	70.7	11,529.6

44. FINANCIAL AND INSURANCE RISK MANAGEMENT (CONTINUED)**GEOGRAPHICAL CONCENTRATION**

Geographical concentration information is based on registraton of the Group's counterparts. As at 31 December 2018, the geographical concentration of the Group's assets and liabilities is set out below:

	Russia	OECD	Other countries	Total
Assets				
Cash and short-term funds	721.6	174.7	39.5	935.8
Mandatory cash balances with central banks	102.6	—	8.5	111.1
Trading financial assets	264.8	12.7	21.2	298.7
Derivative financial assets	104.8	84.7	13.0	202.5
Due from other banks	380.1	21.7	291.3	693.1
Loans and advances to customers	8,552.3	362.8	1,780.1	10,695.2
Investment financial assets	280.9	39.8	31.9	352.6
Investments in associates and joint ventures	186.3	60.2	36.7	283.2
Assets of disposal group and non-current assets held for sale	—	—	22.0	22.0
Land, premises and equipment	230.3	14.3	157.7	402.3
Investment property	195.6	0.1	1.5	197.2
Goodwill and other intangible assets	138.0	2.3	19.7	160.0
Deferred income tax asset	116.0	3.1	0.5	119.6
Other assets	256.3	25.9	5.1	287.3
Total assets	11,529.6	802.3	2,428.7	14,760.6
Liabilities				
Due to other banks	1,081.8	57.0	286.9	1,425.7
Customer deposits	9,800.1	367.9	235.7	10,403.7
Derivative financial liabilities	43.0	90.3	6.9	140.2
Other borrowed funds	156.6	16.9	156.2	329.7
Debt securities issued	174.1	77.5	7.5	259.1
Liabilities of disposal group held for sale	—	—	—	—
Deferred income tax liability	11.5	—	0.9	12.4
Other liabilities	396.1	35.8	20.4	452.3
Subordinated debt	104.2	110.3	—	214.5
Total liabilities	11,767.4	755.7	714.5	13,237.6
Net balance sheet position	(237.8)	46.6	1,714.2	1,523.0
Gross off-balance sheet position				
Credit Related Commitments	90.5	13.9	48.2	152.6
Performance guarantees	608.3	3.5	6.7	618.5

44. FINANCIAL AND INSURANCE RISK MANAGEMENT (CONTINUED)**GEOGRAPHICAL CONCENTRATION (CONTINUED)**

Geographical concentration information is based on registration of the Group's counterparts. As at 31 December 2017, the geographical concentration of the Group's assets and liabilities is set out below:

	Russia	OECD	Other countries	Total
Assets				
Cash and short-term funds	530.0	208.8	35.0	773.8
Mandatory cash balances with central banks	90.1	—	7.0	97.1
Trading financial assets	239.5	19.5	18.2	277.2
Derivative financial assets	87.2	71.0	17.4	175.6
Due from other banks	353.8	75.4	405.8	835.0
Loans and advances to customers	7,311.0	432.5	1,427.9	9,171.4
Investment financial assets	222.5	67.1	32.2	321.8
Investments in associates and joint ventures	29.2	58.3	29.6	117.1
Assets of disposal group and non-current assets held for sale	2.6	—	14.6	17.2
Land, premises and equipment	232.7	7.5	108.0	348.2
Investment property	200.0	0.1	10.3	210.4
Goodwill and other intangible assets	136.7	2.9	17.8	157.4
Deferred income tax asset	95.6	2.6	0.5	98.7
Other assets	331.8	68.0	8.6	408.4
Total assets	9,862.7	1,013.7	2,132.9	13,009.3
Liabilities				
Due to other banks	349.6	63.3	397.4	810.3
Customer deposits	8,397.8	301.5	445.4	9,144.7
Derivative financial liabilities	30.2	98.2	5.6	134.0
Other borrowed funds	165.4	23.2	115.9	304.5
Debt securities issued	156.9	161.1	4.7	322.7
Liabilities of disposal group held for sale	0.3	0.1	6.6	7.0
Deferred income tax liability	29.7	—	1.0	30.7
Other liabilities	512.9	51.3	18.3	582.5
Subordinated debt	101.7	91.5	—	193.2
Total liabilities	9,744.5	790.2	994.9	11,529.6
Net balance sheet position	118.2	223.5	1,138.0	1,479.7
Gross off-balance sheet position				
Credit Related Commitments	458.8	11.7	17.9	488.4
Performance guarantees	568.7	—	—	568.7

INSURANCE RISK

The risk under any one insurance contract is the possibility that the insured event occurs and the uncertainty of the amount of the resulting claim. By the very nature of an insurance contract, this risk is random and therefore unpredictable.

For a portfolio of insurance contracts where the theory of probabilities is applied to pricing and reserving, the principal risk that the Group faces under its insurance contracts is that the actual claims and benefit payments exceed the carrying amount of the insurance liabilities. This could occur because the frequency or severity of claims and benefits are greater than estimated. Insurance events are random and the actual number and amount of claims and benefits will vary from year to year from the estimate established using actuarial techniques.

Experience shows that the larger the portfolio of similar insurance contracts, the smaller the relative variability of the expected outcome will be. In addition, a more diversified portfolio is less likely to be affected pervasively by a change in any subset of the portfolio.

The Group is working to diversify the gender, age and geography of insurance risks accepted and within each of these categories to achieve a sufficiently large population to reduce the variability of the expected outcome.

The Group conducts a liability adequacy test (LAT) to assess whether its recognised insurance liabilities are adequate, using current estimates of future cash flows under its insurance contracts. The test considers current estimates of all contractual cash flows, and of related cash flows. If a test shows that liabilities are insufficient, the total amount of deficit is charged to profit or loss.

The Group also discloses results of a sensitivity analysis that shows how its liabilities would have been affected if changes in the relevant risk variables that were reasonably possible at the end of the reporting period had occurred.

The Group is exposed to insurance risk which is analysed using actuarial techniques.

44. FINANCIAL AND INSURANCE RISK MANAGEMENT (CONTINUED)**INSURANCE RISK (CONTINUED)**

The key reserving assumptions are expected loss ratio and development factors (that reflect the claim settlement pattern). Changes in those assumptions directly influence the loss provisions. The following analysis is performed for reasonably possible movements in the key assumptions with all other assumptions held constant, showing the impact on loss provision.

In October 2018, the Group disposed its insurance unit, VTB Insurance including all companies within VTB Insurance Group (Refer to Note 48). As at 31 December the Group is no longer exposed to substantial insurance risk.

The table below represents the sensitivity of values of loss provision to changes in actuarial assumptions as at 31 December 2017.

Lines of insurance business	Increase in loss provisions			
Increase in variable:				
- confident level	75%	75%	95%	95%
- loss ratio	5%	10%	5%	10%
Motor own damage insurance	—	—	—	—
Voluntary Medical insurance	0.1	0.3	0.1	0.3
Property insurance and Third party liability insurance	0.1	0.2	0.2	0.2
Personal Accident insurance	0.2	0.4	0.2	0.4
Obligatory Military State Insurance	—	0.1	—	0.1
Obligatory motor third party liability insurance	—	—	—	—
Other non-life insurance	0.1	0.2	0.1	0.3
Total	0.5	1.2	0.6	1.3

45. FAIR VALUE MEASUREMENT**Fair value of financial instruments measured at fair value**

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- in the principal market for the asset or liability; or
- in the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

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

45. FAIR VALUE MEASUREMENT (CONTINUED)**Assets and liabilities measured at fair value**

The following table shows an analysis of assets and liabilities recorded at fair value by level of the fair value hierarchy as at 31 December 2018:

	Quoted prices in active markets Level 1	Significant observable inputs Level 2	Significant unobservable inputs Level 3	Total
Financial assets measured at fair value				
Trading financial assets				
Trading financial assets				
• Debt securities	143.5	69.0	12.5	225.0
• Equity securities	24.6	14.9	0.1	39.6
Trading financial assets, pledged under repurchase agreements				
• Debt securities	30.8	3.1	–	33.9
• Equity securities	0.2	–	–	0.2
Derivative financial assets				
Derivative financial assets held for trading				
• Interest rate contracts	–	114.0	–	114.0
• Foreign exchange and precious metals contracts	–	55.0	–	55.0
• Other basic assets contracts	0.7	23.4	–	24.1
• Contracts with securities	–	7.7	1.6	9.3
Derivative financial liabilities designated as hedging instruments				
• Derivatives held as fair value hedges	–	0.1	–	0.1
Loans and advances to customers at fair value through profit or loss				
Loans and advances to legal entities	–	–	107.4	107.4
Loans and advances to customers at fair value through other comprehensive income				
Loans and advances to legal entities	74.2	–	–	74.2
Due from other banks at fair value through profit or loss				
	–	–	7.6	7.6
Investment financial assets				
Investment financial assets measured at fair value through other comprehensive income				
• Debt securities	250.4	45.9	0.8	297.1
• Equity securities	0.1	4.7	4.7	9.5
Investment financial assets measured at fair value through other comprehensive income, pledged under repurchase agreements				
• Debt securities	7.8	5.3	–	13.1
Investment financial assets mandatorily measured at fair value through profit or loss				
• Equity securities	7.1	3.4	11.2	21.7
• Debt securities	–	–	–	–
Investment financial assets mandatorily measured at fair value through profit or loss, pledged under repurchase agreements				
• Debt securities	–	–	–	–
Investment financial assets designated as at fair value through profit or loss including pledged under repurchase agreements				
• Reverse sale and repurchase agreements to maturity	–	7.0	–	7.0
• Equity securities	–	–	–	–
Investments in associates and joint ventures designated as at fair value through profit or loss				
	–	–	70.7	70.7
Other non-financial assets measured at fair value				
Investment property	–	–	197.2	197.2
Land and premises	–	–	134.8	134.8
Precious metals within Other Assets	–	41.8	–	41.8
Financial liabilities measured at fair value				
Derivative financial liabilities				
Derivative financial liabilities held for trading				
• Interest rate contracts	–	64.3	–	64.3
• Foreign exchange and precious metals contracts	–	47.1	0.2	47.3
• Other basic assets contracts	0.1	24.8	–	24.9
• Contracts with securities	–	0.8	2.6	3.4
Derivative financial liabilities designated as hedging instruments				
• Derivatives held as cash flow hedges	–	0.3	–	0.3
Other financial liabilities				
Obligation to deliver securities	22.1	–	–	22.1
Non-controlling interests in consolidated mutual funds	–	–	2.7	2.7
Other financial liabilities accounted at fair value	–	–	2.4	2.4

45. FAIR VALUE MEASUREMENT (CONTINUED)**Assets and liabilities measured at fair value (continued)**

The following table shows an analysis of assets and liabilities recorded at fair value by level of the fair value hierarchy as at 31 December 2017:

	Quoted prices in active markets Level 1	Significant observable inputs Level 2	Significant unobservable inputs Level 3	Total
Financial assets measured at fair value				
Trading financial assets				
Trading financial assets				
• Debt securities	178.7	76.0	4.1	258.8
• Equity securities	13.2	–	0.1	13.3
• Trading credit products	–	–	4.8	4.8
Trading financial assets, pledged under repurchase agreements				
• Equity securities	0.2	–	–	0.2
• Debt securities	0.1	–	–	0.1
Derivative financial assets				
Derivative financial assets held for trading				
• Interest rate contracts	–	94.1	6.2	100.3
• Other basic assets contracts	0.4	28.1	1.3	29.8
• Foreign exchange and precious metals contracts	–	30.1	–	30.1
• Contracts with securities	–	5.4	2.7	8.1
• Embedded derivatives on structured instruments	–	1.1	5.5	6.6
Derivative financial liabilities designated as hedging instruments				
• Derivatives held as fair value hedges	–	0.7	–	0.7
Investment financial assets available-for-sale				
Investment financial assets available-for-sale				
• Debt securities	203.0	69.3	0.4	272.7
• Equity securities	7.8	–	4.7	12.5
Investment financial assets available-for-sale, pledged under repurchase agreements				
• Debt securities	–	0.4	–	0.4
Investment financial assets designated as at fair value through profit or loss				
• Reverse sale and repurchase agreements to maturity	–	18.5	–	18.5
• Equity securities	8.4	–	9.0	17.4
• Debt securities	–	–	0.3	0.3
Investments in associates and joint ventures designated as at fair value through profit or loss	–	–	66.7	66.7
Other financial assets				
Amounts in course of settlement related to regular way transactions with financial instruments	–	0.3	–	0.3
Other financial assets accounted at fair value	–	0.1	–	0.1
Non-financial assets measured at fair value				
Investment property	–	–	210.4	210.4
Land and premises	–	–	116.5	116.5
Precious metals within Other Assets	–	112.2	–	112.2
Financial liabilities measured at fair value				
Derivative financial liabilities				
Derivative financial liabilities held for trading				
• Interest rate contracts	–	78.5	–	78.5
• Other basic assets contracts	0.4	31.7	–	32.1
• Foreign exchange and precious metals contracts	–	15.3	0.3	15.6
• Contracts with securities	–	4.5	2.6	7.1
Derivative financial liabilities designated as hedging instruments				
• Derivatives held as cash flow hedges	–	0.4	–	0.4
• Derivatives held as fair value hedges	–	0.3	–	0.3
Other financial liabilities				
Obligation to deliver securities	34.3	1.1	–	35.4
Non-controlling interests in consolidated mutual funds	–	–	2.6	2.6
Other financial liabilities accounted at fair value	–	0.2	1.2	1.4

45. FAIR VALUE MEASUREMENT (CONTINUED)**Assets and liabilities measured at fair value (continued)**

For financial instruments that are recognised at fair value on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

A significant portion of the available-for-sale financial assets in Level 3 is invested in shares of non-listed companies which are valued based on non-market observable information. Changes in assumptions can lead to adjustments in the fair value of these investments.

Movement in Level 3 financial instruments measured at fair value

The following table reconciles the opening balances for financial assets and liabilities of Level 3 of the fair value hierarchy under IAS 39 to opening balances under IFRS 9 on transition to IFRS 9 on 1 January 2018:

	Original classification under IAS 39	New classification under IFRS 9	Closing balance under IAS 39 (31 December 2017)	Reclassifi- cation in/ (out of) categories measured at fair value	Reclassifi- cation between categories measured at fair value	Opening balance under IFRS 9 (1 January 2018)
Trading financial assets including pledged under repurchase agreements	Fair value through profit or loss	Fair value through profit or loss (mandatorily)	9.0	(5.1)	–	3.9
Investment financial assets mandatorily measured at fair value through profit or loss, including pledged under repurchase agreements	Fair value through profit or loss (designated)	Fair value through profit or loss (mandatorily)	9.3	–	0.4	9.7
Investment financial assets measured at fair value through other comprehensive income, including pledged under repurchase agreements	Available-for-sale	Fair value through other comprehensive income	4.7	–	–	4.7
Investment financial assets measured at fair value through other comprehensive income, including pledged under repurchase agreements	Available-for-sale	Fair value through profit or loss (mandatorily)	0.4	–	(0.4)	–
Investments in associates and joint ventures at fair value through profit or loss	Fair value through profit or loss (designated)	Fair value through profit or loss (designated)	66.7	–	–	66.7
Derivative financial assets and liabilities held for trading (net)	Fair value through profit or loss	Fair value through profit or loss (mandatorily)	12.8	–	(5.4)	7.4
Due from other banks at fair value through profit or loss	Loans and receivables	Fair value through profit or loss (mandatorily)	–	2.8	–	2.8
Loans and advances to customers at fair value through profit or loss	Loans and receivables	Fair value through profit or loss (mandatorily)	–	433.7	5.4	439.1
Non-controlling interests in consolidated mutual funds	Fair value through profit or loss (designated)	Fair value through profit or loss (designated)	(2.6)	–	–	(2.6)
Other financial liabilities measured at fair value	Fair value through profit or loss (designated)	Fair value through profit or loss (designated)	(1.2)	–	–	(1.2)

45. FAIR VALUE MEASUREMENT (CONTINUED)

A reconciliation of movements in Level 3 of the fair value hierarchy by class of financial instruments for the year ended 31 December 2018 is as follows:

	Investment financial assets					Other financial liabilities				
	Trading financial assets including pledged under repurchase agreements	Investment financial assets mandatorily measured at fair value through profit or loss, including pledged under repurchase agreements	Investment financial assets measured at fair value through other comprehensive income, including pledged under repurchase agreements	Investments in associates and joint ventures at fair value through profit or loss	Derivative financial assets and liabilities held for trading (net)	Due from other banks at fair value through profit or loss	Loans and advances to customers at fair value through profit or loss	Loans and advances to customers at fair value through other comprehensive income	Non-controlling interests in consolidated mutual funds	Other financial liabilities measured at fair value
Fair value at 1 January 2018	3.9	9.7	4.7	66.7	7.4	2.8	439.1	–	(2.6)	(1.2)
Interest income and gains or (losses) recognised in income statement	1.0	0.2	0.1	6.1	0.7	(3.0)	49.3	0.2	(0.1)	(1.2)
• of which unrealised gains or (losses)	1.2	0.1	–	6.1	0.5	(0.2)	26.6	–	(0.1)	(1.2)
Gains recognised in other comprehensive income	–	–	0.8	–	–	–	–	–	–	–
Purchase	6.3	1.5	36.3	0.6	2.4	–	3.2	–	–	–
Sale	(5.6)	(0.5)	(1.2)	(1.5)	0.2	–	(3.9)	(2.8)	–	–
Issue	–	–	0.1	–	0.1	4.1	61.2	2.6	–	–
Settlement	(2.1)	–	(35.4)	(1.2)	(5.2)	–	(228.4)	–	–	–
Acquisition of subsidiaries	–	0.3	0.1	–	–	–	(15.1)	–	–	–
Transfers into Level 3	16.3	–	0.5	7.6	–	–	–	–	–	–
Transfers out of Level 3	(6.7)	–	(0.5)	(7.6)	(4.4)	–	–	–	–	–
Transfer into disposal group	(0.5)	–	–	–	(2.4)	–	–	–	–	–
Disposal of subsidiaries	–	–	–	–	–	3.7	–	–	–	–
Derecognition	–	–	–	–	–	–	(198.0)	–	–	–
Fair value at 31 December 2018	12.6	11.2	5.5	70.7	(1.2)	7.6	107.4	–	(2.7)	(2.4)

A reconciliation of movements in Level 3 of the fair value hierarchy by class of financial instruments for the year ended 31 December 2017 is as follows:

						Other financial liabilities		
	Trading financial assets including pledged under repurchase agreements	Investment financial assets designated as at fair value through profit or loss	Investment financial assets available-for-sale including pledged under repurchase agreements	Investments in associates and joint ventures at fair value through profit or loss	Derivative financial assets and liabilities held for trading (net)	Obligation to deliver securities	Non-controlling interests in consolidated mutual funds	Other financial liabilities accounted at fair value
Fair value at 1 January 2017	8.2	11.8	27.2	61.8	33.0	—	(2.6)	(1.1)
Gains or (losses) recognised in income statement	0.1	(2.5)	0.2	6.4	1.1	—	—	(0.1)
• of which unrealised gains or (losses)	0.1	(2.5)	(5.7)	6.4	(2.4)	—	—	(0.1)
Gains or (losses) recognised in other comprehensive income	—	—	(2.1)	0.2	(0.9)	—	—	—
Purchase	6.4	—	29.1	0.1	(1.5)	0.1	—	—
Sale	(1.3)	—	(12.5)	—	—	(0.1)	—	—
Settlement	(2.7)	—	(30.7)	(0.3)	(19.7)	—	—	2.7
Transfers into Level 3	9.0	—	0.3	6.1	0.7	—	—	(2.7)
Transfers out of Level 3	(7.2)	—	(6.5)	(3.0)	0.1	—	—	—
Transfer out of Level 3 into categories not measured at fair value	(3.5)	—	—	(4.6)	—	—	—	—
Transfers into Level 3 from categories not measured at fair value	—	—	0.1	—	—	—	—	—
Fair value at 31 December 2017	9.0	9.3	5.1	66.7	12.8	—	(2.6)	(1.2)

45. FAIR VALUE MEASUREMENT (CONTINUED)**Movement in Level 3 non-financial assets measured at fair value**

A reconciliation of movements in Level 3 of the fair value hierarchy by class of non-financial assets measured at fair value for the year ended 31 December 2018 is as follows:

	Land and premises	Investment property
Fair value at 1 January 2018	116.5	210.4
Losses net of gains recognised in profit or loss	(15.3)	(14.4)
Gains recognised in other comprehensive income	7.6	1.4
Purchase	3.1	3.5
Capitalisation of expenses	—	4.9
Sale	(0.7)	(4.8)
Acquisition of subsidiaries	4.0	4.0
Disposal of subsidiaries	(2.6)	(6.1)
Transfers within Level 3	0.7	(0.7)
Net transfers into categories not measured at fair value	21.5	(1.0)
Fair value at 31 December 2018	134.8	197.2

A reconciliation of movements in Level 3 of the fair value hierarchy by class of non-financial assets measured at fair value for the year ended 31 December 2017 is as follows:

	Land and premises	Investment property
Fair value at 1 January 2017	119.8	235.5
Losses net of gains recognised in profit or loss	(16.3)	(23.1)
Losses recognised in other comprehensive income	(0.6)	(0.4)
Purchase	2.5	2.1
Capitalisation of expenses	—	9.2
Sale	(1.8)	(27.4)
Acquisition of subsidiaries	1.0	12.5
Disposal of subsidiaries	(2.8)	(1.6)
Transfers within Level 3	(0.6)	0.6
Net transfers into categories not measured at fair value	15.3	3.0
Fair value at 31 December 2017	116.5	210.4

Net transfers into categories not measured at fair value in the above table include amounts reclassified to property intended for sale in the ordinary course of business and to assets of disposal groups held for sale and reclassifications from other accounts.

There were no transfers out of Level 3 of the fair value hierarchy of non-financial assets.

Transfers between levels

For the year ended 31 December 2018	Reason for transfer (valuation at the reporting date)	Trading financial assets	Debt investment financial assets measured at fair value through other comprehensive income, including pledged under repurchase agreements	Investments in associates and joint ventures at fair value through profit or loss	Derivative financial assets and liabilities held for trading	Total
From Level 1:						
• to Level 2	valuation models with market observable inputs	48.6	2.1	—	—	50.7
• to Level 3	valuation models with non-market-observable inputs	1.5	—	—	—	1.5
From Level 2:						
• to Level 1	active market quotes	63.7	13.3	—	—	77.0
• to Level 3	valuation models with non-market-observable inputs	14.8	0.5	7.6	—	22.9
From Level 3:						
• to Level 1	active market quotes	3.2	—	—	—	3.2
• to Level 2	valuation models with market observable inputs	8.1	0.5	7.6	4.4	20.6
Total		139.9	16.5	15.2	4.4	175.9

For the year ended 31 December 2017	Reason for transfer (valuation at the reporting date)	Trading financial assets, including pledged under repurchase agreements	Investment financial assets designated as at fair value through profit or loss	Investments financial assets available-for-sale including pledged under repurchase agreements	Investments in associates and joint ventures at fair value through profit or loss	Other financial liabilities accounted at fair value	Total
From Level 1:							
• to Level 2	valuation models with market observable inputs	53.4	—	14.8	—	—	68.2
• to Level 3	valuation models with non-market-observable inputs	1.8	—	—	—	—	1.8
From Level 2:							
• to Level 1	active market quotes	61.0	—	24.4	—	—	85.4
• to Level 3	valuation models with non-market-observable inputs	7.2	—	0.3	6.1	2.7	16.3
From Level 3:							
• to Level 1	active market quotes	1.4	—	6.4	—	—	7.8
• to Level 2	valuation models with market observable inputs	5.8	—	0.1	3.0	—	8.9
Total		130.6	—	46.0	9.1	2.7	188.4

45. FAIR VALUE MEASUREMENT (CONTINUED)**Impact on fair value of Level 3 financial instruments of changes to key assumptions**

The following table shows the quantitative information as at 31 December 2018 about significant unobservable inputs used in the fair value measurement categorised within Level 3 of the fair value hierarchy:

	Fair value	Valuation techniques	Unobservable input description	Reasonable range (values used)
Trading financial assets				
Debt securities				
Development real estate	4.7	Traders price	Traders price	103%-113% (108%)
Non-ferrous industry	2.0	Traders price	Traders price	79%-89% (84%)
Electric power industry	1.6	Traders price	Traders price	94.75%-104.75% (99.75%)
Finance companies, Banks	1.0	Other	n/a	n/a
Other economic sectors	3.2	Other	n/a	n/a
Equity securities				
Other economic sectors	0.1	Other	n/a	n/a
Trading derivative financial instruments				
Equity derivatives	(0.9) (0.2)	Other Black model	n/a Implied volatility	n/a 17.87%-23.16% (20.517%)
Investment financial assets mandatorily measured at fair value through profit or loss, including pledged under repurchase agreements				
Debt securities				
Other economic sectors	0.4	Other	n/a	n/a
Equity securities				
Retail	5.9	Discounted Cash flow; EV/EBITDA multiple	Weighted average cost of capital Weight of DCF and multiple valuations Terminal growth rate Average Gross margin (total sales) 2018-2021	10.83%-12.83% (11.83%) 0.0%-100.0% (50% & 50%) 3.0%-5.0% (4.0%) 30.0%-32.0% (31.0%)
Other economic sectors	4.9	Other	n/a	n/a
Investment financial assets measured at fair value through other comprehensive income, including pledged under repurchase agreements				
Debt securities				
Other economic sectors	0.7	Other	n/a	n/a
Equity securities				
Finance companies, Banks, Leasing	3.2	Gordon and Exit multiple	discount rate that can be changed based changes in macroeconomic backdrop exit multiple	8.1%-12.1% (10.1%) 0.4-0.8 (0.6)
Other economic sectors	1.5	Other	n/a	n/a
Loans and advances to customers at fair value through profit or loss				
Other economic sectors	97.6	Discounted Cash flow	Discount rate	(1.0)%-1.0% (various)
Communication	9.9	Fair value model	Fair value of collateral	43.0-53.5 (53.5)

45. FAIR VALUE MEASUREMENT (CONTINUED)**Impact on fair value of Level 3 financial instruments of changes to key assumptions (continued)**

	Fair value	Valuation techniques	Unobservable input description	Reasonable range (values used)
Due from other banks at fair value through profit or loss				
Finance companies and banks	7.6	Fair value model	Discount rate	(1.0)%-1.0% (various)
Investments in associates and joint ventures designated as at fair value through profit or loss				
Services: Air transportation	4.1	Discounted Dividend flow	Base equity risk premium RUR inflation (CPI) from 2019 Growth rate of duty free revenue (in euro) per international passenger	7.0%-8.0% (7.5%) 4.3%-5.3% (4.8%) 0.0%-3.6% (1.8%)
Telecommunication	53.5	Discounted Cash flow; EV/EBITDA, EV/Revenue multiple	CAGR 2019-2022 (ARPU)	(0.2)%-3.0% (0.4%)
			CAGR 2019-2022 (subscriber base)	2.0% - 6.0% (4%)
			Terminal growth	1.7% - 3.3% (2.5%)
			CAPEX (incl. Yarovaya)/Revenue	16.0% - 20.0% (18.0%)
			Multiple EV/Revenue 2020	1.57x и 1.97x (1.64x)
			Multiple EV/EBITDA 2020	2.46x и 5.34x (3.94x)
			Weight of core value	0.0% - 50.0% (33.3%)
			Premium of strategic valuation scenario to base scenario	44.2% - 51.4% (51.4%)
			WACC (in USD terms)	9.3% - 13.3% (11.3%)
	4.8	Discounted Cash flow; EV/EBITDA multiple; Precedent Transaction	MVNO Revenue Growth WACC	20.0%-80.0% (77.0%) 6.2%-8.2% (7.2%)
			Terminal Growth Rate	0.5%-1.5% (1%)
			Special situation discount	35.0%-15.0% (25.0%)
			Weight of DCF/Multiple valuations/Precedent Transactions	0.0%-100.0% (33.3% & 33.3% & 33.3%)
Fast Food		Discounted Cash flow; EV/EBITDA multiple	Liquidity discount Weight of multiples-based valuation LFL sales CAGR 2018-2023 WACC	20.0%-30.0% (25%) 0.0%-100.0% (50.0% & 50.0%) 3.9%-5.9% (4.9%) 11.7%-15.7% (13.7%)
Other	0.7	Other	Terminal Growth	2.0%-6.0% (4.0%)
Other financial liabilities accounted at fair value				
Non-controlling interests in consolidated mutual funds	(2.7)	Net asset value	n/a	n/a
Other financial liabilities accounted at fair value	(2.4)	Discounted Cash flow	Discount rate	22.5%-24.0% (23.2%)

45. FAIR VALUE MEASUREMENT (CONTINUED)**Impact on fair value of Level 3 financial instruments of changes to key assumptions (continued)**

The following table shows the quantitative information as at 31 December 2017 (restated) about significant unobservable inputs used in the fair value measurement categorised within Level 3 of the fair value hierarchy:

	Fair value	Valuation techniques	Unobservable input description	Reasonable range (values used)
Trading financial assets, including pledged under repurchase agreements				
Equity securities				
Other economic sectors	0.1	Other	n/a	n/a
Other economic sectors				
Debt securities				
Finance companies servicing mortgage and real estate debts	1.4	Other	n/a	n/a
Other economic sectors	2.7	Other	n/a	n/a
Trading credit products				
Coal and mining industry	2.4	Discounted Cash flow	XIRR	24.2%-40.2% (32.2%)
	2.4	Discounted Cash flow	XIRR	24.2%-40.2% (32.2%)
Investment financial assets designated as at fair value through profit or loss				
Equity securities				
Retail	5.9	Gordon and Comparable method	Weighted average cost of capital Weight of DCF and multiple valuations Terminal growth rate Average Gross margin (total sales) 2018-2021	11.1%-13.1% (12.1%) 0%-100.0% (50.0%-50.0%) 3.0%-5.0% (4.0%) 29.8%-31.8% (30.8%)
Other economic sectors	3.1	Other	n/a	n/a
Debt securities				
Other economic sectors	0.3	Other	n/a	n/a
Derivative financial instruments held for trading				
Equity derivatives	2.0 (1.9)	Discounted Cash flow Other	Credit Spread n/a	4.5%-6.5% (5.5%) n/a
Foreign exchange derivatives	(0.3)	Black model	Implied volatility	9.3%-16.7% (13.0%)
Index derivatives	1.3	Other	n/a	n/a
Embedded derivatives on structured instruments	2.4 3.1	Discounted Cash flow Other	Credit spread n/a	0.5%-2.5% (1.5%) n/a
Interest rate derivatives	6.2	Discounted Cash flow	Credit spread	-0.1%-1.9% (0.9%)
Investment financial assets available-for-sale, including pledged under repurchase agreements				
Debt securities				
Other economic sectors	0.4	Other	n/a	n/a
Equity securities				
Finance companies and banks	2.4	Discounted Cash flow	Discount rate exit multiple	8.6%-12.6% (10.6%) 0.5-0.9 (0.7)
Other economic sectors	2.3	Other	n/a	n/a

45. FAIR VALUE MEASUREMENT (CONTINUED)**Impact on fair value of Level 3 financial instruments of changes to key assumptions (continued)**

	Fair value	Valuation techniques	Unobservable input description	Reasonable range (values used)
Investments in associates and joint ventures designated as at fair value through profit or loss				
Services: Air transportation	3.1	Discounted Dividend flow	Base equity risk premium	7.0%-8.0% (7.5%)
Telecommunication	53.5	Discounted Cash flow	CAGR 2018-2022 of ARPU	0%-3.6% (1.4%)
			CAGR 2018-2022 of subscriber base	1.5%-4.0% (3.2%)
			Terminal growth	1%-2.5% (2.5%)
			CAPEX/Revenue	12.3%-17.7% (15.0%)
			Multiple EV/Revenue и EV/EBITDA	1.5x and 4.9x (2.0x and 5.9x)
				75.0%/15.0%/15.0% (average)
			Weight of core and strategic value	50.0%/25.0%/25.0% and 33.0%/33.0%/33.0%)
			Premium of strategic valuation scenario 1 to base scenario	50.0%-74.0% (74.0%)
			Premium of strategic valuation scenario 2 to base scenario	15.0%-22.0% (22.0%)
	2.8	Discounted Cash flow	WACC	7.2%-10.2% (8.2%)
			Terminal Growth Rate	1%-3% (2%)
			Special situation discount	50.0%-30.0% (40.0%)
			Weight of DCF and multiple valuations	0%-50%-50% (33%-33%-33%)
Food industry	5.6	Discounted Cash flow	Liquidity discount	10.0%-30.0% (25%)
			Weight of multiples-based valuation	0%-100.0% (50.0%-50.0%)
			LFL sales CAGR 2018-2023	7.2%-9.2% (8.2%)
Other economic sectors	1.5	Discounted Cash flow EV/EBITDA multiple	Change in Growth of Cards Sold (%)	-2% - +2% (0%)
			Change in PT Growth per Client (%)	1.5%-5.5% (3.5%)
			WACC	11.5%-15.5% (13.5%)
			Weight of DCF and multiple valuations	0%-100.0% (50.0%-50.0%)
	0.2	Other	n/a	n/a
Other financial liabilities accounted at fair value				
Non-controlling interests in consolidated mutual funds	(2.6)	Net asset value	n/a	n/a
Other financial liabilities accounted at fair value	(1.2)	Discounted Cash flow	Discount rate	22.5%-24.0% (23.2%)

45. FAIR VALUE MEASUREMENT (CONTINUED)**Impact on fair value of Level 3 financial instruments of changes to key assumptions (continued)**

Fair value of investment in telecommunication industry as at 31 December 2018 and 2017 was determined by the Group with assistance of an independent appraiser. The model developed by the independent appraiser determined fair value as a combination of core value and strategic value. Core value was determined as an average between DCF valuation and market valuation based on 2019 projected EBITDA. Strategic value incorporated additional factors that, in the view of independent appraiser, the market participants would consider when determining the fair value of this investment, such as expansion of client base, value of available frequencies and ARPU synergies. Changes in the weights of core and strategic values, DCF assumptions, projected EBITDA, or strategic value components might have a significant effect on the valuation of the investment.

For financial instruments, which fair value is estimated using significant unobservable inputs, parameters and assumptions, the exact value of such inputs at the reporting date might be drawn from a range of

reasonably possible alternatives. For each unobservable input to which the fair value is most sensitive, the Group calculates its impact on valuation by taking each individual input to the extreme point of its reasonably possible range, while keeping other inputs unchanged. The table below presents the range of fair value of the respective class of financial instruments calculated using the approach discussed above. Should all the parameters be changed simultaneously to the extreme points of their reasonable ranges, the impact on the fair value would be more significant than disclosed in the table, however, the Group considers that it is unlikely that all parameters and assumptions will be simultaneously at their extreme points.

This disclosure is intended to illustrate the magnitude of the relative uncertainty in the fair value of financial instruments for which valuation is dependent on unobservable parameters, however, the disclosure is not indicative of future movements in fair value.

The following table shows the quantitative information about sensitivity of the fair value measurement categorised within Level 3 of the fair value hierarchy to changes in significant unobservable inputs:

	2018		2017	
	Carrying amount	Effect of reasonably possible alternative assumptions	Carrying amount	Effect of reasonably possible alternative assumptions
Trading financial assets, including pledged under repurchase agreements	12.6	12.1-13.0	9.0	8.1-10.1
Derivative financial instruments held for trading	(1.2)	(1.2)-(1.2)	12.8	12.7-12.8
Investment financial assets mandatorily measured at fair value through profit or loss, including pledged under repurchase agreements	11.2	10.5-11.8	n/a	n/a
Investment financial assets measured at fair value through other comprehensive income, including pledged under repurchase agreements	5.5	4.7-6.3	n/a	n/a
Loans and advances to customers at fair value through profit or loss	107.4	106.2-108.3	n/a	n/a
Due from other banks at fair value through profit or loss	7.6	7.5-7.7	n/a	n/a
Investments in associates and joint ventures designated as at fair value through profit or loss	70.7	53.6-89.1	66.7	53.2-70.9
Financial assets designated as at fair value through profit or loss	n/a	n/a	9.3	8.7-10.4
Investment financial assets	n/a	n/a	5.1	4.5-5.6
Non-controlling interests in consolidated mutual funds	(2.7)	(2.4)-(3.0)	(2.6)	(2.3)-(2.9)
Other financial liabilities accounted at fair value	(2.4)	(2.3)-(2.4)	(1.2)	(1.1)-(1.2)

45. FAIR VALUE MEASUREMENT (CONTINUED)**Impact on fair value of Level 3 non-financial assets of changes to key assumptions**

The following table shows the quantitative information as at 31 December 2018 about significant unobservable inputs used in the fair value measurement categorised within Level 3 of the fair value hierarchy:

Assets	Fair value	Valuation technique	Inputs used		
			Input	Min	Max
Land and premises					
Land and premises	134.8	Comparative method	trade discount	10.00%	29.00%
		Direct capitalization method	capitalization rate	9.00%	9.45%
Investment property					
Land	102.7				
Project 1	46.7	Comparative method	trade discount	15.40%	15.40%
Project 2	18.2	Comparative method	trade discount	16.00%	25.10%
Project 3	14.7	Comparative method	trade discount	15.70%	17.30%
		DCF method	discount rate	13.50%	20.79%
Project 4	7.4	Comparative method	trade discount	15.70%	17.30%
		DCF method	discount rate	13.50%	19.13%
Project 14	15.7	Comparative method	trade discount	15.70%	17.30%
		DCF method	discount rate	13.50%	19.13%
Commercial property	68.8				
Project 6	27.7	DCF method (completed investment property)	discount rate	14.00%	16.00%
	8.4	DCF method (investment property under construction)	discount rate	16.00%	16.00%
Project 7	13.5	DCF method (investment property under construction)	discount rate	13.00%	17.00%
			average annual rental indexation	3.20%	4.00%
			terminal capitalization rate	8.50%	8.50%
Project 8	3.0	DCF method (completed investment property)	discount rate	14.00%	14.00%
	1.8	DCF method (investment property under construction)	discount rate	22.10%	22.10%
Project 9	2.0	Direct capitalization method	trade discount	9.00%	10.00%
			vacancy rate	5.50%	5.50%
			capitalization rate	9.45%	9.45%
Project 11	1.4	DCF method (completed investment property)	discount rate	14.58%	14.58%
			average annual rental indexation	4.00%	4.30%
			terminal capitalization rate	11.36%	11.36%
Project 16	11.0	Comparative method	trade discount	15.00%	15.00%
		DCF method (investment property under construction)	discount rate	21.74%	22.7%
Other	25.7				
Other	25.7	Comparative method	trade discount	2.00%	17.40%

45. FAIR VALUE MEASUREMENT (CONTINUED)**Impact on fair value of Level 3 non-financial assets of changes to key assumptions (continued)**

The following table shows the quantitative information as at 31 December 2017 about significant unobservable inputs used in the fair value measurement categorised within Level 3 of the fair value hierarchy:

Assets	Fair value	Valuation technique	Inputs used		
			Input	Min	Max
Land and premises					
Land and premises	116.5	Comparative method	trade discount	10.0%	20.0%
Investment property					
Land	111.1				
Project 1	49.9	Comparative method	trade discount	10.0%	30.0%
Project 2	21.4	Comparative method	trade discount	16.0%	25.1%
Project 14	17.0	Comparative method	trade discount	20.0%	20.0%
		DCF method	discount rate	14.4%	15.5%
Project 3	14.6	Comparative method	trade discount	20.0%	30.0%
		DCF method	discount rate	15.5%	22.5%
Project 4	8.2	Comparative method	trade discount	20.0%	20.0%
		DCF method	discount rate	14.4%	15.5%
Commercial property	55.1				
Project 6	25.6	DCF method (completed investment property)	discount rate	14.0%	15.5%
	5.0	DCF method (investment property under construction)	discount rate	14.0%	15.5%
Project 7	7.9	DCF method (investment property under construction)	discount rate	13.0%	15.0%
			average annual rental		
			indexation	2.8%	4.8%
			terminal capitalization rate	7.5%	9.5%
Project 8	3.1	DCF method (completed investment property)	discount rate	15.0%	18.1%
	5.0	DCF method (investment property under construction)	discount rate	15.0%	18.1%
Project 9	2.2	Comparative method	trade discount	20.0%	20.0%
		DCF method (completed investment property)	terminal capitalization rate	10.6%	10.6%
Project 10	1.8	Comparative method	trade discount	10.0%	10.0%
		DCF method (completed investment property)	discount rate	14.9%	14.9%
			average annual rental		
			indexation	4.2%	6.4%
			terminal capitalization rate	10.7%	10.7%
Project 11	1.3	Comparative method	trade discount	20.0%	20.0%
		DCF method (completed investment property)	discount rate	13.5%	13.5%
			average annual rental		
			indexation	4.0%	4.3%
			terminal capitalization rate	11.3%	11.3%
Project 15	3.2	DCF method (investment property under construction)	discount rate	10.7%	10.7%
			average annual indexation	0.2%	4.5%
			terminal capitalization rate	5.0%	5.0%
Other	44.2				
Other	44.2	Comparative method	trade discount	10.0%	20.0%

45. FAIR VALUE MEASUREMENT (CONTINUED)**Impact on fair value of Level 3 non-financial assets of changes to key assumptions (continued)**

The following table summarises the sensitivity of the fair value measurement categorised within Level 3 of the fair value hierarchy to changes in unobservable inputs as at 31 December 2018:

Input	Description of input	Description of sensitivity
Trade discount (difference between supply and demand)	The leading realtors were interviewed, and the resulted adjustment for offer was found to be between 2% and 29%.	Depending on change in the demand on the investment objects, the corrective adjustment for offer may vary from 0% up to 30%. The change of this input might lead to a substantial change in the fair value of the investment property of the Group.
Discount rate	Discounting rate-interest rate used to discounting future cash payments received or paid. The discounting rate reflects the relationship between risk and rate of return and also various types of risks associated with the investment property. The discounting rate is between 10% and 22.7%, depending on the individual characteristics of an object.	Depending on the market situation on the investment property market, the discounting rate may vary from 9% up to 25%. The change of this input might lead to a substantial change in the fair value of the investment property of the Group.
Capitalization rate	The capitalization rate – ratio of the net year income, received on investment, to its market value. The capitalization rate accounts for 9.0% to 9.45%, depending on the individual characteristics of an object.	Depending on the market situation on the investment property market, capitalization rate may vary from 8.75% up to 10.25%. The change of this input might lead to a substantial change in the fair value of the investment property of the Group.
Terminal capitalization rate	The terminal capitalization rate is the rate used to estimate the resale value of a property at the end of the holding period. The terminal capitalization rate accounts for 8.5% to 11.36%, depending on the individual characteristics of an object.	Depending on the market situation on the investment property market, terminal capitalization rate may vary from 5% up to 15%. The change of this input might lead to a substantial change in the fair value of the investment property of the Group.
Average annual rental indexation	Indexation of the current annual rental rate from 3.2% to 4.3% according to the market situation	Depending on the market situation on the investment property market, rental rate indexation may vary from 0% up to 10%. The change of this input might lead to a substantial change in the fair value of the investment property of the Group.
Vacancy rate	The vacancy rate is the percentage of all available units in a rental property that are vacant or unoccupied at a particular time. According to the market analysis the vacancy rate was found to be 5.5%.	Depending on the market situation on the investment property market, vacancy rate may vary from 5% up to 6%. The change of this input might lead to a substantial change in the fair value of the investment property of the Group.

45. FAIR VALUE MEASUREMENT (CONTINUED)**Impact on fair value of Level 3 non-financial assets of changes to key assumptions (continued)**

The following table summarises the sensitivity of the fair value measurement categorised within Level 3 of the fair value hierarchy to changes in unobservable inputs as at 31 December 2017:

Input	Description of input	Description of sensitivity
Trade discount (difference between supply and demand)	The leading realtors were interviewed, and the resulted adjustment for offer was found to be between 13% and 30%.	Depending on change in the demand on the investment objects, the corrective adjustment for offer may vary from 5% up to 30%. The change of this input might lead to a substantial change in the fair value of the investment property of the Group.
Discount rate	Discounting rate-interest rate used to discounting future cash payments received or paid. The discounting rate reflects the relationship between risk and rate of return and also various types of risks associated with the investment property. The discounting rate is between 10.7% and 22.5%, depending on the individual characteristics of an object.	Depending on the market situation on the investment property market, the discounting rate may vary from 10% up to 30%. The change of this input might lead to a substantial change in the fair value of the investment property of the Group.
Terminal capitalisation rate	The capitalisation rate-ratio of the net year income, received on investment, to its market value. The capitalisation rate accounts for 5% to 12%, depending on the individual characteristics of an object.	Depending on the market situation on the investment property market, capitalisation rate may vary from 5% up to 15%. The change of this input might lead to a substantial change in the fair value of the investment property of the Group.
Average annual rental indexation	Indexation of the current annual rental rate from 0.2% to 6.4% according to the market situation	Depending on the market situation on the investment property market, rental rate indexation may vary from 0% up to 13%. The change of this input might lead to a substantial change in the fair value of the investment property of the Group.

45. FAIR VALUE MEASUREMENT (CONTINUED)**Impact on fair value of Level 3 non-financial assets of changes to key assumptions (continued)**

As at 31 December 2018 and 31 December 2017 for a number of projects fair value was determined on the base of the highest and best use that differs from its current use:

- As at 31 December 2018 and 31 December 2017, the Group had agricultural land plots under Project 4 that it intends to use for commercial real estate development. Within the impairment test, the Group used for fair value measurement the highest and best use of the Project 4 land as land under commercial real estate development.
- As at 31 December 2018 and 31 December 2017, the Group had agricultural land plots under Project 3 that it intends to use for residential and commercial real estate development. Within the impairment test the Group used for fair value measurement the highest and best use of the Project 3 land as land under residential and commercial real estate development, under a special economic zone projects and wholesale and distribution centre.
- As at 31 December 2018 and 31 December 2017, the Group had agricultural land plots under Project 14 that it intends to use for residential and commercial real estate development. Within the impairment test the Group used for fair value measurement the highest and best use of the Project 14 land as land under residential development and residential, commercial and agricultural land plots for sale.

Methods and assumptions for Level 2 financial instruments

The fair value of trading financial assets, investment financial assets measured at fair value or designated at fair value through profit or loss and derivative financial instruments valued according to Level 2 models was estimated based on DCF (projected cash flows) method using the assumption of future coupon payment, recent transactions prices and the quotes of non-active markets if based on the Group's analysis such quotes represent the best estimate of the fair value of the financial instrument as at the reporting date. Probability models were calibrated using market indicators (currency forward, ITRAX Index).

Valuation methods for level 3 fair value measurements

In order to value Level 3 equity investments, the Group utilizes comparable trading multiples. Management (if deemed necessary based on external valuers' reports) determines comparable public companies (peers) based on industry, size, developmental stage and strategy. Management then calculates a trading multiple for each comparable company identified. The multiple is calculated by dividing the enterprise value of the comparable company by its earnings before interest, taxes, depreciation and amortization (EBITDA). The trading multiple is then discounted for considerations such as illiquidity and differences between the comparable companies based on company-specific facts and circumstances.

Internal valuation of the fair value of joint ventures and associates designated as at fair value is performed at the time of commencing the project. Internal valuations of the fair value are performed on the quarterly basis, which are reviewed by business owners of the portfolio on at least a quarterly basis to make decisions on the best timing to exit the investment according to the investment strategy.

The Level 3 debt instruments are valued at the net present value of estimated future cash flows. The Group also considers liquidity, credit and market risk factors, and adjusts the valuation model as deemed necessary.

Non-financial assets and liabilities measured at fair value

Investment property. Investment property is measured at fair value reflecting market conditions at the end of the reporting period (valuation date). The valuation was carried out by independent appraisers or management. Sales comparison, discounted cash flow methods or their combination was used for the revaluation. The following non-observable assumptions (Level 3) were applied in determining of the fair value of the investments properties: discount rates, terminal capitalization rates, price dynamics, vacancy allowance, discounts for asking prices, adjustments reflecting comparables and subjects differences in location, area (volume), class and other conditions.

Land and premises. Land and premises of the Group are subject to revaluation on a regular basis. The frequency of revaluation depends upon the change in the fair values. When the fair value of a revalued asset differs materially from its carrying amount further revaluation is performed. The basis used for valuation was market approach (sales comparison method). The following non-observable assumptions (Level 3) were applied in determining the fair value of land and premises: adjustments reflecting comparables and subjects differences in location, area (volume), class and other conditions.

45. FAIR VALUE MEASUREMENT (CONTINUED)**Non-financial assets and liabilities measured at fair value (continued)****Assets and liabilities of disposal group held for sale.**

Held for sale disposal groups as a whole are measured at the lower of their carrying amount and fair value less costs to sell. Reclassified financial instruments, deferred taxes and investment properties held at fair value shall be remeasured in accordance with applicable IFRSs before the fair value less cost to sell of the disposal group is remeasured.

Precious metals. Precious metals are measured at fair value using reference prices for refined precious metals. Reference prices are calculated based on London fixing prices translated into RUR using the closing rate of exchange USD to Russian roubles at the reporting date.

Fair value of financial assets and liabilities not carried at fair value

Set out below is a comparison by class of the carrying amounts and fair values of the Group's financial

instruments that are not carried at fair value in the consolidated statement of financial position. The table does not include the fair values of non-financial assets and non-financial liabilities.

The following describes the methodologies and assumptions used to determine fair values for those financial instruments which are not already recorded at fair value in the financial statements.

Assets for which fair value approximates carrying value. For financial assets and financial liabilities that are liquid or having a short term maturity it is assumed that the carrying amounts approximate to their fair value. This assumption is also applied to customer current/settlement deposits without a specific maturity.

Fixed and variable rate financial instruments. For quoted debt instruments the fair values are determined based on quoted market prices. The fair values of unquoted debt instruments are estimated by discounting future cash flows using rates currently available for debt on similar terms, credit risk and remaining maturities.

As at 31 December 2018 fair values analysed by level in the fair value hierarchy and carrying value of financial assets and liabilities not measured at fair value are as follows:

	Quoted prices in active markets Level 1	Significant observable inputs Level 2	Significant unobservable inputs Level 3	Total fair value	Carrying amount
Financial assets for which fair values are disclosed					
Cash and short-term funds	328.6	607.2	—	935.8	935.8
Mandatory cash balances with central banks	—	111.1	—	111.1	111.1
Due from other banks at amortised cost	—	658.2	25.2	683.4	685.5
• Russia	—	344.8	25.2	370.0	372.4
• OECD	—	21.8	—	21.8	21.7
• Other countries	—	291.6	—	291.6	291.4
Loans and advances to customers at amortised cost	100.9	357.5	10,238.9	10,697.3	10,513.6
• Loans to legal entities	100.9	357.5	7,372.7	7,831.1	7,755.4
• Loans to individuals	—	—	2,866.2	2,866.2	2,758.2
Investment financial assets at amortised cost	—	2.7	1.5	4.2	4.2
Other financial assets at amortised cost	—	—	67.7	67.7	67.7
Financial liabilities for which fair values are disclosed					
Due to other banks	—	1,425.5	—	1,425.5	1,425.7
Customer deposits	—	10,293.7	—	10,293.7	10,403.7
• Deposits of legal entities	—	5,959.7	—	5,959.7	5,995.8
• Deposits of individuals	—	4,334.0	—	4,334.0	4,407.9
Other borrowed funds	—	368.8	—	368.8	329.7
Debt securities issued	69.0	108.9	82.8	260.7	259.1
Other financial liabilities	—	—	66.0	66.0	66.0
Subordinated debt	94.3	120.8	—	215.1	214.5

45. FAIR VALUE MEASUREMENT (CONTINUED)**Fair value of financial assets and liabilities not carried at fair value (continued)**

As at 31 December 2017 fair values analysed by level in the fair value hierarchy and carrying value of financial assets and liabilities not measured at fair value are as follows:

	Quoted prices in active markets Level 1	Significant observable inputs Level 2	Significant unobservable inputs Level 3	Total fair value	Carrying amount
Financial assets for which fair values are disclosed					
Cash and short-term funds	289.9	483.9	—	773.8	773.8
Mandatory cash balances with central banks	—	97.1	—	97.1	97.1
Due from other banks	—	789.1	33.1	822.2	835.0
• Russia	—	308.9	31.7	340.6	353.8
• OECD	—	74.0	1.4	75.4	75.4
• Other countries	—	406.2	—	406.2	405.8
Loans and advances to customers	164.0	357.9	8,757.4	9,279.3	9,171.4
• Loans to legal entities	164.0	357.9	6,383.4	6,905.3	6,849.1
• Loans to individuals	—	—	2,374.0	2,374.0	2,322.3
Financial assets within assets of disposal groups held for sale	0.4	5.3	4.7	10.4	10.4
Other financial assets	—	—	65.6	65.6	65.6
Financial liabilities for which fair values are disclosed					
Due to other banks	—	810.3	—	810.3	810.3
Customer deposits	—	9,053.9	—	9,053.9	9,144.7
• Deposits of legal entities	—	5,479.0	—	5,479.0	5,523.1
• Deposits of individuals	—	3,574.9	—	3,574.9	3,621.6
Other borrowed funds	—	346.5	—	346.5	304.5
Debt securities issued	124.2	180.2	26.5	330.9	322.7
Financial liabilities within liabilities of disposal groups held for sale	—	6.4	—	6.4	6.4
Other financial liabilities, except of provisions for credit related commitments and financial guarantees	—	—	59.4	59.4	59.4
Subordinated debt	84.2	115.6	—	199.8	193.2

46. CAPITAL MANAGEMENT AND CAPITAL ADEQUACY

The Group's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of its business.

Capital adequacy ratio in accordance with CBR requirements

The CBR requires Russian banks to maintain a minimum capital adequacy ratios in percentage of risk-weighted assets, determined in accordance with CBR's requirements by following categories of capital: common equity adequacy ratio (N 1.1); core capital adequacy ratio (N 1.2) and total capital adequacy ratio (N 1.0). As at 31 December 2018 the minimum required was 4.5% for base capital adequacy ratio (N 1.1); 6.0% for core

capital adequacy ratio (N 1.2) and 8.0% for total capital adequacy ratio (N 1.0) (31 December 2017: 4.5%, 6.0% and 8.0%, respectively). In other countries, the Group members comply with the regulatory capital requirements of the local central banks or other supervisory authorities.

Following legal merger of VTB Bank and VTB 24 in January 2018, and elimination of intercompany operations, direct deduction of investments and subordinated loans from VTB to VTB 24 from statutory Tier 1 and total capital was no longer required. As a result in the capital of VTB Bank on standalone basis, calculated in accordance with CBR requirements, increased significantly.

During 2018 and 2017 the Bank's capital adequacy ratios in accordance with CBR requirements exceeded the minimum level and as at 31 December 2018 and 31 December 2017 are as follows:

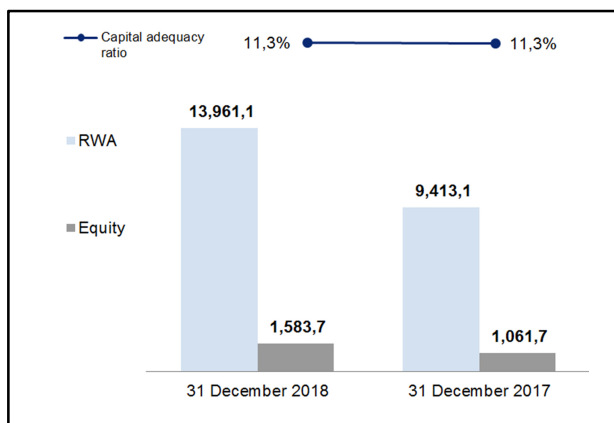
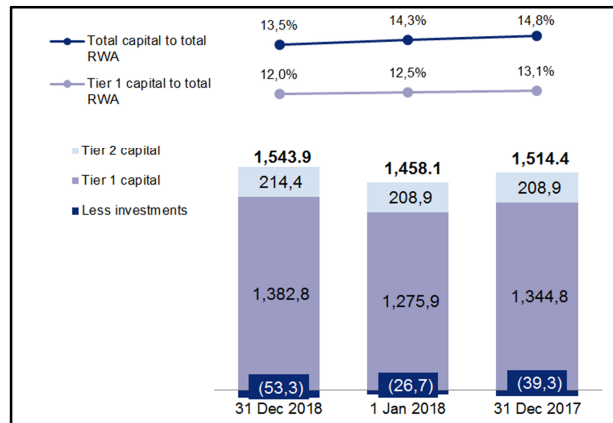
	2018	2017
Capital	1,583.7	1,069.4
Risk-weighted assets	13,961.1	9,413.1
Common equity adequacy ratio (N 1.1)	7.8%	10.1%
Core capital adequacy ratio (N 1.2)	8.9%	10.3%
Total capital adequacy ratio (N 1.0)	11.3%	11.3%

46. CAPITAL MANAGEMENT AND CAPITAL ADEQUACY (CONTINUED)

The Group's international risk based capital adequacy ratio is computed in accordance with the Basel Accord guidelines issued in 1988, with subsequent amendments including the amendment to incorporate market risks.

These ratios exceeded the minimum ratio of 8.0% recommended by the Basel Accord as disclosed below:

	2018	1 January 2018 (adjusted for IFRS 9 effect)	2017
Tier 1 capital			
Share capital	659.5	659.5	659.5
Share premium	433.8	433.8	433.8
Treasury shares	(0.8)	(2.5)	(2.5)
Perpetual loan participation notes excluding bought back	156.1	128.8	128.8
Retained earnings	197.0	126.6	200.4
Unrealised gain on investment financial assets measured at fair value through other comprehensive income, financial assets available-for-sale and cash flow hedge	(0.9)	14.5	6.5
Currency translation difference	58.7	20.7	20.7
Non-controlling interests	(5.0)	10.5	13.6
Deducted: goodwill	(115.6)	(116.0)	(116.0)
Total Tier 1 capital	1,382.8	1,275.9	1,344.8
Tier 2 capital			
Land and premises revaluation reserve	24.6	18.9	18.9
Subordinated debt	189.8	190.0	190.0
Total Tier 2 capital	214.4	208.9	208.9
Total capital before deductions	1,597.2	1,484.8	1,553.7
Deducted: equity investments in financial institutions and subordinated debt provided	(53.3)	(26.7)	(39.3)
Total capital after deductions	1,543.9	1,458.1	1,514.4
Risk-weighted assets			
Credit risk	10,941.8	9,648.2	9,755.4
Market risks	534.2	535.8	507.3
Total risk-weighted assets	11,476.0	10,184.0	10,262.7
Tier 1 capital ratio to total risk-weighted assets	12.0%	12.5%	13.1%
Total capital ratio to total risk-weighted assets	13.5%	14.3%	14.8%

Capital adequacy ratio in accordance with CBR requirements**Group equity, calculated in accordance with the Basel Accord**

GROUP STRUCTURE

47. COMPOSITION OF THE GROUP	126
48. BUSINESS COMBINATIONS AND DISPOSAL OF SUBSIDIARIES	127
49. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES	129
50. NON-CONTROLLING INTERESTS	134
51. INTERESTS IN STRUCTURED ENTITIES	135

47. COMPOSITION OF THE GROUP

VTB bank is the direct or indirect holding company for the Group's subsidiaries. The principal subsidiaries included in these consolidated financial statements are presented in the table below:

Name	Activity	Country of registration	Percentage of ownership	
			2018	2017
Subsidiaries:				
“BM-Bank”, JSC	Banking	Russia	100.00%	100.00%
“Vozrozhdenie Bank”, PJSC (Note 48)	Banking	Russia	85.00%	n/a
“VTB Bank (Europe)” SE	Banking	Germany	99.39%	99.39%
“VTB Bank (Armenia)”, CJSC	Banking	Armenia	100.00%	100.00%
“VTB Bank (Belarus)”, CJSC	Banking	Belarus	100.00%	100.00%
“Bank VTB (Kazakhstan)”, JSC	Banking	Kazakhstan	100.00%	100.00%
“VTB Bank (Georgia)”, JSC	Banking	Georgia	97.38%	97.38%
“VTB Capital”, Plc	Banking	Great Britain	95.40%	95.40%
“VTB Bank (Azerbaijan)”, OJSC	Banking	Azerbaijan	100.00%	100.00%
“VTB-Capital”, JSC	Finance	Russia	100.00%	100.00%
“Holding VTB Capital”, CJSC	Finance	Russia	100.00%	100.00%
Non-state pension fund “VTB Pension Fund”, JSC	Finance	Russia	100.00%	100.00%
“VTB Factoring”, Ltd	Factoring	Russia	100.00%	100.00%
“VTB-Leasing”, JSC	Leasing	Russia	100.00%	100.00%
“Hals-Development”, OJSC	Real Estate	Russia	99.69%	98.11%
“Upravlyayuschaya kompaniya Dynamo”, CJSC	Real Estate	Russia	75.00%	75.00%
“Insurance Company VTB-Insurance”, Ltd (Note 48)	Insurance	Russia	n/a	100.00%
“Bank VTB 24”, PJSC	Banking	Russia	n/a	99.97%
“Post Bank”, PJSC (Note 48)	Banking	Russia	n/a	50% minus 1 share
“VTB Bank”, PJSC (Ukraine) (Note 48)	Banking	Ukraine	n/a	100.00%

On 1 January 2018 the Group completed the merger of "Bank VTB 24", PJSC into VTB Bank (PJSC) under the unified VTB brand.

Further information about business combinations and disposal of subsidiaries for the year ended 31 December 2018 is presented in Note 48.

Restrictions to access or use the Group's assets

Statutory, contractual or regulatory requirements, corporate laws, as well as protective rights of non-controlling interests might restrict the ability of the Group to access and transfer assets freely to or from entities within the Group and to settle liabilities of the Group. At 31 December 2018 and 31 December 2017, the Group had no material non-controlling interests whose protective rights significantly restricted the Group's ability to access or use the assets and settle the liabilities of the Group (Note 50). Other types of restrictions included the following:

- The Group has pledged assets to collateralize its obligations under repurchase agreements, securities financing transactions, collateralized loan obligations and for margining purposes for over-the-counter derivative liabilities (Notes 23, 24, 25, 26, 44, 45, 58);
- The Group has financial assets, including loans and advances to customers and investment financial assets in the aggregate amount of RUR 316.5 billion (31 December 2017:

RUR 380.2 billion), that cannot be disposed of without prior approval of the government authority. The amount includes RUR 242.3 billion worth of OFZ AD purchased in September 2011 by former "Bank of Moscow", OJSC (Note 25, 26) that cannot be sold more than RUR 2.0 billion a day without approval of the Ministry of Finance of the Russian Federation and the amount includes RUR 74.2 billion worth of OFZ that cannot be sold more than RUR 1.0 billion a day without approval of the Ministry of Finance of the Russian Federation (31 December 2017: RUR 273.4 billion of OFZ-AD and RUR 106.8 billion of OFZ).

- The assets of consolidated structured entities, such as securitizations, are held for the benefit of the parties that have bought the notes issued by these entities (Note 51).
- Assets held by pension funds subsidiaries are primarily held to satisfy the obligations to the subsidiaries' policy holders (Note 37).

Banking and insurance regulations, including solvency and liquidity requirements, may restrict the Group's ability to transfer assets to or from its regulated subsidiaries in certain jurisdictions, as well as the ability of such subsidiaries to transfer funds to the Group in the form of cash dividends or to repay intergroup loans and advances.

48. BUSINESS COMBINATIONS AND DISPOSAL OF SUBSIDIARIES**Business combinations**

“Vozrozhdenie Bank”, PJSC: In October 2018, the Group purchased 85.0% of ordinary shares and 9.6% of preference shares of “Vozrozhdenie Bank”, PJSC. Fair value of consideration amounted to RUR 9.7 billion. The amounts of revenues and net profit of “Vozrozhdenie Bank”, PJSC since the acquisition date included in the consolidated statement of comprehensive income of the Group are RUR 7.8 billion and RUR 0.5 billion, respectively. Revenues were calculated in accordance with methodology applied in analysis by segment disclosure.

The amounts of revenues of VTB Group for the year ended on 31 December 2018 as though the acquisition date for this business combination had been as of the 1 January 2018 would have increased by RUR 21.5 billion and the amount of net profit would have decreased by RUR 8.2 billion. The gross contractual amounts receivable from acquired loans and advances to customers as at the date of acquisition comprised RUR 188.4 billion of which the Group does not expect to collect the contractual cash flows of RUR 31.4 billion.

For the purpose of determining excess of fair value of acquired net assets over cost from the acquisition the fair values of identifiable assets and liabilities of “Vozrozhdenie Bank”, PJSC based on results of both an independent external appraisal and management considerations, at the acquisition date were as follows:

	Fair value
Assets	
Cash and short-term funds	15.8
Mandatory reserve deposits with central banks	1.7
Trading financial assets	1.3
Due from other banks	9.0
Loans and advances to customers	157.0
Investment financial assets	28.7
Land, premises and equipment	4.9
Investment property	4.0
Intangible assets	0.3
Deferred tax asset	4.2
Other assets	1.3
Total assets	228.2
Liabilities	
Due to other banks	1.3
Customer deposits	205.9
Other borrowed funds	2.3
Debt securities issued	3.6
Other liabilities	4.4
Total liabilities before subordinated debt	217.5
Subordinated debt	3.0
Total liabilities	220.5
Fair value of identifiable net assets acquired	7.7
Total consideration:	2.8
- <i>consideration transferred</i>	9.7
- <i>pre-existing relationship</i>	(6.9)
Non-controlling interests (proportionate share of the acquiree's identifiable net assets)	2.2
Less: fair value of identifiable net assets acquired	(7.7)
Excess of fair value of acquired net assets over cost	(2.7)

In accordance with the Russian legislation in November 2018, the Group made the binding offer to repurchase the non-controlling interests of “Vozrozhdenie Bank”, PJSC in the amount of RUR 1.7 billion. The Group made the relevant accrual in Other liabilities with corresponding entry in equity, as this transaction is defined as an equity transaction. The excess of fair value of acquired net assets over cost of RUR 2.7 billion was disclosed in a separate line item of the Consolidated Income Statement “Excess of fair value of acquired net assets over cost”. As a result of this acquisition the Group expects to extend a branch network and activity in Moscow region.

48. BUSINESS COMBINATIONS AND DISPOSAL OF SUBSIDIARIES (CONTINUED)**Disposal of subsidiaries**

“Post Bank”, PJSC: In September 2018, the Group and Russian Post signed the amended shareholder agreement with respect to “Post Bank”, PJSC which turned it into a joint venture. Loss of control over “Post Bank”, PJSC caused the simultaneous loss of control over “Multicarta”, LLC. As a result of loss of control over those subsidiaries the Group derecognized non-controlling interests in the amount of RUR 15.3 billion. The initial accounting for this acquisition is incomplete as at the date of these financial statements and the Group expects to complete its identification and measurement of the various components of the investment’s identified assets and liabilities as of the acquisition date by 31 December 2019.

The assets and liabilities disposed as of the date of disposal were as follows:

Assets	
Cash and short-term funds	20.9
Mandatory reserve deposits with central banks	1.9
Due from other banks	17.0
Loans and advances to customers	240.8
Land, premises and equipment	7.4
Intangible assets	1.7
Deferred tax asset	3.5
Other assets	4.2
Total assets	297.4
Liabilities	
Customer deposits	256.9
Other liabilities	6.9
Subordinated debt	3.7
Total liabilities	267.5
Non-controlling interest	15.3

VTB Insurance: In October 2018, the Group has closed the deal to sell 100.0% in its insurance unit, VTB Insurance, classified as disposal group held for sale at 30 September 2018, to SOGAZ Insurance Group. SK Sogaz and its subsidiaries operate in insurance business. The transaction includes all companies within VTB Insurance Group, including VTB Life Insurance and VTB Medical Insurance. The gain from disposal of subsidiary amounted to RUR 54.1 billion. VTB Insurance business is in the process of integration into SOGAZ Insurance Group.

As consideration for the sale of VTB Insurance the Group received a) 10% of ordinary shares of SK Sogaz with a provisional fair value of RUR 55.8 billion and b) RUR 14.6 billion which will be paid to the Group no later than 30 June 2019. Cash portion of the consideration can be decreased by up to RUR 3.6 billion depending on the results of appraisal of certain assets of SK Sogaz, which have not been included in the provisional valuation. As valuation of these assets has

not been finalized, no adjustment to consideration receivable has been made in these financial statements. This adjustment is not expected to affect the value of total consideration received by the Group as upon completion of the valuation, the Group will accordingly adjust the provisional fair value of its investment in SK Sogaz.

Although the Group’s share in SK Sogaz is below 20%, the Group exercises significant influence over SK Sogaz due to its ability to appoint a member of the board of directors and participate in board decision making process. The initial accounting for this acquisition is incomplete as at the date of these financial statements and the Group expects to complete its identification and measurement of the various components of the investment’s identified assets and liabilities as of the acquisition date by 31 December 2019.

The assets and liabilities of the disposed company as of the date of disposal were as follows:

Assets	
Cash and short-term funds	1.2
Trading financial assets	15.9
Due from other banks	127.4
Investment financial assets	52.0
Land, premises and equipment	0.7
Investment property	1.3
Intangible assets	3.0
Deferred tax asset	0.2
Other assets	84.8
Total assets	286.5
Liabilities	
Deferred tax liability	8.4
Other liabilities	243.8
Total liabilities	252.2

48. BUSINESS COMBINATIONS AND DISPOSAL OF SUBSIDIARIES (CONTINUED)

VTB Bank, PJSC (Ukraine): In the current economic environment in Ukraine (Note 43), effective March 2017, the Group's Ukraine-based subsidiary banks VTB Bank, PJSC was subject to special targeted sanctions which prohibit capital transfers outside the territory of Ukraine for the benefit of any affiliated entities, including loans and deposits to and repayment of loans and deposits from affiliated entities, acquisition of securities, dividend and interest payments, profit distribution and return of capital.

In September 2018, as a part of the ongoing litigation between certain third parties and Russian Federation,

Kiev appeal court arrested shares of VTB Bank, PJSC (Ukraine). The court also restricted liquidation or reorganization of the VTB Bank, PJSC (Ukraine), as well as sale of any assets. As a result of these restrictions, VTB Bank, PJSC (Ukraine) ability to conduct its day-to-day operations was significantly limited.

In November 2018, the National Bank of Ukraine declared VTB Bank, PJSC (Ukraine) insolvent. In December 2018, the National Bank of Ukraine revoked banking license of VTB Bank, PJSC (Ukraine). The events mentioned above caused loss of control over the bank for the Group.

The respective assets and liabilities above as of the date of derecognition were as follows:

Assets	
Cash and short-term funds	0.6
Loans and advances to customers	5.3
Land, premises and equipment	0.7
Investment property	6.0
Intangible assets	0.2
Other assets	0.3
Total assets	13.1
Liabilities	
Due to other banks	5.5
Customer deposits	8.6
Other liabilities	0.8
Total liabilities	14.9

Included in Due to other banks there are intercompany balances in the amount of RUR 5.2 billion, which were fully written off at the date of derecognition. The Group also derecognized net negative currency translation balances related to the operations of this bank and previously recorded in the Group's equity in the amount of RUR 16.6 billion. The loss from derecognition of subsidiary amounted to RUR 17.3 billion.

Other subsidiaries. During 2018, as part of the selling non-core assets strategy the Group disposed of a number of non-banking subsidiaries (excluding those disclosed in Note 29) with total net assets of RUR 2.1 billion for consideration of RUR 1.5 billion. The gain resulting of these transactions amounted to RUR 1.1 billion (due to realized currency translation difference).

49. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

	2018	2017
Investments designated as at fair value through profit or loss		
• Investments in joint ventures	53.5	53.5
• Investments in associates	17.2	13.2
Investments accounted under equity method		
• Investments in associates	188.9	46.6
• Investments in joint ventures	23.6	3.8
Total investments in associates and joint ventures	283.2	117.1

49. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES (CONTINUED)

The Group's interests in its principal associates and joint ventures designated as at fair value through profit or loss were as follows:

	Principal place of business / Country of registration	Activity	2018		2017	
			Carrying amount	Ownership percentage	Carrying amount	Ownership percentage
Investments in joint ventures						
T2 (Netherlands) B.V.	Russia/Netherlands	Telecom	53.5	50.00%	53.5	50.00%
Total investments in joint ventures designated as at fair value through profit or loss			53.5		53.5	
Investments in associates						
“Burger King Russia (Cyprus)”, Ltd	Russia/Cyprus	Fast food	7.6	19.98%	5.6	19.98%
“Thalita Trading”, Ltd	Russia/Cyprus	Transport	4.1	25.01%	3.1	25.01%
Lagartino Partners Inc.	Virgin Islands	Services	–	–	1.5	22.50%
Viva Telecom (Luxembourg) S.A	Bulgaria/Luxembourg	Telecom	4.8	19.99%	2.8	19.99%
Bashkirian concession company, LLC	Russia/Russia	Construction	0.4	49.90%	0.2	49.90%
Northern Capital Highway LLC	Russia/Russia	Construction	0.3	50.00%	–	50.00%
Total investments in associates designated as at fair value through profit or loss			17.2		13.2	

In November 2018 VTB Capital sold 22.5% investment in Lagartino Partners Inc., classified as investment in associate designated as at fair value through profit or loss, to a non-related party for the total consideration of RUR 1.7 billion with RUR 0.2 billion gain recognized.

Summarized financial information of material investments in associates and joint ventures designated as at fair value through profit or loss based on its consolidated IFRS financial statements is as follows:

T2 (Netherlands) B.V.	2018	2017
Current assets	10.3	9.9
• including cash and cash equivalents	0.4	1.2
Non-current assets	237.8	228.6
Current liabilities	64.8	59.0
• including interest-bearing loans and borrowings	34.0	33.8
Non-current liabilities	107.8	106.7
• including interest-bearing loans and borrowings	89.1	89.3
Net assets	75.5	72.8
Revenue	143.2	123.0
Cost of sales	(71.1)	(63.5)
Selling, general and administrative expenses	(28.4)	(29.5)
Depreciation and amortisation charge	(27.1)	(23.2)
Other operating income	0.8	1.0
Other operating expense	(1.0)	(0.6)
Interest income	0.2	0.1
Interest expense	(13.1)	(14.6)
Income tax benefit	(1.0)	1.7
Net profit/(loss) from continuing operations	2.7	(5.6)
"Burger King Russia (Cyprus)", Ltd		
Current assets	4.6	2.3
• including cash and cash equivalents	0.7	0.5
Non-current assets	13.4	11.4
Current liabilities	7.8	3.0
• including interest-bearing loans and borrowings	3.5	1.4
Non-current liabilities	8.5	5.3
• including interest-bearing loans and borrowings	8.2	5.3
Net assets	1.7	5.4
Revenue	38.8	29.1
Cost of sales	(33.1)	(25.0)
Selling, general and administrative expenses	(1.2)	(1.2)
Depreciation and amortisation charge	(2.5)	(1.6)
Other operating income	0.1	0.6
Other operating expense	(0.2)	(0.2)
Interest expense	(0.7)	(0.7)
Income tax expense	(0.4)	(0.1)
Net profit from continuing operations	0.8	0.9

49. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES (CONTINUED)

The Group's interests in its principal associates and joint ventures accounted under equity method were as follows:

	Principal place of business / Country of registration	Activity	2018		2017	
			Carrying amount	Ownership percentage	Carrying amount	Ownership percentage
Investments in associates						
Magnit, PJSC	Russia	Retail trade	88.6	17.28%	n/a	n/a
“Moscovsky Metrostroy”, JSC	Russia	Construction	13.1	49.00%	25.6	49.00%
RCB Bank Ltd.	Cyprus	Banking	20.5	46.29%	15.6	46.29%
Sogaz, JSC	Russia	Insurance	56.4	10.00%	n/a	n/a
“Novorossiysk Grain Plant”, PJSC	Russia	Transshipment and resale of grain	4.9	29.90%	n/a	n/a
“Eurofinance Mosnarbank”, OJSC	Russia	Banking	2.8	25.00%	2.9	25.00%
“Russ Out of Home”, BV	Russia / Netherlands	Mass media	1.9	26.43%	2.0	26.43%
“Group Technoserv”, LLC	Russia	Information technologies	-	40.00%	n/a	n/a
“United Electronic Market Place”, OJSC	Russia	Information technologies	0.6	48.18%	0.5	48.18%
Branch Centre for Elaboration and Maintenance of Information Systems Ltd	Russia	Information technologies	0.1	25.00%	n/a	n/a
Total investments in associates accounted under equity method			188.9		46.6	
Investments in joint ventures						
“Post Bank”, PJSC	Russia	Banking	17.4	50.00% minus 1 share	n/a	n/a
“Vietnam-Russia Joint Venture Bank”	Vietnam	Banking	4.4	50.00%	3.7	50.00%
National Logistics Technologies, JSC	Russia	Other services	1.1	49.99%	n/a	n/a
“Gelendzhik Airport”, LLC	Russia	Transport	0.6	49.50%	n/a	n/a
“VTB Capital I2BF JVC (Cayman)”, Ltd	Russia and Kazakhstan / Cayman Islands	Finance	0.1	50.00%	0.1	50.00%
Total investments in joint ventures accounted under equity method			23.6		3.8	

In February 2018, the Group acquired 29.10% of ordinary shares of "Magnit", PJSC for 138.2 billion RUR. In April 2018, the Group sold 11.82% of shares in "Magnit", PJSC to a non-related party. Although the Group's share in "Magnit", PJSC has decreased below 20%, the Group has retained significant influence over "Magnit", PJSC due to its ability to appoint members of the board of directors. "Magnit", PJSC and its subsidiaries operate in the retail and distribution of consumer goods, retail operations are performed through convenience stores, cosmetic stores, hypermarkets and other.

In June 2018, the Group acquired 40.0% ownership interest in "Group Technoserv", LLC. Technoserv Group is a Russian system integrator focusing on system integration, cloud services, information security, network technologies and multimedia solutions. The Group exercises significant influence over the investee and accounts for it as an investment in associate under the equity method.

In August 2018, as a result of loan settlement, the Group acquired a 29.9% ownership interest in "Novorossiysk Grain Plant", PJSC. Novorossiysk Grain Plant is a deep-sea terminal located on the Black Sea coast in Krasnodar region engaged in grain transshipment, resale of grain and other trading activities. The Group exercises significant influence over the investee and accounts for it as an investment in associate under the equity method.

In April 2018, the Group completed the acquisition of a share in "Gelendzhik Airport" LLC, as a result of which the Bank became the owner of 49.5% of the company's shares.

At 31 December 2018 the Group accounted for the investment in "Post Bank", PJSC as the investment into a joint venture accounted under the equity method (Note 48).

As at 31 December 2018 the Group identified signs of impairment for the investment in "Moscovsky Metrostroy", JSC. The Group recognised impairment loss in the amount of RUB 11.8 billion in the accompanying consolidated income statement. The recoverable value of the investment was determined based on DCF model provided by independent appraisal company.

In September 2018, under the joint control of the VTB Group and Russian Post the company National Logistics Technologies, JSC was established. In December 2018, the VTB Group made an investment in the company's capital equivalent to a 49.99% share in the amount of RUB 1.1 billion.

49. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES (CONTINUED)

Summarized financial information of material investments in associates and joint ventures accounted under equity method based on its consolidated IFRS financial statements is as follows:

Magnit, PJSC	2018	
Current assets		228.1
• including cash and cash equivalents		26.7
Non-current assets		146.1
Current liabilities		234.9
• including interest-bearing loans and borrowings		
Non-current liabilities		156.8
• including interest-bearing loans and borrowings		93.8
Net assets		(17.7)
Revenue		948.5
Income tax benefit		(6.1)
Net loss from continuing operations		21.8
Share of the Group in change of net assets		4.9
Carrying value of investment in associate		88.6
"Post Bank", PJSC	2018	
Total assets		360.0
Including:		
• cash and short-term funds		29.2
• due from other banks		47.1
• loans and advances to customers		264.0
Total liabilities		329.5
Including:		
• due to other banks		-
• customer deposits		315.3
Net assets		30.6
Interest income		14.4
Net interest income and net fee income		11.5
Depreciation and amortisation		(0.4)
Net profit from continuing operations		1.0
Other comprehensive income		-
Total comprehensive income		1.0
Dividends paid		-
Share of the Group in change of net assets		0.5
Carrying value of investment in associate and joint venture		17.4
Dividends received		-
"Moscovsky Metrostroy", JSC	2018	2017
Current assets	26.2	30.3
• including cash and cash equivalents	2.8	1.3
Non-current assets	13.5	15.6
Current liabilities	42.0	49.4
• including interest-bearing loans and borrowings	12.8	12.8
Non-current liabilities	3.9	1.5
• including interest-bearing loans and borrowings	-	-
Net assets	(6.3)	(5.0)
Revenue	33.3	24.3
Cost of sales	(9.3)	(23.6)
Selling, general and administrative expenses	(2.7)	(2.0)
Other operating income	0.1	2.9
Other operating expense	(4.3)	(3.3)
Interest expense	(0.7)	(1.3)
Income tax loss	(0.6)	0.5
Net loss from continuing operations	(2.0)	(2.5)
Share of the Group in change of net assets	(0.7)	(1.2)
Carrying value of investment in associate	13.1	25.6

49. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES (CONTINUED)

	2018		2017	
	RCB Bank Ltd.	"Eurofinance Mosnarbank", OJSC	RCB Bank Ltd.	"Eurofinance Mosnarbank", OJSC
Total assets	485.9	67.3	634.0	50.0
Including:				
• cash and short-term funds	80.4	7.6	137.6	6.3
• due from other banks	—	25.2	0.6	20.7
• loans and advances to customers	388.7	5.9	475.6	4.4
Total liabilities	441.7	56.0	600.4	38.5
Including:				
• due to other banks	252.7	31.0	368.6	16.3
• customer deposits	169.8	24.2	207.9	19.5
Net assets	44.2	11.4	33.6	11.5
Net interest income and net fee income	11.1	1.3	14.4	1.8
Net profit from continuing operations	4.9	0.5	5.8	(1.6)
Other comprehensive income	7.0	(0.6)	(1.7)	1.5
Total comprehensive income	11.9	(0.1)	4.1	(0.1)
Dividends paid	0.6	0.1	2.4	0.1
Share of the Group in change of net assets	5.5	-	1.9	-
Carrying value of investment in associate and joint venture	20.5	2.8	15.6	2.9

Summarized financial information of material investments in joint ventures accounted under equity method as at 31 December 2018 and 31 December 2017 is follows:

	2018	2017
	"Vietnam-Russia Joint Venture Bank"	"Vietnam-Russia Joint Venture Bank"
Total assets	52.4	46.3
Including:		
• cash and short-term funds	4.1	3.3
• due from other banks	8.0	9.7
• loans and advances to customers	28.9	21.9
Total liabilities	43.6	39.0
Including:		
• due to other banks	18.4	16.8
• customer deposits	25.0	22.0
Net assets	8.8	7.4
Interest income	2.6	2.1
Net interest income and net fee income	0.6	0.7
Depreciation and amortisation	(0.1)	(0.1)
Net profit from continuing operations	0.5	0.1
Other comprehensive income	1.1	(0.3)
Total comprehensive income	1.5	(0.2)
Share of the Group in change of net assets	0.7	(0.1)
Carrying value of investment in associate and joint venture	4.4	3.7

The unrecognised share of losses of associates for 2018 and cumulatively at 31 December 2018 was RUR nil and RUR 0.4 billion, respectively (2017 and cumulatively at 31 December 2017: RUR 0.5 billion and RUR 2.4 billion, respectively).

As at 31 December 2018, investment in associate in the amount of RUR 4.1 billion was pledged against the funds obtained by the subsidiary of that associate (31 December 2017: RUR 3.1 billion).

50. NON-CONTROLLING INTERESTS

The following table provides information about subsidiaries that has material to the Group non-controlling interest (the proportion of voting rights held by non-controlling interests is equal to the proportion of ownership interests held) as at 31 December 2018:

Name	Activity	Country of registration	Proportion of non-controlling interest	Accumulated non-controlling interest in the subsidiary	Profit/(loss) attributable to non-controlling interest	Dividends paid to non-controlling interest for the year
"Vozrozhdenie Bank", PJSC	Banking	Russia	15.00%	2.3	0.1	–
Banco VTB Africa S.A.	Banking	Angola	49.90%	1.8	0.9	(0.2)
CiTer Invest B.V.	Real Estate	Netherlands	49.50%	0.8	0.1	(3.3)
"Upravlyayuschaya kompaniya Dynamo", CJSC	Real Estate	Russia	25.00%	(11.6)	(3.6)	–

The Group has defined as material a non-controlling interest in subsidiaries in which it has less than 75% of the voting rights. Some subsidiaries, which net assets form the significant part of the Group's net assets, may also be included in the list even if the Group has more than 75% of voting rights.

The summarized financial information of these subsidiaries was as follows at 31 December 2018:

Name	Current assets	Non-current assets	Current liabilities	Non-current liabilities	Revenue	Net profit/(loss)	Total comprehensive income	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financial activities
"Vozrozhdenie Bank", PJSC	106.6	138.3	187.2	42.7	7.8	0.5	0.4	(1.7)	20.4	(1.0)
Banco VTB Africa S.A.	20.5	0.2	13.0	4.0	3.5	1.8	0.3	4.4	–	(0.4)
CiTer Invest B.V.	2.5	0.3	1.3	–	1.8	0.2	0.2	(10.7)	–	(4.9)
"Upravlyayuschaya kompaniya Dynamo", CJSC	40.0	51.0	23.4	113.9	4.9	(14.4)	(14.4)	19.0	(19.4)	–

In September 2018, resulting of loss of control over "Post Bank", PJSC and over "Multicarta", LLC the Group derecognized non-controlling interests in the amount of RUR 15.3 billion (Note 47).

The following table provides information about subsidiaries that has material to the Group non-controlling interest (the proportion of voting rights held by non-controlling interests is equal to the proportion of ownership interests held) as at 31 December 2017:

Name	Activity	Country of registration	Proportion of non-controlling interest	Accumulated non-controlling interest in the subsidiary	Impact of adopting IFRS 9 at 1 January 2018 (Note 3)	Profit/(loss) attributable to non-controlling interest	Dividends paid to non-controlling interest for the year
"Post Bank", PJSC	Banking	Russia	50% plus 1 share	13.7	(3.1)	0.7	–
Banco VTB Africa S.A.	Banking	Angola	49.90%	1.9	–	1.2	(0.8)
CiTer Invest B.V.	Real Estate	Netherlands	49.50%	4.0	–	2.5	–
"Upravlyayuschaya kompaniya Dynamo", CJSC	Real Estate	Russia	25.00%	(8.0)	–	(3.8)	–
"Hals-Development", OJSC	Real Estate	Russia	1.89%	(0.7)	–	–	–

The summarized financial information of these subsidiaries was as follows at 31 December 2017:

Name	Current assets	Non-current assets	Current liabilities	Non-current liabilities	Revenue	Net profit/(loss)	Total comprehensive income	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financial activities
"Post Bank", PJSC	80.6	166.9	172.6	47.5	34.1	1.5	1.5	(3.4)	–	6.7
Banco VTB Africa S.A.	18.2	0.3	10.8	3.9	2.6	2.3	2.0	7.5	–	–
CiTer Invest B.V.	21.2	1.9	15.1	–	15.4	5.0	5.0	(3.7)	19.3	(6.3)
"Upravlyayuschaya kompaniya Dynamo", CJSC	4.5	74.3	3.3	107.4	(6.7)	(15.3)	(15.3)	12.4	(13.6)	–
"Hals-Development", OJSC	34.2	66.5	58.2	77.1	(4.0)	4.7	4.7	(0.8)	30.2	(25.2)

50. NON-CONTROLLING INTERESTS (CONTINUED)

The impact of adopting IFRS 9 and IFRS 15 on summarized financial information of these subsidiaries was as follows at 1 January 2018 (Note 3):

Name	Current assets	Non-current assets	Current liabilities	Non-current liabilities
"Post Bank", PJSC	(7.8)	1.6	–	–
"Upravlyayuschaya kompaniya Dynamo", CJSC	–	2.8	–	2.8
"Hals-Development", OJSC	–	(0.2)	–	(0.3)

51. INTERESTS IN STRUCTURED ENTITIES

The Group issues eurobonds and subordinated eurobonds through a number of consolidated structured entities incorporated in OECD countries.

As at 31 December 2018 interests in structured entities include:

Name	Country of registration
VTB Capital S.A	Luxembourg

As at 31 December 2018 the Group guarantees all external obligations of these entities represented by the eurobonds issued in the amount of RUR 59.6 billion and by the subordinated eurobonds issued in the amount of RUR 110.3 billion (31 December 2017: eurobonds issued in the amount of RUR 161.1 billion and subordinated Eurobonds issued in the amount of RUR 91.5 billion).

The Group also guarantees payments of the amounts under Perpetual Loan Participation Notes when due. (Note 39).

The Group issues mortgage-backed securities and purchases right of claims under mortgage through a consolidated structured entity performing its activity as mortgage agent.

During 2018 and 2017 the Group did not provide any other financial support to the consolidated structured entities. The Group has no current obligation or intention to provide financial or other support to consolidated structured entities, or to assist the structured entities in obtaining financial support.

OFF BALANCE-SHEET ITEMS

52. CONTINGENCIES AND COMMITMENTS	137
53. SUBSEQUENT EVENTS	140

52. CONTINGENCIES AND COMMITMENTS**LEGAL PROCEEDINGS**

From time to time and in the normal course of business, claims against the Group are received. As at the reporting date the Group had several unresolved legal claims. Management assessed probable outflow of resources and the respective provision has been made as at 31 December 2018 and 31 December 2017.

The movements in provisions for legal claims recorded in liabilities were as follows:

2016	0.5
Reversal of provision during the period	(0.5)
Effect of translation	0.1
2017	0.1
Provision during the period	0.8
Acquisition of subsidiaries	0.7
Write-offs	(0.4)
Effect of translation	(0.1)
2018	1.1

As at 31 December 2018, the Group was involved in several legal cases related to its borrowers which are currently undergoing bankruptcy procedures. In these cases, the bankruptcy trustees' claims against the Group aggregate RUR 4.2 billion (31 December 2017: RUR 3.9 billion). The Group intends to defend itself vigorously. Management views the risk of loss from these legal cases as possible but not probable, therefore, no provision for these legal claims is made in these consolidated financial statements

TAX CONTINGENCIES

Major part of the Group's business activity is carried out in the Russian Federation. Russian tax, currency and customs legislation as currently in effect is vaguely drafted and is subject to varying interpretations, selective and inconsistent application and changes, which can occur frequently, at short notice and may apply retrospectively. Management's interpretation of such legislation as applied to the transactions and activities of the Group may be challenged by the relevant state authorities.

The Russian transfer pricing legislation as currently in effect allows the Russian tax authorities to apply transfer pricing adjustments and impose additional profits tax and VAT liabilities in respect of all "controlled" transactions if the transaction price differs from the market level of prices unless the Group is able to demonstrate the use of market prices with respect to the "controlled" transactions supported by the appropriate transfer pricing documentation and proper reporting to the Russian tax authorities. For the years ended 31 December 2018 and 31 December 2017 the Group determined its tax liabilities arising from controlled transactions using actual transaction prices.

Apart from the Russian Federation, the Group also operates in a number of foreign jurisdictions. The Group

includes companies incorporated outside of Russia that are taxed pursuant to the provisions of the tax legislation of the jurisdictions of tax residence of the respective companies. Tax liabilities of the foreign companies of the Group are determined on the basis that non-Russian companies of the Group do not qualify as Russian tax residents, do not have a permanent establishment in Russia and hence are not subject to Russian profits tax except for Russian tax withheld at source (i.e. dividend, interest, certain capital gains, etc.).

Effective 1 January 2015 the concepts of "tax residency" for foreign legal entities, "beneficial owner of income" and rules for taxation of undistributed profit of controlled foreign companies in Russia were introduced into the Russian tax legislation.

The practice for application of these concepts is currently being developed, and the respective provisions of the Russian Tax Code undergo frequent revisions and are subject to varying interpretations by the tax authorities. So far, since 2015, there has been a number of relevant changes and additions to the Russian Tax Code, including those that have been applied retrospectively.

The introduction and frequent revision of these concepts generally leads to an increase in the administrative (including tax) burden for the Russian entities that have subsidiary and affiliated structures incorporated outside of Russia.

Russian tax laws related to the rules for taxation of foreign companies are quite unclear. It is possible that with the evolution of these rules and changes in the approach of the Russian tax authorities and courts as to their interpretation and application, the non-taxable status of some or all of the foreign companies of the Group in Russia may be challenged, in which case the foreign companies may be taxed according to the rules similar to the rules applicable to the Russian entities.

The recent trends in law enforcement practice in taxation indicate that the tax authorities and courts are taking assertive positions in their interpretation of the tax legislation and, as a result, it is possible that transactions and activities that have not been challenged in the past may be challenged in the future. As such, taxpayers may be subject to significant additional taxes, fines and late payment interest.

Fiscal periods remain open and subject to review by the Russian tax authorities for a period of three calendar years immediately preceding the year in which the decision to conduct a tax review is taken. Under certain circumstances tax reviews may cover longer periods.

As at 31 December 2018 and 31 December 2017, management believes that its interpretation of the relevant legislation is appropriate and that the Group's tax, currency and customs positions should be sustained vis-a-vis tax authorities and courts.

52. CONTINGENCIES AND COMMITMENTS (CONTINUED)**CREDIT RELATED COMMITMENTS**

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees, including performance guarantees, represent irrevocable assurances that the Group will make payments in the event that a customer cannot meet its obligations to third parties. Documentary and commercial letters of credit (L/Cs), which are written undertakings by the Group on behalf of a customer authorizing a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions, are collateralized by cash deposits and therefore carry less risk than direct borrowings.

Commitments to extend credit represent unused portions of authorizations 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

Outstanding credit related commitments are as follows:

	2018	2017
Financial guarantees issued	71.5	416.6
Import letters of credit	46.2	46.6
Undrawn credit lines (irrevocable)	32.2	21.5
Commitments to extend credit (irrevocable)	2.7	3.7
Less: provision for credit related commitments	(2.0)	(4.1)
Total credit related commitments	150.6	484.3

According to the requirements of IFRS 9 the Group calculates ECL for all types of undrawn credit lines and commitments to extend credit – revocable and irrevocable (Note 44).

As at 31 December 2018 revocable commitments to extend credit and revocable undrawn credit lines amounted to RUR 2,423.7 and 480.2 billion with the loss allowance of RUR 9.5 and 3.5 billion respectively. The loss allowance is disclosed within provision for credit related commitments.

potentially exposed to loss in an amount equal to the total unused commitments. 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 and/or the Bank confirming its willingness to extend a loan.

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.

The total outstanding contractual amount of irrevocable undrawn credit lines, letters of credit and guarantees does not necessarily represent future cash requirements, as these financial instruments may expire or terminate without being funded.

The Bank has received export letters of credit for further advising to its customers. The total amount of received letters of credit as at 31 December 2018 is RUR 160.6 billion (31 December 2017: RUR 165.0 billion).

Commitments under import letters of credit and guarantees are collateralized by customer deposits of RUR 39.7 billion (31 December 2017: RUR 386.5 billion) (Note 33).

As at 31 December 2018, the 10 largest groups of interrelated customers accounted for RUR 270.3 billion or 39.2 % of the guarantees issued (31 December 2017: RUR 579.3 billion or 58.8% of the guarantees issued).

52. CONTINGENCIES AND COMMITMENTS (CONTINUED)

The movements in loss allowance for loan commitments, financial guarantees and letters of credit were as follows (comparative amounts for 2017 reflect measurement basis under IAS 37):

	2018			2017	
	12-month ECL	Lifetime ECL not credit- impaired	Lifetime ECL credit- impaired	Total	Total
Financial guarantees					
Balance at 1 January	0.2	–	2.6	2.8	3.8
Transfer to 12-month ECL	0.2	(0.1)	(0.1)	–	n/a
Transfer to lifetime ECL not credit-impaired	–	–	–	–	n/a
Net remeasurement of loss allowance	–	0.2	(0.3)	(0.1)	–
Write-offs	–	–	(1.5)	(1.5)	–
Foreign exchange	(0.1)	0.1	0.1	0.1	–
Balance at 31 December	0.3	0.2	0.8	1.3	3.8
Loan commitments and letters of credit					
Balance at 1 January	3.0	2.2	0.2	5.4	0.8
Transfer to 12-month ECL	1.3	(1.2)	(0.1)	–	n/a
Transfer to lifetime ECL not credit-impaired	(0.8)	0.8	–	–	n/a
Transfer to lifetime ECL credit-impaired	(0.2)	–	0.2	–	n/a
Net remeasurement of loss allowance	0.6	7.5	(0.3)	7.8	(0.5)
Acquisition of subsidiary	0.3	–	–	0.3	–
Recoveries of amounts previously written off	0.1	–	–	0.1	–
Foreign exchange	0.2	–	0.3	0.1	–
Balance at 31 December	4.1	9.3	0.3	13.7	0.3

ECL for credit-related commitments and financial guarantees are recorded within other financial liabilities.

PERFORMANCE GUARANTEES

Performance guarantees are contracts that provide compensation if another party fails to perform a contractual obligation. Performance guarantees are initially recognised at their fair value, which is normally evidenced by the amount of fees received. This amount is amortised on a straight line basis over the life of the contract.

Performance guarantees do not transfer credit risk. The risk under performance guarantee contracts is the possibility that the failure to perform the contractual obligation by another party occurs.

As at 31 December the Group has provided performance guarantees in the gross amount of RUR 618.5 billion (31 December 2017: RUR 568.7 billion).

The movements in provision for performance guarantees were as follows:

	2018	2017
Balance at 1 January	16.7	14.7
Net remeasurement of loss allowance	(2.6)	2.8
Write-offs	(5.2)	(2.8)
Acquisition of subsidiary	1.3	–
Foreign exchange	0.1	0.1
Balance at 31 December	10.3	14.8

Provisions for performance guarantees are recorded within other non-financial liabilities.

As at 31 December 2018, the Group was involved in a number of legal cases with claims in the total amount of RUR 3.3 billion (31 December 2017: RUR 16.0 billion)

related to issued performance guarantees. The Group contests the validity or amount of the claims made by the beneficiaries and has created the provision in the amount of RUR 2.6 billion (31 December 2017: RUR 10.9 billion), which is the Group's best estimate of the loss under these guarantees.

52. CONTINGENCIES AND COMMITMENTS (CONTINUED)

COMMITMENTS UNDER OPERATING LEASES

The Group's commitments under operating leases mainly of premises comprised the following:

	2018	2017
Remaining contractual maturity		
Within 1 year	9.7	10.8
From 1 to 5 years	34.5	31.0
More than 5 years	16.0	19.9
Total operating lease commitments	60.2	61.7

COMMITMENTS UNDER CONSTRUCTION CONTRACTS

The Group has entered into agreements with third parties for construction of investment property objects or properties intended for sale which will require capital outlays subsequent to 31 December 2018.

The Group's future minimum capital expenditures and respective expected periods of expenditures related to investment property or property intended for sale in the ordinary course of business under construction in progress or development:

	2018			2017		
	Premises and Equipment in operating lease	Investment property	Property intended for sale in the ordinary course of business	Premises and Equipment in operating lease	Investment property	Property intended for sale in the ordinary course of business
Expected period of expenditure						
Within 1 year	—	3.7	18.6	31.7	7.5	34.2
From 1 to 5 years	—	13.3	10.2	—	2.3	12.9
More than 5 years	—	—	—	—	—	0.1
Total future minimum capital expenditures	—	17.0	28.8	31.7	9.8	47.2

PURCHASE COMMITMENTS

As at 31 December 2018 the Group had RUR 116.8 billion of outstanding commitments for the purchase of precious metals (31 December 2017: RUR 63.3 billion). As the price of these contracts is linked to the fair value of precious metals at the date of delivery, no gain or loss is recognised on these contracts.

53. SUBSEQUENT EVENTS

“Sarovbusinessbank”, PJSC: In January 2019 the Group purchased 81.1% of the ordinary shares of “Sarovbusinessbank”, PJSC. The share capital acquired will be redefined as a result of the mandatory share purchase offer to the minority shareholders. The initial accounting for this acquisition is incomplete as at the date of these financial statements and the Group expects to complete its identification and measurement of the various components of the business combination as of the acquisition date by 31 December 2019.

“Zapsibcombank”, PJSC: In January 2019 the Group purchased 71.8% of ordinary shares of the “Zapsibcombank PJSC, 20.0% of preference shares with the stated dividends of 30% per annum and 18.8% of preference shares with the stated dividends of 100% per annum. The share capital acquired will be redefined as a result of the mandatory share purchase offer to the minority shareholders. The initial accounting for this acquisition is incomplete as at the date of these financial statements and the Group expects to complete its identification and measurement of the various components of the business combination as of the acquisition date by 31 December 2019.

In January 2019, VTB Bank obtained legal title to 83 512 622 EN+ Group plc shares, which will ultimately be used to settle loan and other financial obligations of certain borrowers to the Group, and has transferred voting rights in respect of these shares to an independent third party.

In February 2019, as a result of loan settlement the Group acquired a 50.0% -1 share ownership interest in JSC “United Grain Company” with estimated fair value of RUR 9.7 billion. The Group exercises significant influence over the investee and accounts for it as an investment in associate under the equity method. JSC “United Grain Company” is an agri-food company with the state participatory interest that focuses on the development and operation of the grain market infrastructure facilities, sales of the Russian grain in the global market, trade and purchase activities in the domestic grain market.

In February 2019, the Group acquired 80% of the JSNPF “Magnit”.

OTHER INFORMATION

54. RELATED PARTY TRANSACTIONS	142
55. OFFSETTING OF FINANCIAL INSTRUMENTS	144
56. SHARE-BASED PAYMENTS	146
57. BASIC AND DILUTED EARNINGS PER SHARE.....	147
58. TRANSFERS OF FINANCIAL ASSETS AND ASSETS HELD OR PLEDGED AS COLLATERAL.....	147
59. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES.....	150
60. ADOPTION OF NEW OR REVISED STANDARDS AND INTERPRETATIONS	170
61. CHANGES IN PRESENTATION	171

54. RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions as defined by IAS 24, *Related Party Disclosures*. In considering each possible related

party relationship, attention is directed to the substance of the relationship, not merely the legal form. A government-related entity is an entity that is controlled, jointly controlled or significantly influenced by a government.

Transactions and balances with related parties comprise transactions and balances with Russian government-related entities and associates and joint ventures and are stated in the tables below (summarized financial information of material investments in associates and joint ventures is provided in Note 49):

Statement of financial position

	2018			2017		
	Government-related entities	Associates	Joint ventures	Government-related entities	Associates	Joint ventures
Assets						
Cash and short-term funds	355.8	0.1	–	219.3	2.5	–
Mandatory cash balances with central banks	102.8	–	–	90.1	–	–
Trading financial assets	199.7	–	–	168.6	–	–
Derivative financial assets	87.2	–	–	67.5	0.6	–
Due from other banks	318.0	258.6	7.6	308.2	355.5	–
Less impairment loss allowance	(0.2)	(0.1)	–	(18.3)	–	–
Loans and advances to customers	2,137.4	170.6	90.6	1,869.9	166.8	84.7
Less impairment loss allowance	(20.0)	(7.7)	(0.3)	(13.9)	(6.2)	(0.8)
Investment financial assets	240.5	–	–	220.6	–	–
Other assets	16.5	0.2	0.4	19.2	0.2	–
Liabilities						
Due to other banks	826.0	255.1	22.4	257.1	350.1	0.1
Customer deposits	3,045.4	106.9	11.5	2,903.1	51.5	–
Derivatives financial liabilities	22.0	–	0.1	22.2	–	–
Other borrowed funds	156.2	–	–	165.3	0.1	–
Liabilities of disposal group held for sale	–	–	–	1.3	–	–
Subordinated debt	101.2	–	–	101.7	–	–
Other liabilities	12.3	0.9	0.1	31.2	0.5	–
Credit related commitments						
Financial guarantees issued	11.9	0.7	2.7	23.1	0.8	0.9
Performance guarantees issued	307.9	14.3	0.3	257.4	18.1	–
Import letters of credit	3.6	–	0.7	3.5	–	0.7
Undrawn credit lines (irrevocable)	–	–	–	–	0.7	–
Commitments to extend credit	1.2	–	–	1.8	–	–

54. RELATED PARTY TRANSACTIONS (CONTINUED)**Income statement**

	2018			2017		
	Government-related entities	Associates	Joint ventures	Government-related entities	Associates	Joint ventures
Interest income calculated using the effective interest method						
Financial assets measured at amortised cost						
Loans and advances to customers	125.2	14.9	7.6	204.2	15.0	8.6
Due from other banks	22.2	5.9	—	25.8	4.9	—
Other financial assets, including securities	18.0	—	—	17.8	—	—
Other interest income						
Financial assets at fair value through profit or loss	12.8	—	—	7.9	—	—
Net investments in finance lease	3.9	—	—	3.1	—	—
Interest expense						
Due to other banks and other borrowed funds	(48.4)	(15.1)	(1.7)	(57.3)	(21.2)	—
Customer deposits	(155.4)	(1.8)	—	(175.6)	(1.8)	—
Subordinated debt	(5.1)	—	—	(8.3)	—	—
Provision for credit losses						
(Provision charge) / reversal of provision for credit losses on debt financial assets	0.2	0.2	—	(18.8)	(0.4)	—
(Provision charge) / reversal of provision for credit losses on credit related commitments	—	(0.5)	—	(1.0)	0.3	—

The key management personnel includes certain senior members (executive body) of the Group Management Committee, Heads of Global Business Lines, all members of the Management Board of VTB Bank, as well as all members of the Supervisory Council of VTB Bank and their aggregate remuneration for the year ended 31 December 2018 amounted to RUR 3.7 billion (for year ended 31 December 2017: RUR 3.8 billion). Compensation of key management personnel consists primarily of short-term employee benefits, including pension contributions.

Under the Group's updated policy of key management personnel remuneration, starting from 2017 the

Management Board of VTB Bank receives 60% of the annual bonus in cash, and 40% is deferred for the period of 3 years. The deferred amount is paid in three equal instalments in one, two and three years after the grant date, subject to the certain non-vesting conditions. Half of the deferred amount is paid in cash and another half is paid under a cash-settled share based payment plan (Note 56). The share-based payment expense for 2018 was RUR 0.4 billion (2017: RUR 0.3 billion). As at 31 December 2018 the liability arising from cash-settled share-based payment transaction totalled RUR 0.6 billion (31 December 2017: RUR 0.3 billion) and was recognized in Other liabilities (Note 37).

55. OFFSETTING OF FINANCIAL INSTRUMENTS

The tables below show financial assets offset against financial liabilities and financial liabilities offset against financial assets in the statement of financial position, as well as the effect of enforceable master netting agreements and similar arrangements that does not result in an offset in the statement of financial position as at 31 December 2018:

Assets (gross before allowance for impairment)	Gross amount of recognised financial assets	Gross amount of recognised financial liabilities set off in the statement of financial position	Net amount of financial assets presented in the statement of financial position	Related amounts not set off in the statement of financial position		Net amount
				Financial instruments	Cash collateral received	
Reverse sale and repurchase agreements to maturity (Investment financial assets)	7.0	—	7.0	(7.0)	—	—
Investment financial assets, pledged under repurchase agreements	13.1	—	13.1	—	(2.2)	10.9
Derivative financial assets	202.5	—	202.5	(27.3)	—	175.2
Reverse sale and repurchase agreements with other banks	74.4	—	74.4	(55.0)	—	19.4
Reverse sale and repurchase agreements with legal entities and individuals	431.0	—	431.0	(126.4)	(0.6)	304.0
Total	728.0	—	728.0	(215.7)	(2.8)	509.5

Liabilities	Gross amount of recognised financial liabilities	Gross amount of recognised financial assets set off in the statement of financial position	Net amount of financial liabilities presented in the statement of financial position	Related amounts not set off in the statement of financial position		Net amount
				Financial instruments	Cash collateral pledged	
Sale and repurchase agreements with central banks	1.4	—	1.4	—	(1.4)	—
Sale and repurchase agreements with other banks (due to other banks)	315.6	—	315.6	(21.3)	(0.6)	293.7
Sale and repurchase agreements with customers (customer deposits)	37.4	—	37.4	(4.7)	(0.2)	32.5
Derivative financial liabilities	140.2	—	140.2	(27.3)	—	112.9
Total	494.6	—	494.6	(53.3)	(2.2)	439.1

55. OFFSETTING OF FINANCIAL INSTRUMENTS (CONTINUED)

The tables below show financial assets offset against financial liabilities and financial liabilities offset against financial assets in the statement of financial position, as well as the effect of enforceable master netting agreements and similar arrangements that does not result in an offset in the statement of financial position as at 31 December 2017:

Assets (gross before allowance for impairment)	Gross amount of recognised financial assets	Gross amount of recognised financial liabilities set off in the statement of financial position	Net amount of financial assets presented in the statement of financial position	Related amounts not set off in the statement of financial position		Net amount
				Financial instruments	Cash collateral received	
Trading financial assets, pledged under repurchase agreements	0.3	—	0.3	(0.2)	—	0.1
Reverse sale and repurchase agreements to maturity (Investment financial assets)	18.5	—	18.5	(18.5)	—	—
Investment financial assets, pledged under repurchase agreements	0.4	—	0.4	(0.4)	—	—
Derivative financial assets	175.6	—	175.6	(0.6)	—	175.0
Reverse sale and repurchase agreements with other banks	33.4	—	33.4	(33.2)	—	0.2
Reverse sale and repurchase agreements with legal entities and individuals	378.0	—	378.0	(358.4)	—	19.4
Loans to legal entities and individuals, except reverse sale and repurchase agreements	9,394.8	—	9,394.8	(210.3)	—	9,184.5
Total	10,001.0	—	10,001.0	(621.6)	—	9,379.2

Liabilities	Gross amount of recognised financial liabilities	Gross amount of recognised financial assets set off in the statement of financial position	Net amount of financial liabilities presented in the statement of financial position	Related amounts not set off in the statement of financial position		Net amount
				Financial instruments	Cash collateral pledged	
Sale and repurchase agreements with other banks (due to other banks)	0.9	—	0.9	(0.5)	—	0.4
Customer deposits, except sale and repurchase agreements	9,137.8	—	9,137.8	(210.3)	—	8,927.5
Sale and repurchase agreements with customers (customer deposits)	6.9	—	6.9	(0.1)	—	6.8
Derivative financial liabilities	134.0	—	134.0	(0.6)	—	133.4
Total	9,279.6	—	9,279.6	(211.5)	—	9,068.1

The Group has master netting arrangements with counterparty banks, which are enforceable in case of default. In addition, applicable legislation allows an entity to unilaterally set off trade receivables and payables that

are due for payment, denominated in the same currency and outstanding with the same counterparty. These fall in the scope of the disclosure as they were set off in the statement of financial position.

56. SHARE-BASED PAYMENTS

In February 2012, several VTB Group members introduced for their selected employees a share-based remuneration plan. This plan has established a right of those employees to receive common shares ("Shares Plan") or GDR ("GDRs Plan") of VTB (depending on the employing entity's country of incorporation) contingent on their service over a specified period of time.

In February 2013, 2014, 2015, 2016 and 2017 several VTB Group members made additional awards to their selected employees under the same plan rules and vesting conditions.

Shares Plan. The vesting conditions envisage that an employee remains in service for a certain vesting period to receive the shares award. The awarded shares vest gradually in three equal instalments over the vesting periods of one, two and three years, subject to employee's continuous employment with the Group during the relevant vesting period. An award, or portion of it, may be forfeited or paid if the employee terminates employment before the end of the relevant vesting period voluntarily or subject to certain other conditions as described in the Plan rules.

In February 2016 and 2017 several VTB Group members communicated to their selected employees that part of reward can be granted in the perpetual loan participation notes issued ("PLPNs"). Vesting conditions are the same as for the Share Plan above.

GDRs Plan. Under GDRs Plan, the selected employees are granted zero strike price options to purchase GDRs exercisable over ten years from each respective vesting date. The vesting conditions envisage that an employee remains in service for a certain vesting period to receive the GDRs award. The awarded GDRs vest gradually in three equal instalments over the vesting periods of one, two and three years, subject to employee's continuous employment with the Group during the relevant vesting period. An award, or portion of it, may be forfeited or exercised if the employee terminates employment before the end of the relevant vesting period voluntarily or subject to certain other conditions as described in the Plan rules.

Cash-settled Plan. In December 2017, VTB introduced a new remuneration plan for key management (Note 54). Under the plan, participants are granted cash-settled awards linked to VTB shares, which are settled in three equal instalments in one, two and three years after the grant date, subject to the certain non-vesting conditions.

As at 31 December 2018 the total value of the award granted under the Shares Plan was RUR 0.3 billion (31 December 2017: RUR 1.2 billion) represented by 4.7 billion of common shares of VTB (31 December 2017: 18.6 billion).

As at 31 December 2018 the total value of the award granted under the GDRs Plan was RUR 0.4 billion (31 December 2017: RUR 0.9 billion) represented by 2.3 million of GDRs of VTB (31 December 2017: 7.5 million). Each GDR contains 2,000 VTB shares.

As at 31 December 2018 the total value of the award granted under the Cash-Settled Plan was RUR 0.6 billion (31 December 2017: RUR 0.3 billion) represented by 2.2 million of common shares of VTB (31 December 2017: 5.5 billion of common shares of VTB).

As of 31 December 2018 the total value of award granted in perpetual loan participation notes is RUR 0.1 billion (31 December 2017: RUR 0.3 billion) represented by 13.3 million of loan participation notes (31 December 2017: 4.1 million).

For the year ended 31 December 2018 the Group recognised in Staff costs the amount of RUR 0.3 billion (31 December 2017: RUR 0.9 billion) as expenses related to the above equity-settled share-based payment transactions. For the year ended 31 December 2018 the Group recognised in Staff costs the amount of RUR 0.4 billion (31 December 2017: RUR 0.3 billion) as expenses related to the above cash-settled share-based payment transactions.

For the year ended 31 December 2018 and 31 December 2017 quantity of units under Share/GDRs Plan was determined as fixed monetary value communicated to employees on the grant date divided by a simple daily volume-weighted average price of shares/GDRs on the relevant stock exchange for the 30 days prior to the PSA execution/grant.

For the year ended 31 December 2018 several VTB Group members made a decision to offer Share Plan participants a one-time opportunity to convert unvested Awards in the form of Shares/GDRs/PLPNs to cash equivalent awards.

The quantity of converted instruments comprised 1.9 million of GDRs and 4.3 billion of common shares of VTB.

As at 31 December 2018 under the GDRs Plan 23.7 million GDRs were vested (31 December 2017: 20.2 million). As at 31 December 2018 the quantity of vested unexercised options comprised 2.0 million (31 December 2017: 1.7 million).

57. BASIC AND DILUTED EARNINGS PER SHARE

Basic earnings per share are calculated by dividing the net profit or loss attributable to ordinary shareholders of the parent by the weighted average number of ordinary shares in issue during the period, excluding the average number of ordinary shares purchased by the Group and held as treasury shares.

The Group has no dilutive potential ordinary shares; therefore, the diluted earnings per share are equal to basic earnings per share.

	2018	2017
Weighted average number of ordinary shares in issue	12,945,001,926,143	12,924,965,244,238
Net profit attributable to shareholders of the parent	179.2	120.3
Amounts paid on perpetual loan participation notes, net of tax	(11.0)	(9.8)
Total net profit attributable to shareholders of the parent	168.2	110.5
Basic and diluted earnings per share (expressed in Russian roubles per share)	0.01299	0.00855
Profit after tax from subsidiaries acquired exclusively with a view to resale	–	0.1
Basic and diluted earnings per share based on profit after tax from subsidiaries acquired exclusively with a view to resale (expressed in Russian roubles per share)	–	0.00001
Total net profit attributable to shareholders of the parent net of profit after tax from subsidiaries acquired exclusively with a view to resale	168.2	110.4
Basic and diluted earnings per share before profit after tax from subsidiaries acquired exclusively with a view to resale (expressed in Russian roubles per share)	0.01299	0.00854

58. TRANSFERS OF FINANCIAL ASSETS AND ASSETS HELD OR PLEDGED AS COLLATERAL

The Group transferred financial assets in transactions that did not qualify for derecognition. The following note provides a summary of financial assets which have been transferred in such a way that part or all of the transferred financial assets do not qualify for derecognition.

(a) Transfers that did not qualify for derecognition of the financial asset in its entirety

The table below shows the amount of assets pledged under sale and repurchases agreements which the Group entered into in the normal course of business as at 31 December 2018 and 31 December 2017. (Notes 22, 24, 25, 26, 32, 33 and 34.)

	2018			2017		
	Carrying amount of the assets	Carrying amount of the associated liabilities	Net position	Carrying amount of the assets	Carrying amount of the associated liabilities	Net position
Trading financial assets	31.3	29.4	1.9	0.3	0.5	(0.2)
Investment financial assets	13.2	12.4	0.8	0.4	0.4	–
Loans and advances to customers	25.9	22.3	3.6	–	–	–
Due from other banks	–	–	–	–	–	–
Total	70.4	64.1	3.6	0.7	0.9	(0.2)

In addition the Group has loans and advances with customers that did not qualify for derecognition with carrying amount of RUR 251.9 billion (31 December 2017: RUR 344.1 billion) and associated financial liabilities with carrying amount of RUR 251.9 billion (31 December 2017: RUR 344.1 billion).

58. TRANSFER OF FINANCIAL ASSETS AND ASSETS HELD OR PLEDGED AS COLLATERAL (CONTINUED)**(a) Transfers that did not qualify for derecognition of the financial asset in its entirety (continued)**

The table below shows the amount of securitization operations as at 31 December 2018 and 31 December 2017 which the Group enters into in the normal course of business.

	Note	2018			2017		
		Carrying amount of the assets	Carrying amount of the associated liabilities	Net position	Carrying amount of the assets	Carrying amount of the associated liabilities	Net position
Due from Central Bank ^(A)	24	1.1	0.8	0.3	1.0	1.0	–
Mortgage loans ^(A)	25	24.6	11.2	13.4	16.9	12.6	4.3
Car loans ^(B)	25	–	–	–	3.9	2.6	1.3
Total		25.7	12.0	13.7	21.8	16.2	5.6

(A) Starting from 2010, VTB (former “Bank VTB 24”, PJSC) participates in VEB Programme to support affordable housing projects using the mortgage. Under this Programme VTB issues mortgage-backed securities which are all bought by VEB. As at 31 December 2018 carrying amount of pledged assets under this Programme was RUR 12.9 billion, including RUR 11.8 billion of mortgage loans and RUR 1.1 billion on due from Central Bank of Russian Federation, amortized cost of issued mortgage-backed securities to RUR 9.3 billion.

As at 31 December 2018 carrying amount of pledged assets under securitization programme of the Vozrozhdenie Bank, PJSC was RUR 12.8 billion, amortized cost of issued mortgage-backed securities was RUR 2.7 billion.

(B) In January 2014, VTB (former “Bank VTB 24”, PJSC) arranged a structured transaction related to its car loan portfolio through a sale to a special purpose entity, which further attracted funds through secured loan deal in the amount of USD 200 million with the expected maturity in June 2018.

In October, 2018 the Group transferred a portfolio of mortgage loans in the amount of RUR 74.3 billion to LLC “Mortgage agent “DOM.RF” (“Factory MBS”), subsidiary of JSC “DOM.RF”, in exchange for the bonds with the same nominal value. As a part of securitization transaction, the Group entered into an interest rate swap with JSC “DOM.RF” and committed to repurchase defaulted loans until the cumulative losses on the portfolio

reach 15% of its nominal value. The Group continues to recognize the loans until these bonds are sold to third parties. As at 31 December 2018, the remaining loans with a carrying value of RUR 53.6 billion were included in loans to individuals. In December 2018, the Group sold bonds with a nominal value of RUR 21.1 billion, derecognized the corresponding loans and recognized a gain on sale of RUR 0.4 billion in gains less losses arising from sale of debt securities from loans portfolios of consolidated income statement.

In October, 2017 the Group transferred a portfolio of mortgage loans in the amount of RUR 48.8 billion to LLC “Mortgage agent “Factory MBS” (“Factory MBS”), subsidiary of JSC “DOM.RF” (former “The Agency for Housing Mortgage Lending” (“AHML”)), in exchange for the bonds with the same nominal value. As a part of securitization transaction, the Group entered into an interest rate swap with JSC “DOM.RF” and committed to repurchase defaulted loans until the cumulative losses on the portfolio reach 15% of its nominal value. The Group continues to recognize the loans until these bonds are sold to third parties. In December 2017, the Group sold bonds with a nominal value of RUR 44.1 billion, derecognized the corresponding loans and recognized a gain on sale of RUR 2.3 billion in gains less losses arising from sale of debt securities from loans portfolios of consolidated income statement. As at 31 December 2018, the remaining loans with a carrying value of RUR 2.5 billion (as at 31 December 2017: RUR 4.0 billion) were included in loans to individuals.

**58. TRANSFER OF FINANCIAL ASSETS AND ASSETS HELD OR PLEDGED AS COLLATERAL
(CONTINUED)****(b) Transfers that qualified for derecognition of the financial asset in its entirety**

The Group has certain transferred financial assets which have been derecognised in their entirety, but for which there is continuing involvement at the reporting date due to the representation on the board of directors and/or due to effectively holding collateral under transferred assets to secure remaining payments from third parties related to the transfer. The collateral fair value under transferred assets comprised 3.1 RUR billion as at 31 December 2018 (31 December 2017: RUR 3.1 billion). Proceeds from the transfer were fully received in several instalments with RUR 0.01 billion and RUR 1.5 billion received in 2014 and 2013 respectively. The gain recognised at the date of transfer comprised RUR 0.5 billion.

Assets pledged as collateral

The Group pledges assets that are on its statement of financial position in various day-to-day transactions that are conducted under the usual terms and conditions applying to such agreements. As at 31 December 2018 the Group pledged securities as collateral in repurchase agreements for RUR 44.6 billion (31 December 2017: RUR 0.7 billion). Refer to the section "(a) Transfers that did not qualify for derecognition of the financial asset in its entirety" above.

Assets held as collateral

The Group holds certain assets as collateral, which it is permitted to sell or repledge in the absence of default by the owner of the collateral, under the usual terms and conditions applying to such agreements. The Group received securities as collateral in reverse repurchase agreements with banks and customers (Notes 24, 25) and reverse sale and repurchase agreements to maturity accounted at fair value with a fair value of RUR 552.4 billion and RUR 8.9 billion (31 December 2017: RUR 466.1 billion and RUR 24.1 billion respectively). Of these, the Group sold securities with a fair value of RUR 22.1 billion (31 December 2017: RUR 35.4 billion) in short sale transactions and securities with a fair value of RUR 296.3 billion (31 December 2017: RUR 7.2 billion) under repurchase agreements.

In addition, the Group held RUR 39.7 billion of Customer deposits (31 December 2017: RUR 386.5 billion) as collateral for irrevocable commitments under import letters of credit (Note 33). The Group is obliged to return the collateral at maturity of the import letters of credit.

59. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES**Subsidiaries**

Subsidiaries are those investees, including structured entities, that the Group controls because the Group (i) has power to direct relevant activities of the investees that significantly affect their returns, (ii) has exposure, or rights, to variable returns from its involvement with the investees, and (iii) has the ability to use its power over the investees to affect the amount of investor's returns. The existence and effect of substantive rights, including substantive potential voting rights, are considered when assessing whether the Group has power over another entity. Subsidiaries are consolidated from the date, on which control is transferred to the Group (acquisition date) and are no longer consolidated from the date when control ceases. All intragroup balances and transactions, including income, expenses, dividends and unrealised gains on transactions between the Group members are eliminated in full; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Where necessary, accounting policies for subsidiaries have been changed to ensure consistency with the accounting policies adopted by the Group.

Acquisition of subsidiaries

The acquisition method of accounting is used to account for the acquisition of subsidiaries by the Group. Identifiable assets acquired and liabilities assumed, including contingent liabilities, which are a present obligation and can be measured reliably, are measured initially at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest.

The excess of the aggregate of: i) purchase consideration paid, ii) the amount of any non-controlling interest in the acquiree and iii) acquisition-date fair value of the acquirer's previously held equity interest in the acquiree (in case of the business combination achieved in stages), over the fair value of the acquiree's identifiable net assets is recorded as goodwill. If the result of the above calculation is negative, the difference is recognised directly in the income statement.

Non-controlling interest is the interest in subsidiaries not attributable, directly or indirectly to the Group. 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. This choice is made by the acquirer for each business combination. Non-controlling interests that are not present ownership interests are measured at fair value. Non-controlling interest at the subsequent reporting date represents the initially recognised amount of non-controlling interest at the acquisition date and the non-controlling interest's portion of movements in comprehensive income and equity since the date of the combination. Non-controlling interest is presented as a separate component within the Group's equity except for the non-controlling interests in mutual funds under the Group's control, which are accounted for within Group's liabilities.

In a business combination achieved in stages, the acquirer shall remeasure its previously held equity interest in the acquiree at its acquisition-date fair value and recognise the resulting gain or loss, if any, in profit or loss. Acquisition-related costs should be accounted for separately from the business combination and therefore recognised as expenses rather than included in goodwill. An acquirer should recognise at the acquisition date a liability for any contingent purchase consideration.

Increases in ownership interests in subsidiaries

The differences between the carrying values of net assets attributable to interests in subsidiaries acquired and the consideration given for such increases are charged or credited directly to retained earnings as a capital transaction.

Investments in associates and joint arrangements

Associates are entities over which the Group has significant influence (directly or indirectly), but not control, generally accompanying a shareholding of between 20 and 50 percent of the voting rights. Investments in associates are accounted for using the equity method of accounting, and are initially recognised at cost. The carrying amount of associates includes goodwill identified on acquisition less accumulated impairment losses, if any. Dividends received from associates reduce the carrying value of the investment in associates. Other post-acquisition changes in Group's share of net assets of an associate are recognised as follows: (i) the Group's share of profits or losses of associates is recorded in the consolidated profit or loss for the year as share of result of associates, (ii) the Group's share of other comprehensive income is recognised in other comprehensive income and presented separately, (iii) all other changes in the Group's share of the carrying value of net assets of associates are recognised in profit or loss within the share of result of associates. However, when the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

A joint venture exists where the Group has a joint arrangement with one or more parties to have rights to the net assets of the arrangement. The Group recognises interests in a joint venture using the equity method and applies the same accounting policies as those for investments in associates.

59. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)**Investments in associates and joint arrangements (continued)***Venture Capital Investments*

Investments in companies that are managed by a dedicated team within VTB Group, primarily involved in venture capital activities, as part of the Group's investment portfolio of securities at fair value through profit and loss and over which the Group may have significant influence are carried at fair value as permitted by IAS 28 which allows investments in associates and joint ventures that are held by venture capital organizations to be excluded from the scope of IAS 28 if these investments are upon initial recognition designated as at fair value through profit or loss or are classified as held for trading and accounted in accordance with IFRS 9. These venture capital investments of the Group are classified as investments in associates and joint ventures designated as at fair value through profit or loss and the changes in the fair value of such investments are accounted for similar to the changes in the fair value of financial assets designated as at fair value through profit or loss as described below, and is included in the gains less losses arising from financial instruments at fair value through profit or loss.

Structured entities

Structured entities are designed so that voting or similar rights are not the dominant factor in deciding who controls the entity. Judgement is also required to determine whether the substance of the relationship between the Group and a structured entity indicates that the structured entity is controlled by the Group.

The Group does not consolidate structured entities that it does not control. As it can sometimes be difficult to determine whether the Group does control a structured entity, management makes judgements about its exposure to the risks and rewards, as well as about its ability to make operational decisions for the structured entity in question. In many instances, elements are present that, considered in isolation, indicate control or lack of control over a structured entity, but when considered together make it difficult to reach a clear conclusion. Refer to Note 51 for further information about the Group's exposure to structured entities.

Disposals of subsidiaries, associates or joint ventures

When the Group ceases to have control or significant influence, any retained interest in the entity is remeasured to its fair value, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity, are accounted for as if the Group had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group shall reclassify the gain or loss from equity to

profit or loss (as a reclassification adjustment) when it loses control of the subsidiary. If a revaluation surplus previously recognised in other comprehensive income would be transferred directly to retained earnings on the disposal of the asset, the Group shall transfer the revaluation surplus directly to retained earnings when it loses control of the subsidiary.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to profit or loss, where appropriate.

Financial assets*Valuation of financial instruments*

All financial instruments are recognised initially at fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs are directly attributable to the acquisition or issue of the financial asset. In the normal course of business, the fair value of a financial instrument on initial recognition is the transaction price (that is, the fair value of the consideration given or received).

Subsequent to initial recognition, the fair values of financial instruments measured at fair value are measured in accordance with the Group's valuation methodologies, which are described in Notes 42, 45.

'Day 1' profit

Where the transaction price in a non-active market is different to the fair value from other observable current market transactions in the same instrument or based on a valuation technique with all material inputs observable, the Group immediately recognises the difference between the transaction price and fair value (a 'Day 1' profit) in the consolidated income statement. Any other differences are not recognised as "day 1" gain or loss but rather are amortized on a straight line basis over the term of the relevant financial asset or recognised in the consolidated income statement when the inputs become observable, or when the instrument is derecognised.

*Classification of financial assets**Policy applicable from 1 January 2018*

On initial recognition, a financial asset is classified as measured at: amortised cost, fair value through other comprehensive income or fair value through profit or loss.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at fair value through profit or loss:

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

59. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)**Financial assets (continued)***Classification of financial assets (continued)*

A debt instrument is measured at fair value through other comprehensive income only if it meets both of the following conditions and is not designated as at fair value through profit or loss:

- the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

All other financial assets are classified as measured at fair value through profit or loss.

In addition, on initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at fair value through other comprehensive income as at fair value through profit or loss if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Business model assessment

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

- the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Group's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and

- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Group's stated objective for managing the financial assets is achieved and how cash flows are realised.

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

Assessment whether contractual cash flows are solely payments of principal and interest

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

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

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

Reclassification of financial assets

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Group changes its business model for managing financial assets.

59. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)**Financial assets (continued)***Policy applicable before 1 January 2018**Classification of financial assets*

Financial assets in the scope of IAS 39 are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale financial assets, as appropriate.

Reclassification of financial assets

Non-derivative financial assets (other than those designated at fair value through profit or loss upon initial recognition) may be reclassified out of the fair value through profit or loss category in the following circumstances:

- financial assets that would have met the definition of loans and receivables at the date of reclassification (if the financial asset had not been required to be classified as held for trading) may be reclassified out of the fair value through profit or loss category if there is the intention and ability to hold the financial asset for the foreseeable future or until maturity; and
- financial assets (except financial assets that would have met the definition of loans and receivables at initial recognition) may be reclassified out of the fair value through profit or loss category and into another category in rare circumstances.

When a financial asset is reclassified as described in the above circumstances, the financial asset is reclassified at its fair value on the date of reclassification. Any gain or loss already recognised in the income statement is not reversed. The fair value of the financial asset on the date of reclassification becomes its new cost or amortized cost, as applicable.

Where financial assets have been reclassified out of the fair value through profit or loss category to the loans and receivables category, the effective interest rate determined at the date of reclassification is used to calculate any impairment losses.

Where financial assets have been reclassified out of the available-for-sale investment financial assets category to the loans and receivables category, the previous gain or loss that has been recognised in other comprehensive income shall be amortized through income statement within gains less losses from available-for-sale financial assets over the remaining life of the financial asset using the effective interest method.

*Financial assets at fair value through profit or loss**(a) Financial assets held for trading*

Financial assets classified as held for trading are included in the category 'financial assets at fair value through profit or loss'. Financial assets are classified as held for trading if they are acquired or generated for the purpose of selling in the near term. Derivatives are also classified as held for trading unless they are designated as and are effective hedging instruments. Gains or losses on financial assets held for trading are recognised in the income statement.

Financial assets held for trading, are either acquired for generating a profit from short-term fluctuations in price or trader's margin, or are securities included in a portfolio, in which a pattern of short-term trading exists. The Group may choose to reclassify a non-derivative financial asset held for trading out of the fair value through profit or loss category if the asset is no longer held for the purpose of selling it in the near term.

Non-derivative financial assets held for trading are carried at fair value. Interest earned on non-derivative debt financial assets held for trading is calculated using the coupon (contractual) interest rate, which approximates the effective interest rate, and is presented in the income statement as interest income. All elements of the changes in the fair value are recorded in the income statement as gains less losses from financial assets at fair value through profit or loss in the period, in which they arise.

(b) Financial assets designated as at fair value through profit or loss

Other financial assets at fair value through profit or loss are those designated irrevocably, at initial recognition, into this category. Management designates financial assets into this category only if (a) such classification eliminates or significantly reduces an accounting mismatch that would otherwise arise from measuring assets or liabilities or recognizing the gains and losses on them on different bases; or (b) a group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information on that basis is regularly provided to and reviewed by the Group's key management personnel as defined in IAS 24. Recognition and measurement of this category of financial assets is consistent with the above policy for securities held for trading and is in accordance with IAS 39.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and not classified or designated as at fair value through profit or loss upon initial recognition. Such assets are carried at amortized cost using the effective interest method. This cost is computed as the amount initially recognised minus principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between the initially recognised amount and the maturity amount. This calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums and discounts. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired, as well as through the amortization process.

59. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)**Financial assets (continued)***Loans and receivables (continued)*

Loans and receivables of acquired subsidiaries are initially recorded in the statement of financial position at their estimated fair value at the date of acquisition.

The Group may change the intention of holding certain loans and receivables for foreseeable future and intend to sell these items. In the above case the Group reclassifies these specific items from loans and receivables to available-for-sale financial assets. These reclassified assets are measured at fair value through other comprehensive income.

Held-to-maturity investments

Quoted on an active market non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Group has the positive intention and ability to hold to maturity. Investments intended to be held for an undefined period are not included in this category. Held-to-maturity investments are subsequently measured at amortized cost. For investments carried at amortized cost, gains and losses are recognised in the income statement when the investments are disposed or impaired, as well as through the amortization process.

Held-to-maturity investments of acquired subsidiaries are initially recorded in the statement of financial position at their estimated fair value at the date of acquisition.

Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified in any of the three preceding categories. After initial recognition available-for-sale financial assets are measured at fair value with gains or losses being recognised in other comprehensive income in a separate component of equity until the investment is derecognised or until the investment is determined to be impaired. However, interest calculated using the effective interest rate is recognised in the income statement.

When the Group derecognises available-for-sale financial assets, the Group reclassifies the cumulative gain or loss previously recognised in other comprehensive income in a separate component of equity to a separate line in the income statement.

If there is objective evidence that an available-for-sale financial asset is impaired the cumulative loss previously recognised in other comprehensive income being the difference between the acquisition cost and the current fair value (less any impairment loss on that asset previously recognised in income statement) – is reclassified from separate component of equity to the income statement.

Financial assets classified as available-for-sale that would have met the definition of loans and receivables may be reclassified if the Group has the intention and ability to hold these financial assets for the foreseeable future.

Derecognition of financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset, or retained the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement and has no obligation to pay amounts to eventual recipients unless it collects equivalent amounts from the original assets and the Group either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

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

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

From 1 January 2018 any cumulative gain/loss recognised in other comprehensive income in respect of equity investment securities designated as at fair value through other comprehensive income is not recognised in profit or loss on derecognition of such securities. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Group is recognised as a separate asset or liability.

59. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)**Financial assets (continued)***Securitization of financial assets*

As part of its operational activities, the Group securitizes financial assets, generally through the transfer of these assets to special purpose entities that issue debt securities to investors or through the arrangement of funded participation agreements. The transferred securitized assets may qualify for derecognition in full or in part. Interests in the securitized financial assets may be retained by the Group and are primarily classified as loans to customers. Gains or losses on securitizations are based on the carrying amount of the financial assets derecognised and the retained interest, based on their relative fair values at the date of transfer.

Restructuring of financial assets

The Group from time to time may restructure some of its financial assets. This mostly relates to loans and receivables. The accounting treatment of such restructuring is conducted in the following basic scenarios.

*Derecognition of loans and receivables as a result of restructuring*Policy applicable after 1 January 2018

If the terms of a financial asset are modified, the Group evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised and a new financial asset is recognised at fair value.

In determining the financial assets that are subject to derecognition the Group analogizes its approach to the guidance on the derecognition of financial liabilities.

Qualitative Assessment

A qualitative assessment is performed to determine whether the terms of the instrument are substantially different.

Indicators that qualitative modifications may be considered significant irrespective of any signs of quantitative modification may include:

- change of the borrower, while changing a borrower within one group of interrelated legal entities, provided that credit risk level remained unchanged, does not lead to derecognition of the original financial asset and the recognition of a new one;
- change of currency;
- change of floating interest rate to fixed interest rate and vice versa;
- change of contractual terms which leads to the reassessment of SPPI criterion, including cancellation (or introduction) of contractual right to convert debt instrument into a number of ordinary shares.

Quantitative Assessment

Quantitative assessment of modification is usually applied when modification of contractual terms is not connected with the deterioration of the borrower's creditworthiness (for Stage 1 and Stage 2 financial assets).

Terms are considered to have been substantially modified when the net present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate - substantially differs (similar to quantitative assessment of modification for financial liabilities) from the present value of the remaining cash flows under the original terms.

The following thresholds are used for quantitative assessment of modification:

- less than 10% – modification is not substantial;
- 10-20% – combined test: quantitative modification within the specified thresholds is considered substantial provided there are other changes that are secondary in terms of a separate qualitative assessment, such as, for example, amendments in restrictive terms (covenants), change of loan purpose, etc.;
- More than 20% – modification is substantial.

Policy applicable before 1 January 2018

The Group accounts for a restructure of a loan or a receivable as derecognition of the existing loan or a receivable and the recognition of a new loan or a receivable in the following circumstances:

- renegotiation of the loan currency;
- renegotiation of type of interest (i.e. fix to floating and vice versa or change in base rate);
- recognition of embedded derivative that is separated from the host contract (loan or receivable).

All net unamortized loan premiums, discounts and other deferred components of the effective interest rate related to the derecognised loan or receivable are included in interest income in the accompanying consolidated income statement on the date of derecognition.

The newly recognised loan or receivable is recorded at its estimated fair value. If the estimated fair value is different than the contractual amount, any difference is included in 'Gains net of losses on initial recognition of financial instruments and other gains on loans and advances to customers' in the accompanying consolidated income statement.

Subsequent interest recognition on the newly recognised loan or receivable is performed using the effective interest rate determined based on the terms of such loan or receivable.

59. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)**Financial assets (continued)***Restructuring of loans and receivables without derecognition**Policy applicable after 1 January 2018*

If the cash flows of the modified asset carried at amortised cost are not substantially different, then the modification does not result in derecognition of the financial asset. In this case, the Group recalculates the gross carrying amount of the financial asset and recognises the amount arising from adjusting the gross carrying amount as a modification gain or loss in profit or loss.

Policy applicable before 1 January 2018

In all other circumstances restructuring of loans and receivables does not lead to derecognition and accounted for as follows:

(1) Commercial restructuring

If the loan restructuring is not caused by financial difficulties of the borrower the new effective interest rate is calculated based on estimated future cash flows. The new effective interest rate is determined so that renegotiated discounted cash flows equal to the current carrying amount of the loan before deducting allowance for impairment.

(2) Restructuring owing to financial difficulties of the borrower

If the loan restructuring is caused by financial difficulties of the borrower additional allowance for debt financial assets impairment is recognised.

Additional allowance for impairment is determined based on renegotiated cash flows discounted using the original effective interest rate.

In case of restructuring owing to financial difficulties of the borrower immediately after recognition of additional allowance the partial write-off of loan gross amount for the amount of additional allowance should be recorded. Write-off is made in the absence of reasonable expectations of return in whole or partially.

Derecognition of financial assets and liabilities carried at amortized cost

If financial assets and liabilities carried at amortized cost are derecognised before maturity (for example, as a result of restructuring), unamortized part of commission and transaction costs is recognised in the same line of the current year income statement, that was used for financial asset/liability amortization prior derecognition.

Financial liabilities

Financial liabilities in the scope of IAS 32 and IAS 39 are classified as either financial liabilities at fair value through profit or loss, or other financial liabilities, as appropriate. The Group determines the classification of its financial liabilities at initial recognition. When financial liabilities are recognised initially, they are measured at fair value, minus, in the case of financial liabilities not at fair value through profit or loss, directly attributable transaction costs. Other financial liabilities are carried at amortized cost using the effective interest rate method.

Financial liabilities of acquired subsidiaries are initially recorded in the statement of financial position at their estimated fair value at the date of acquisition.

Financial liabilities are classified as financial liabilities at fair value through profit or loss if they are issued for the purpose of repurchasing them in the near term. They normally contain trade financial liabilities or "short" positions in securities. Derivatives with negative fair value are also classified as financial liabilities at fair value through profit or loss. Gains or losses on financial liabilities at fair value through profit or loss are recognised in the income statement.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. Where an existing financial liability is replaced by another from the same creditor on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the income statement.

When a financial liability is repurchased (bought-back) by a certain Group member, it is derecognised. The difference between the carrying value (amortized cost) of a financial liability as of the date of buy-back and the consideration paid is recognised in the income statement as the gain or loss arising from extinguishment of liability.

59. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)**Offsetting**

Financial assets and liabilities are offset and the net amount is reported in the statement of financial position when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. Such a right of set off (a) must not be contingent on a future event and (b) must be legally enforceable in all of the following circumstances: (i) in the normal course of business, (ii) the event of default and (iii) the event of insolvency or bankruptcy. This is not generally the case with master netting agreements, and the related assets and liabilities are presented gross in the consolidated statement of financial position.

Cash and cash equivalents

Cash and cash equivalents are items, which can be converted into cash within a day. All short-term interbank placements, including overnight placements, are included in due from other banks. Amounts which relate to funds that are of a restricted nature, and correspondent accounts in precious metals are excluded from cash and cash equivalents. Cash and cash equivalents are carried at amortized cost, which approximates fair value.

Mandatory cash balances with central banks

Mandatory reserve deposits with the CBR and other central banks are carried at amortized cost and represent non-interest bearing deposits, which are not available to finance the Group's day-to-day operations and hence are not considered as part of cash and cash equivalents for the purposes of the statement of cash flows.

Due from other banks

Amounts due from other banks are recorded when the Group advances money to counterparty banks with no intention of trading the resulting receivable, which is due on fixed or determinable dates. Amounts due from other banks are carried at amortized cost less allowance for impairment.

Repurchase and reverse repurchase agreements and lending of financial instruments

Sale and repurchase agreements ("repo agreements") are treated as secured financing transactions. Securities or other financial assets sold under sale and repurchase agreements are not derecognised. The financial assets are not reclassified in the statement of financial position unless the transferee has the right by contract or custom to sell or repledge the financial assets, in which case they are reclassified as financial assets pledged under sale and repurchase agreements (repurchase receivables). The corresponding liability is presented within customer deposits, amounts due to other banks or other borrowed funds.

Financial assets purchased under agreements to resell ("reverse repo agreements") are recorded as due from other banks or loans and advances to customers, as appropriate.

The difference between the sale and repurchase price is treated as interest income/expense and accrued over the life of repo agreements using the effective interest method.

Financial assets lent to counterparties are retained in the financial statements in their original statement of financial position category unless the counterparty has the right by contract or custom to sell or repledge the financial assets, in which case they are reclassified and presented separately as loaned financial assets.

Financial assets borrowed are not recorded in the financial statements, unless these are sold to the third parties, in which case an obligation to return the financial assets ("short position") is recorded in Other liabilities at fair value through profit or loss in the statement of financial position. The revaluation of this obligation is recorded in the income statement within gains less losses arising from financial instruments at fair value through profit or loss.

Derivative financial instruments

Derivatives are recognised initially, and are subsequently remeasured, at fair value. Fair values of exchange traded derivatives are obtained from quoted market prices. Fair values of over-the-counter derivatives are obtained using valuation techniques, including discounted cash flow models and option pricing models.

Derivatives may be embedded in other financial instruments. Embedded derivatives are treated as separate derivatives when their economic characteristics and risks are not clearly and closely related to those of the host contract; the terms of the embedded derivative would meet the definition of a stand-alone derivative if they were contained in a separate contract; and the combined contract is not held for trading or designated at fair value. These embedded derivatives are measured at fair value with changes therein recognised in the income statement.

Derivatives are classified as assets when their fair value is positive or as liabilities when their fair value is negative. Derivative assets and liabilities arising from different transactions are only offset if the transactions are with the same counterparty, a legal right of offset exists, and the parties intend to settle the cash flows on a net basis.

The method of recognizing fair value gains and losses depends on whether derivatives are held for trading or are designated as hedging instruments, and if the latter, the nature of the risks being hedged. All gains and losses from changes in the fair value of derivatives held for trading are recognised in the income statement.

Hedge accounting

The Group uses derivative instruments to manage exposures to fluctuations both of cash flows from interest received and paid, and of fair values for specifically determined items. As a result, the Group applies hedge accounting for transactions, which meet the specified criteria.

59. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)**Derivative financial instruments (continued)**

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

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

For situations where that hedged item is a forecast transaction, the Group assesses whether the transaction is highly probable and presents an exposure to variations in cash flows that could ultimately affect the income statement.

Fair value hedges

For designated and qualifying fair value hedges, the change in the fair value of a hedging derivative is recognised in the income statement within "Gains less losses arising from financial instruments at fair value through profit or loss" caption. Meanwhile, the change in the fair value of the hedged item attributable to the risk being hedged is recorded as part of the carrying value of the hedged item and is also recognised in the income statement in 'Gains less losses arising from financial instruments at fair value through profit or loss' caption.

If the hedging instrument expires or is sold, terminated or exercised, or where the hedge no longer meets the criteria for hedge accounting, the hedge relationship is terminated. For hedged items recorded at amortized cost, using the effective interest rate method, the difference between the carrying value of the hedged item on termination and the face value is amortized over the remaining term of the original hedge. If the hedged item is derecognised, the unamortized fair value adjustment is recognised immediately in the income statement.

Cash flow hedges

For designated and qualifying cash flow hedges, the effective portion of the gain or loss on the hedging instrument is initially recognised through other comprehensive income directly in equity in the cash flow hedge reserve within 'Unrealised gain on financial assets available-for-sale and cash flow hedge' caption. The ineffective portion of the gain or loss on the hedging instrument is recognised immediately in the income statement in 'Gains less losses arising from financial instruments at fair value through profit or loss'.

When the hedged cash flow affects the income statement, the gain or loss on the hedging instrument is "recycled" in the corresponding income or expense line of the income statement. When a hedging instrument expires, or is sold, terminated, exercised, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains separately in equity until the forecast transaction occurs. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement in "Gains less losses arising from financial instruments at fair value through profit or loss".

Regular way transactions

Regular way transactions are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace. All regular way purchases and sales of financial assets are recognised or derecognised on the contractual settlement date which is the date when the asset is to be delivered to or by the Group. Regular way transactions are not recognised as derivatives because of the short duration of the commitment to deliver financial assets between the trade and settlement date.

Any change in the fair value of the financial assets at fair value through profit or loss to be received during the period between the trade date and the settlement date is recognised in the income statement and for financial assets available for sale is recognised in other comprehensive income for financial assets purchased. For financial assets sold on a regular way basis no changes in fair value are recognised in the income statement or in other comprehensive income between the trade and settlement date. Assets carried at cost or amortized cost are not affected by the change in fair value during the period between the trade and settlement date.

Promissory notes purchased

Promissory notes purchased are included in financial assets at fair value through profit or loss or in due from other banks or in loans and advances to customers or in investment securities held-to-maturity, depending on their substance and are recorded, subsequently remeasured and accounted for in accordance with the accounting policies for these categories of assets.

Finance and operating leases

Agreements which transfer to counterparties substantially all the risks and rewards incidental to the ownership of assets, but not necessarily legal title, are classified as finance leases. When the Group is a lessor under finance leases the amounts due under the leases, after deduction of unearned charges, are included 'Loans and advances to customers'. The finance income receivable is recognised in 'Interest income' over the periods of the leases so as to give a constant rate of return on the net investment in the leases.

59. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)**Finance and operating leases (continued)**

When the Group is a lessee under finance leases, the leased assets are capitalized and included in 'Land, property and equipment' and the corresponding liability to the lessor is included in Other borrowed funds. A finance lease and its corresponding liability are recognised initially at the fair value of the asset or, if lower, the present value of the minimum lease payments. Finance charges payable are recognised in 'Interest expense' over the period of the lease based on the interest rate implicit in the lease so as to give a constant rate of interest on the remaining balance of the liability.

All other leases are classified as operating leases. When acting as lessor, the Group includes the assets subject to operating leases in 'Land, property and equipment' and accounts for them accordingly. Impairment losses are recognised to the extent that residual values are not fully recoverable and the carrying value of the assets is thereby impaired. When the Group is the lessee, leased assets are not recognised on the balance sheet. Rentals payable and receivable under operating leases are accounted for on a straight-line basis over the periods of the leases and are included in 'General and administrative expenses' and 'Other operating income', respectively.

Impairment of financial assetsPolicy applicable from 1 January 2018

The Group recognises loss allowances for ECL on the following financial instruments that are not measured at fair value through profit or loss:

- financial assets that are debt instruments;
- lease receivables;
- financial guarantee contracts issued; and
- loan commitments issued.

No impairment loss is recognised on equity investments.

The Group measures loss allowances at an amount equal to lifetime ECL, except for the following, for which they are measured as 12-month ECL:

- debt investment securities that are determined to have low credit risk at the reporting date; and
- other financial instruments (other than lease receivables) on which credit risk has not increased significantly since their initial recognition).

Loss allowances for lease receivables are always measured at an amount equal to lifetime ECL.

The Group considers a debt security to have low credit risk when their credit risk rating is equivalent to the globally understood definition of 'investment grade'. 12-month ECL are the portion of ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

Presentation of allowance for ECL in the statement of financial position

Loss allowances for ECL are presented in the statement of financial position as follows:

- financial assets measured at amortised cost: as a deduction from the gross carrying amount of the assets;
- loan commitments and financial guarantee contracts: generally, as a provision;
- where a financial instrument includes both a drawn and an undrawn component, and the Group cannot identify the ECL on the loan commitment component separately from those on the drawn component: the Group presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision; and
- debt instruments measured at fair value through other comprehensive income: no loss allowance is recognised in the statement of financial position because the carrying amount of these assets is their fair value. However, the loss allowance is disclosed and is recognised in the fair value reserve.

Policy applicable before 1 January 2018*Impairment of financial assets carried at amortized cost*

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

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics within classification categories. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

59. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)**Impairment of financial assets (continued)**

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets and the experience of management in respect of the extent, to which amounts will become overdue as a result of past loss events and the success of recovery of overdue amounts. Past experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect past periods and to remove the effects of past conditions that do not exist currently.

Loans with signs of credit deterioration acquired from third parties are recorded initially in the statement of financial position at their estimated fair value at the date of acquisition. Management considers significant purchase discounts when the loan's contractual amount exceeds its purchase price or estimated fair value as one of the signs of credit deterioration. In subsequent periods, the impairment is assessed and the loan is classified as non-performing based on changes in expected undiscounted cash flows as compared to those determined by management at initial recognition of the loan.

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

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account through profit or loss, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

Uncollectible assets are written-off against the related allowance for impairment after all the necessary procedures to recover the asset have been completed and the amount of the loss has been determined.

Impairment of available-for-sale financial assets

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortization) and its current fair value, less any impairment loss previously recognised in the income statement, is transferred from equity to the income statement. Reversals in respect of equity instruments classified as available-for-sale are not recognised in the income statement, but are rather retained in other comprehensive income in a separate component of equity. Impairment losses on debt instruments are reversed through the income statement if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss were recognised in profit or loss. A significant or prolonged decline in the fair value of an equity instrument classified as available-for-sale below its cost is also objective evidence of impairment of this instrument.

Insurance*Insurance operations*

Insurance contracts are those contracts when the Group (the insurer) has accepted significant insurance risk from another party (the policyholders) by agreeing to compensate the policyholders if a specified uncertain future event (the insured event) adversely affects the policyholders. Insurance risk exists when the Group has uncertainty in respect of the following matters at inception of the contract: the occurrence of insurance event, the date of occurrence of insurance event and claim value in respect of it. As a general guideline, the Group determines whether it has significant insurance risk, by comparing benefits paid with benefits payable if the insured event did not occur. Insurance contracts can also transfer financial risk.

Gross insurance premiums written

Upon inception of a contract, premiums are recorded as written and are earned on a pro-rata basis over the term of the related policy coverage. Decreasing insurance premiums in subsequent periods (for example, when signing additional agreements to the original signed contracts) are recognised as a reduction in insurance premiums in the reporting period. In the consolidated income statement of the Group gross insurance premiums written are included in 'Net insurance premiums earned'.

59. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)**Insurance (continued)***Provision for unearned premiums*

Provision for unearned premiums represents the proportion of premiums written that relate to unexpired term of policies in force as at the reporting date, calculated on a time apportionment basis. Provision for unearned premiums is calculated by 'pro rata temporis' method for each policy and defined as insurance premium multiplied by ratio of unexpired portion of policy to the entire term of the policy. Movement in provision for unearned premiums is recognised within 'Net insurance premiums earned' in the consolidated income statement of the Group.

Claims paid

Claims are charged to the consolidated income statement as incurred based on evaluated liability for compensation payable to policyholders or third parties suffered from occurrence of the insured event. Claims also include claims handling expenses related to cost of experts, appraisers, surveyors and emergency commissioners. Claims paid are recognised within 'Net insurance claims incurred, movement in liabilities to policyholders and acquisition costs' in the consolidated income statement of the Group.

Loss provisions

Loss provisions represent an estimate of liabilities to pay claims in future and include outstanding claims provision ('OCP') and provision for claims incurred but not reported ('IBNR'). Estimates of claims handling expenses are included in both OCP and IBNR. OCP is provided in respect of claims reported, but not settled as at the reporting date. The estimation is made on the basis of information received by the Group during investigation of insurance cases as at and after the reporting date. IBNR is determined by the Group by line of business using actuarial methods, and includes assumptions based on prior years' claims and claims handling experience. Movement in loss provisions is recognised within 'Net insurance claims incurred, movement in liabilities to policyholders and acquisition costs' in the consolidated income statement of the Group.

Liability adequacy test

At each reporting date, liability adequacy test is performed to ensure the adequacy of the contract liabilities net of related deferred acquisition costs. In performing these tests, the current best estimates of the future contractual cash flows and claims handling expenses are used. Any deficiency is immediately charged to the consolidated income statement, initially by writing off deferred acquisition costs and by subsequently establishing a provision for losses arising from the liability adequacy test.

Pension liabilities

Pension liabilities are accounted under IFRS 4 *Insurance Contracts*. IFRS 4 *Insurance Contracts* permits an insurer to apply existing national GAAP for insurance contracts and financial instruments with discretionary participation feature ('DPF'). Thus, pension liabilities under insurance contracts and financial instruments with DPF are determined by the Group in accordance with Russian legislation and pension and insurance rules also.

Pension liabilities are recognised at the earlier of the following dates:

- (a) the beginning of insurance coverage;
- (b) the date when the Group shall receive the first payment according to non-state pension contract or obligatory pension insurance contract with third parties.

The Group uses retrospective method to evaluate non-state pension liabilities if benefits under these contracts has not been granted yet, and prospective method if benefits has been already granted. The estimation is made on the basis of mortality rates and investment return. Assumptions also include adjustments for unfavourable events in order to provide the best estimate of possible future claims. Investment return assumptions are determined and fixed when non-state pension contract is signed, and may differ depending on the year of contract commencement.

Obligatory pension insurance liabilities are determined as cumulative contributions reduced by benefits and adjusted by investment return.

At each reporting date, liability adequacy test is performed to ensure the adequacy of the contract liabilities. The carrying amount of pension liabilities may be increased if the test shows that the carrying amount of pension liabilities is inadequate in the light of the estimated future cash flows.

The adequacy test considers current estimates of all contractual cash flows (including future cash flows such as contributions, benefits paid, lump sum payments and payments to successors), and of related cash flows such as contracts handling costs, cash flows resulting from embedded options and guarantees, as well as investment return on related assets. The Group uses current best estimates of future cash flows, taking into account expected improvements in life interval of participants in the future. Certain estimation techniques are applied by the Group, including discounting of cash flows and stochastic simulation.

For financial instruments with DPF the Group applies the same accounting policy as for insurance contracts liabilities.

Pension liabilities are derecognised when the term of the contract expires, the contract is repaid or cancelled.

Movement in pension liabilities is recognised within 'Net insurance claims incurred, movement in liabilities to policyholders and acquisition costs' in the consolidated income statement of the Group.

59. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)**Pension liabilities (continued)***Pension contributions and benefits paid*

Contributions are recognised in full amount as income when paid by a sponsor. In the consolidated income statement of the Group pension contributions are included in 'Net insurance premiums earned'. Benefits paid are charged to the consolidated income statement as incurred. Pension benefits paid are recognised within 'Net insurance claims incurred, movement in liabilities to policyholders and acquisition costs' in the consolidated income statement of the Group.

Non-current assets and disposal group held for sale

Non-current assets (or disposal groups, which may include both non-current and current assets and liabilities), are classified in the statement of financial position as 'non-current assets held for sale' (or as 'assets of disposal group held for sale' and 'liabilities of disposal group held for sale') if their carrying amount will be recovered principally through a sale transaction, including deconsolidation of a subsidiary holding the assets, within twelve months after the end of the reporting period. Assets (or disposal groups) are eligible to be classified or reclassified when all of the following conditions are met:

- (a) the assets are available for immediate sale in their present condition;
- (b) the Group's management approved and initiated an active programme to locate a buyer;
- (c) the assets are actively marketed for a sale at a reasonable price;
- (d) the sale is expected to occur within one year from the date of classification and
- (e) it is unlikely that significant change to the plan to sell will be made or that the plan will be withdrawn.

Non-current assets or disposal groups classified as held for sale in the current period's statement of financial position are not reclassified or re-presented in the comparative statement of financial position to reflect the classification at the end of the current period.

A disposal group represents assets current and/or non-current assets to be disposed of, by sale or otherwise, together as a group in a single transaction, and liabilities directly associated with those assets that will also be transferred in the transaction. Goodwill is also included if the disposal group includes an operation within a cash-generating unit to which goodwill has been allocated on acquisition. Non-current assets are assets that include amounts expected to be recovered or collected more than twelve months after the end of the reporting period. If reclassification is required, both the current and non-current portions of an asset are reclassified.

Held for sale disposal groups as a whole are measured at the lower of their carrying amount and fair value less costs to sell. Held for sale premises and equipment and intangible assets are not depreciated or amortized. Reclassified financial instruments, deferred taxes and investment properties held at fair value are not subject to the write down to the lower of their carrying amount and fair value less costs to sell. Reclassified financial instruments, deferred taxes and investment properties held at fair value shall be remeasured in accordance with applicable IFRSs before the fair value less cost to sell of the disposal group is remeasured.

Liabilities directly associated with disposal groups that will be transferred in the disposal transaction are reclassified and presented separately in the statement of financial position.

Gains or losses of the subsidiary classified as disposal group held for sale are included in the relevant caption of the consolidated income statement and other comprehensive income.

Investment property

Investment property is land or building or a part of building held to earn rental income or for capital appreciation and which is not used by the Group or held for the sale in the ordinary course of business. Property that is being constructed or developed or redeveloped for future use as investment property is also classified as investment property.

Investment property is initially recognised at cost, including transaction costs, and subsequently remeasured at fair value reflecting market conditions at the end of the reporting period. Fair value of the Group's investment property is determined on the base of various sources including reports of independent appraisers, who hold a recognised and relevant professional qualification and who have recent experience in valuation of property of similar location and category.

Investment property that is being redeveloped for continuing use as investment property or for which the market has become less active continues to be measured at fair value. Earned rental income is recorded in the income statement within income arising from non-banking activities. Gains and losses resulting from changes in the fair value of investment property are recorded in the income statement and presented within income or expense arising from non-banking activities.

Subsequent expenditure is capitalized only when it is probable that future economic benefits associated with it will flow to the Group and the cost can be measured reliably. All other repairs and maintenance costs are expensed when incurred. If an investment property becomes owner-occupied, it is reclassified to premises and equipment, and its carrying amount at the date of reclassification becomes its deemed cost to be subsequently depreciated.

59. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)**Land, premises and equipment**

Premises and equipment are stated at revalued amounts and cost, respectively, less accumulated depreciation and allowance for impairment where required. Land is stated at revalued amounts. Land has indefinite term of usage and, therefore, is not depreciable. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down to its recoverable amount and the difference is recognised in the income statement. The estimated recoverable amount is the higher of an asset's fair value less costs to sell and its value in use.

Land, premises and equipment of acquired subsidiaries are initially recorded in the statement of financial position at their estimated fair value at the date of acquisition. No accumulated depreciation on the premises and equipment acquired in the business combinations is presented in the financial statements on the date of acquisition.

Land and premises of the Group are subject to revaluation on a regular basis, approximately every three to five years. The frequency of revaluation depends upon the change in the fair values. When the fair value of a revalued asset differs materially from its carrying amount further revaluation is performed. The revaluation is applied simultaneously to the whole class of property to avoid selective revaluation.

Any revaluation surplus is credited to the other comprehensive income and increases land and premises revaluation reserve which is a separate equity section of the statement of financial position, except to the extent that it reverses an impairment of the same asset previously recognised in the income statement, in which case the increase is recognised in the income statement. A revaluation deficit is recognised in the income statement except for the deficit directly offsetting a previous surplus on the same asset is directly offset against the surplus in the asset revaluation reserve for land and premises.

Depreciation

Depreciation is recognised on a straight-line basis over the estimated useful lives of the assets using the following basic annual rates:

	Useful life	Depreciation rates
Premises	Maximum 150 years	Minimum 0.7% per annum
Equipment	4-20 years	5%-25% per annum

Estimated useful lives and residual values are reassessed annually.

Goodwill

Goodwill recognised in a business combination represents the future economic benefits arising from other assets acquired in a business combination that are not individually identified and separately recognised and is calculated as the excess of (a) over (b) below:

(a) the aggregate of:

- the consideration transferred, which generally requires acquisition-date fair value;
- the amount of any non-controlling interest in the acquiree; and

The land and premises revaluation reserve included in equity is transferred directly to retained earnings when the surplus is realised, i.e. on the retirement or disposal of the asset or as the asset is used by the Group; in the latter case, the amount of the surplus realised is the difference between depreciation based on the revalued carrying amount of the asset and depreciation based on the asset's original cost.

Construction in progress is carried at cost less allowance for impairment, if any. Upon completion, assets are transferred to premises and equipment at their carrying value. Construction in progress is not depreciated until the asset is available for use.

If impaired, land, premises and equipment are written down to the higher of their value in use and fair value less costs to sell.

The decrease in carrying amount is charged to income statement to the extent it exceeds the previous revaluation surplus in equity. An impairment loss recognised for an asset in prior years is reversed if there has been a change in the estimates used to determine the asset's value in use or fair value less costs to sell.

Gains and losses on disposal of land, premises and equipment are determined by reference to their carrying amount and are taken into account in determining profit or loss. Repairs and maintenance are charged to the income statement when the expense is incurred.

- in a business combination achieved in stages, the acquisition-date fair value of the acquirer's previously held equity interest in the acquiree.
- (b) the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed.

If the above resulting amount is negative, the acquirer has made a gain from a bargain purchase, that gain is recognised in profit or loss.

59. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)**Goodwill (continued)**

The revised IFRS 3 allows the acquirer to measure any non-controlling interests, which are present ownership interests in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's identifiable net assets for each business combination. This results in different amount of goodwill or gain from bargain purchase to be recognised in financial statements depending on the choice of the acquirer.

Goodwill on an acquisition of a subsidiary is disclosed in the caption 'Goodwill and other intangible assets' of the statement of financial position. Goodwill on an acquisition of an associate or joint venture is included in the carrying amount of investments in associates and joint ventures. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses, if any.

Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying amount may be impaired. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units. Each unit or group of units, to which the goodwill is so allocated:

- represents the lowest level within the Group, at which the goodwill is monitored for internal management purposes; and
- is not larger than an operating segment in accordance with IFRS 8, *Operating Segments*, before aggregation.

Impairment of goodwill is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units), to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. Where goodwill forms a part of a cash-generating unit (group of cash-generating units) and a part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation.

Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Intangible assets other than goodwill

Intangible assets other than goodwill include licenses, computer software, and other identifiable intangible assets, including those acquired in business combinations.

Intangible assets acquired or recognised separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortized using straight-line method over the useful economic lives, which normally do not exceed 5 years, and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Amortization periods and amortization methods for intangible assets with finite useful lives are reviewed at least at each financial year-end.

Intangible assets with indefinite useful lives are not amortized, but are tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying amount may be impaired either individually or at the cash-generating unit level. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether indefinite life assessment continues to be supportable.

Core deposit, loan to customer and relation with the major lessee intangibles

Core deposit, loan to customer and relations with the major lessee intangibles relate to the acquisition of the Group's subsidiaries and are attributable to the customer demand deposits, loans to customers, leasing contracts, stable client base identified as intangible assets. The identification is based on examination of the subsidiaries' customer base.

The core deposit intangible is recognised if it was concluded that the acquired subsidiaries has a well-established and long-dated relationship with its major customers and that demand deposits actual maturity was significantly longer than contract maturity. The loan to customer intangible is determined by applying income approach and calculated as discounted cash-flow from new loans to existing borrowers. The relations with the major lessee intangible is determined by applying income approach and calculated as discounted cash-flow from new contracts to existing lessee.

The useful life of the core deposit, loan to customer and relation with the major lessee intangibles was estimated from five to eight years and is amortized over its useful life using the straight-line method.

Due to other banks

Amounts due to other banks are recorded when money or other financial assets are advanced to the Group by counterparty banks. The liability is carried at amortized cost using the effective interest method.

59. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)**Customer deposits**

Customer deposits are liabilities to individuals, state or corporate customers and are carried at amortized cost using the effective interest method. Customer deposits include both demand and term deposits. Interest expense is recognised in the income statement over the period of deposits using effective interest method.

Debt securities issued

Debt securities issued include promissory notes, certificates of deposit, eurobonds and debentures issued by the Group. Debt securities are stated at amortized cost using the effective interest method. If the Group purchases its own debt securities in issue, they are removed from the statement of financial position and the difference between the carrying amount of the liability the consideration paid is included in gains less losses arising from extinguishment of liability in the income statement.

Other borrowed funds

Other borrowed funds include some specific borrowings, which differ from the above items of liabilities and include funds from local central banks, syndicated loans, revolving, other credit lines and other specific items. Other borrowed funds are carried at amortized cost using the effective interest method. Interest expense is recognised in the income statement over the period of other borrowed funds using effective interest method.

Operations with precious metals

The Group enters into different types of transactions with precious metals including sale and purchase agreements, metal-currency swap transactions, lending and borrowing in precious metals. Correspondent accounts in precious metals (assets) are recorded within Cash and short-term funds; however, they are excluded from Cash and cash equivalents as the precious metals are considered to be a commodity rather than a financial instrument. Precious metals inventory in vault is included in Other assets.

When the Group borrows precious metals or accepts deposits in precious metals with a subsequent metal-currency swap or economically similar transaction, the Group accounts for such transactions as borrowings within the appropriate liability caption in the statement of financial position and recognises interest expense at the effective interest rate over the term of the borrowing. Related derivatives, including bifurcated precious metals derivatives, are accounted for in the statement of financial position as assets or liabilities at fair value through profit or loss with any changes in fair value recorded in the income statement.

Income tax

Income tax comprises current tax and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised in other comprehensive income or directly in equity, in which case it is recognised in the same statement in which the related item appears.

Current tax is the tax expected to be payable on the taxable profit for the year, calculated using tax rates enacted or substantively enacted by the balance sheet date, and any adjustment to tax payable in respect of previous years. Current tax assets and liabilities are offset when the Group intends to settle on a net basis and the legal right to offset exists. Current tax is the amount expected to be paid to or recovered from the taxation authorities in respect of taxable profits or losses for the current and prior periods. Taxable profits or losses are based on estimates if financial statements are authorized prior to filing relevant tax returns. Taxes, other than on income, are recorded within administrative expenses.

Deferred income tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the balance sheet and the amounts attributed to such assets and liabilities for tax purposes. Deferred income tax liabilities are generally recognised for all taxable temporary differences and deferred income tax assets are recognised to the extent that it is probable that future taxable profits will be available against which deductible temporary differences can be utilized.

Deferred income tax is calculated using the tax rates expected to apply in the periods in which the assets will be realised or the liabilities settled, based on tax rates and laws enacted, or substantively enacted, by the balance sheet date. Deferred income tax assets and liabilities are offset when they arise in the same tax reporting group and relate to income taxes levied by the same taxation authority, and when the Group has a legal right to offset.

Deferred income tax relating to actuarial gains and losses on post-employment benefits is recognised in other comprehensive income. Deferred income tax relating to share-based payment transactions is recognised directly in equity to the extent that the amount of the estimated future tax deduction exceeds the amount of the related cumulative remuneration expense. Deferred income tax relating to fair value re-measurements of available-for-sale investments and cash flow hedging instruments which are charged or credited directly to other comprehensive income, is also charged or credited to other comprehensive income and is subsequently recognised in the income statement when the deferred fair value gain or loss is recognised in the income statement.

Provisions for liabilities and charges

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

59. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)**Credit related commitments**

Financial guarantees issued or commitments to provide a loan at a below-market interest rate are initially measured at fair value and the initial fair value is amortised over the life of the guarantee or the commitment. Subsequently, they are measured as follows:

- from 1 January 2018: at the higher of this amortised amount and the amount of loss allowance; and
- before 1 January 2018: at the higher of this amortised amount and the present value of any expected payment to settle the liability when a payment under the contract has become probable.

The Group has issued no loan commitment that are measured at FVTPL.

For other loan commitments:

- from 1 January 2018: the Group recognises loss allowance;
- before 1 January 2018: the Group recognises a provision in accordance with IAS 37 if the contract was considered to be onerous.

Liabilities arising from financial guarantees and loan commitments are included within provisions.

Performance guarantees

Performance guarantees are contracts that provide compensation if another party fails to perform a contractual obligation. Performance guarantees are initially recognised at their fair value, which is normally evidenced by the amount of fees received. This amount is amortized on a straight line basis over the life of the contract. At the end of each reporting period, the performance guarantee contracts are measured at the higher of the unamortized balance of the amount at initial recognition and the best estimate of expenditure required to settle the contract at the end of each reporting period, discounted to present value. Where the Group has the contractual right to revert to its customer for recovering amounts paid to settle the performance guarantee contracts, such amounts will be recognised as loans and receivables upon transfer of the loss compensation to the guarantee's beneficiary.

Perpetual Loan Participation Notes

Due to the undefined maturity and an option for non-cumulative cancellation of coupon payments, the Group accounts for the Perpetual Loan Participation Notes as an equity instrument and as a Tier I eligible instrument for the purpose of Capital Adequacy Ratio calculation. The CBR approved the inclusion of the subordinated loan in the statutory capital ratio calculation of the Bank.

The Group accounts for the Perpetual Loan Participation Notes (PLPN) denominated in the foreign currency in the amount of RUR equivalent amount using the foreign exchange rate at the reporting date with foreign exchange translation effects recorded in Retained earnings. Issuance costs were also recorded in Retained earnings.

While coupon payments are optional at the discretion of VTB, certain terms in the PLPN may cause such payments to become mandatory. At the moment the coupon under PLPN becomes mandatory, it is recorded as a dividend declaration described below.

Treasury perpetual loan participation notes are included in Treasury shares and PLPN in the consolidated statement of changes in shareholder's equity.

Share premium

Share premium represents the excess of contributions over the nominal value of the shares issued.

Dividends

Dividends are recorded as a separate debit caption in equity in the period in which they are declared. Dividends declared after the reporting date and before the financial statements are authorized for issue are disclosed in the subsequent events note. The statutory accounting reports of the Bank are the basis for profit distribution and other appropriations. Russian legislation identifies the basis of distribution as the current year net profit.

Recognition of income and expenses

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured.

Interest and similar revenue and expense*Policy applicable from 1 January 2018**Effective interest rate*

Interest income and expense are recognised in profit or loss using the effective interest method.

The 'effective interest rate' is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to:

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

When calculating the effective interest rate for financial instruments other than credit-impaired assets, the Group estimates future cash flows considering all contractual terms of the financial instrument, but not expected credit losses. For credit-impaired financial assets, a credit-adjusted effective interest rate is calculated using estimated future cash flows including expected credit losses.

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

59. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)**Interest and similar revenue and expense
(continued)***Amortised cost and gross carrying amount*

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

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

Calculation of interest income and expense

In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired) or to the amortised cost of the liability.

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

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

Presentation

Interest income and expense presented in the statement of profit or loss and other comprehensive income include:

- interest on financial assets and financial liabilities measured at amortised cost calculated on an effective interest basis;
- interest on debt instruments measured at fair value through other comprehensive income calculated on an effective interest basis.

Policy applicable before 1 January 2018

Interest income and expense for all financial instruments are recognised on accrual basis in 'Interest income' and 'Interest expense' in the income statement using the effective interest method and the coupon (contractual) interest rate for non-derivative debt financial assets held for trading, which approximates the effective interest rate. The effective interest method is a way of calculating the amortized cost of a financial asset or a financial liability (or groups of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period.

The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial instrument or, where appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument but excluding future credit losses. The calculation includes all amounts paid or received by the Group that are an integral part of the effective interest rate of a financial instrument, including transaction costs and all other premiums or discounts.

Interest on impaired financial assets is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Fee and commission income

Fee income is earned from a diverse range of services provided by the Group to its customers. Fee income is accounted for as follows:

- income earned on the execution of a significant act is recognised as revenue when the act is completed (for example, fees arising from negotiating, or participating in the negotiation of, a transaction for a third party such as an arrangement for the acquisition of shares or other securities);
- income earned from the provision of services is recognised as revenue as the services are provided (for example, asset management, portfolio and other management advisory and service fees); and
- income which forms an integral part of the effective interest rate of a financial instrument is recognised as an adjustment to the effective interest rate (for example, certain loan commitment fees) and recorded in 'Interest income'.

Gains on initial recognition of financial instruments

When resources are attracted at off-market interest rates the difference between the nominal amount received and present value of cash flows discounted at the market interest rate is recognized as gains or losses on initial recognition of due from other banks or customer deposits in the income statement. The Group shall recognize a gain on initial recognition of resources attracted at interest rates below market only when the contract makes no provision for early termination upon a depositor's demand.

Dividend income

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

59. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)**Dividend income (continued)***Policy applicable from 1 January 2018*

Dividends from equity securities are presented within 'Gains net of losses arising from other financial instruments at fair value through profit or loss', 'Other operating income' lines of the income statement.

Policy applicable before 1 January 2018

Dividends from equity securities classified as financial instruments at fair value through profit or loss are recognised within 'Gains less losses arising from financial instruments at fair value through profit or loss' line of the income statement. Dividends from equity securities classified as available-for-sale financial assets are recognised within 'Gains less losses from investment financial assets available-for-sale' line of the income statement. Dividends received from associates measured at fair value through profit or loss are recognised within 'Gains less losses arising from financial instruments at fair value through profit or loss' line of the income statement.

Revenues and expenses from other non-banking activities

Income and expenses of the Group members which principal activities are other than banking and insurance operations are recognized generally on the aggregated basis in the consolidated income statement as non-banking income and non-banking expenses except for revenues and expenses recognized in other lines of the income statement (for example, interest income or expense or gains less losses arising from financial instruments at fair value through profit or loss).

Non-banking income and expenses also include income/expenses from construction, development and other real estate operations.

Revenue is recognised when the goods or services are transferred to the customer, at the transaction price. Any bundled goods or services that are distinct are separately recognised, and any discounts or rebates on the contract price are generally allocated to the separate elements. When the consideration varies for any reason, minimum amounts are recognised if they are not at significant risk of reversal. Costs incurred to secure contracts with customers have to be capitalized and amortized over the period when the benefits of the contract are consumed.

Staff costs and related contributions

The Group's contributions to the State and Group's social insurance and obligatory medical insurance funds in respect of its employees are expensed as incurred and included in staff costs within staff costs and administrative expenses. The Group's contributions to the State and Group pension schemes are included in defined contribution pension expense within staff costs and administrative expenses. Unused vacations accrued amounts are also included in staff costs within staff costs and administrative expenses. The Group recognises all actuarial gains and losses related to the defined benefit plan directly in other comprehensive income.

Share-based payment

Equity-settled share-based payment transactions are transactions, in which the entity receives goods or services as consideration for equity instruments of the entity.

For equity-settled share-based payment transactions, the goods or services received, and the corresponding increase in equity, are measured directly, at the fair value of the goods or services received, unless that fair value cannot be estimated reliably. If the entity cannot estimate reliably the fair value of the goods or services received, the entity shall measure their value, and the corresponding increase in equity, indirectly, by reference to the fair value of the equity instruments granted.

For share-based payment transactions among Group's entities, in its separate or individual financial statements, the entity receiving the goods or services shall measure the goods or services received as either an equity-settled or a cash-settled share-based payment transaction by assessing:

- (a) the nature of the awards granted, and
- (b) its own rights and obligations.

The entity receiving the goods or services shall measure the goods or services received as an equity-settled share-based payment transaction when:

- (a) the awards granted are its own equity instruments, or
- (b) the entity has no obligation to settle the share-based payment transaction.

In all other circumstances, the entity receiving the goods or services shall measure the goods or services received as a cash-settled share-based payment transaction.

The entity settling a share-based payment transaction when another entity in the Group receives the goods or services shall recognise the transaction as an equity-settled share-based payment transaction only if it is settled in the entity's own equity instruments. Otherwise, the transaction shall be recognised as a cash-settled share-based payment transaction.

Inflation accounting

If an economy in which a Group's subsidiary operates is considered to be hyperinflationary as defined by IAS 29, *Financial Reporting in Hyperinflationary Economies*, than this subsidiary applies IAS 29. The standard requires that the financial statements prepared in the currency of a hyperinflationary economy shall be stated in terms of the measuring unit current at the reporting date.

59. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)**Foreign currency translation**

Each Group member determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Transactions in foreign currencies are initially recorded in the functional currency equivalent, translated at the rate of exchange at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the reporting date. Gains and losses resulting from the translation of foreign currency transactions are recognised in the income statement as foreign exchange translation gains less losses. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

These financial statements are presented in Russian roubles (RUR), the national currency of the Russian Federation, where the Bank is domiciled. As at the reporting date, the assets and liabilities of the entities whose functional currency is different from the presentation currency of the Group and is not a currency of hyperinflationary economy, are translated into RUR at the closing rate of exchange at the reporting date and their income statements are translated into RUR at the average exchange rates for the reporting period.

The exchange differences arising on the translation are recognised in other comprehensive income in a separate component of equity ('Currency translation difference').

Exchange differences arising on monetary items due from the foreign subsidiaries that form part of the Bank's net investment in a foreign operation are recognised initially in other comprehensive income and reclassified from equity to profit or loss on disposal of the net investment.

If the entity's functional currency is a currency of hyperinflationary economy, all amounts (assets, liabilities, equity items, income and expenses) of these entities are translated into RUR at the closing rate of exchange at the reporting date; and, before applying this translation method, the entity restates its financial statements in accordance with IAS 29 (see above 'Inflation accounting'), except for comparative amounts that are translated into RUR. Differences which arise each period between the closing equity items of the previous year and the opening equity items of the current year presented in RUR are recognised as an 'Effect of translation, net of tax' in other comprehensive income, as to the related equity items. The remaining exchange differences arising on the consolidation are recognised in other comprehensive income as a separate component of equity ('Currency translation difference').

On disposal of a subsidiary, an associate or a joint venture, whose functional currency is different from the presentation currency of the Group, the deferred cumulative amount recognised in equity relating to that particular entity is reclassified to the income statement.

As at 31 December 2018, the principal closing rate of exchange used for translating balances in USD to Russian roubles was USD 1 to RUR 69.4706 (at 31 December 2017: USD 1 to RUR 57.6002), and the principal closing rate of exchange used for translating balances in euro was EUR 1 to RUR 79.4605 (at 31 December 2017: EUR 1 to RUR 68.8668).

Fiduciary assets

Assets held by the Group in its own name, but for the account of third parties, are not reported in the consolidated statement of financial position. Commissions received from such operations are shown within fee and commission income in the consolidated income statement.

Segment reporting

An operating segment is a distinguishable component of the Group that is engaged in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity), whose operating results are regularly reviewed by the Group's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available. Segments with a majority of revenue earned from sales to external customers and whose revenue, net profit (loss) or combined assets are ten percent or more of all the segments are reported separately (reportable segments). The segments, that are below the above materiality thresholds, but can be aggregated on the basis of their activities, production processes, products or services, should be tested for the meeting the criteria of reportable segments on these aggregated amounts.

In accordance with IFRS 8, *Operating Segments*, the Group defined as the operating segments its global business lines. Segment disclosure is presented on the basis of IFRS compliant data of the global business lines and entities adjusted, where necessary, for intersegment reallocation.

Presentation of statement of financial position in order of liquidity

The Group does not have a clearly identifiable operating cycle and therefore does not present current and non-current assets and liabilities separately in the statement of financial position. Instead, assets and liabilities are presented in order of their liquidity in accordance with common banking practice.

60. NEW ACCOUNTING PRONOUNCEMENTS

Certain new standards and interpretations have been issued that are mandatory for the Group's annual accounting periods beginning on or after 1 January 2019 or later and which the Group has not early adopted:

IFRS 16 Leases issued in January 2016 with an effective date of annual periods beginning on or after 1 January 2019.

The objective of IFRS 16 is to report information that faithfully represents lease transactions and provides a basis for users of financial statements to assess the amount, timing and uncertainty of cash flows arising from leases. To meet that objective, a lessee should recognise assets and liabilities arising from a lease.

IFRS 16 introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments.

A lessee measures right-of-use assets similarly to other non-financial assets (such as property, plant and equipment or investment property) and lease liabilities similarly to other financial liabilities. A lessee applies the fair value model to right-of-use assets that meet the definition of investment property in accordance with IAS 40.

A lessee may elect to apply the revaluation model to right-of-use assets that relate to property, plant and equipment or to apply the cost model and recognise depreciation on a straight-line basis in respect of these assets. Interest expense on the lease liability are recognised in the statement of profit or loss. In the statement of cash flows, a lessee separates the total amount of cash paid into principal (presented within financing activities) and interest (presented within either operating or financing activities) in accordance with IAS 7.

Assets and liabilities arising from a lease are initially measured on a present value basis. The measurement includes non-cancellable lease payments (including inflation-linked payments) and payments to be made in optional periods if the lessee is reasonably certain to exercise an option to extend the lease, or not to exercise an option to terminate the lease. In most cases, the initial lease asset equals the lease liability. The lease asset is the right to use the underlying asset presented in the statement of financial position as part of Investment property or Land, premises and equipment.

IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

IFRS 16 replaces IAS 17 and has the following transition provisions:

- Existing finance leases continue to be treated as finance leases.
- Existing operating leases: option for full or limited retrospective restatement to reflect the requirements of IFRS 16.

The Group applies IFRS 16 using limited retrospective approach starting the effective date of 1 January 2019 without recalculation of comparatives.

IFRS 16 initial application effect

Based on the available data and current implementation status, Group management estimates the adoption of IFRS 16 will lead to recognition of right-to-use assets in the approximate amount of RUR 45.0 billion and respective lease liability in the equal amount starting 1 January 2019.

The Group applies "recognition exemption" with respect to accounting for short-term leases (with a lease term of 12 months or less) and leases for which the underlying asset is of low-value. Lease payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss.

IFRS 17 Insurance Contracts issued in May 2017 is mandatorily effective for annual reporting periods beginning on or after 1 January 2021.

IFRS 17 will replace IFRS 4 *Insurance Contracts*.

The IFRS 17 model combines a current balance sheet measurement of insurance contract liabilities with the recognition of profit over the period that services are provided. Certain changes in the estimates of future cash flows and the risk adjustment are also recognised over the period that services are provided. Entities will have an option to present the effect of changes in discount rates either in profit and loss or in OCI. The standard includes specific guidance on measurement and presentation for insurance contracts with participation features. The Group is currently assessing the impact of IFRS 17 on its financial statements.

Amendments to IFRS 4 Insurance contracts issued on 12 September 2016 provide two optional solutions to reduce the impact of the deferring effective dates between IFRS 9 and forthcoming insurance contracts standard – temporary exemption from IFRS 9 or overlay approach. The new insurance contracts Standard is currently being drafted and will have an effective date no earlier than 2020. The Group is currently assessing the potential impact of these options on its financial statements.

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

61. CHANGES IN PRESENTATION AND CORRECTION

Before the adoption of IFRS 9 the Group decided to present Trading financial assets, previously presented in Non-derivative financial assets at fair value through profit or loss, in a separate line of the consolidated statement of financial position. Financial assets designated as at fair value through profit or loss, previously presented in Non-derivative financial assets at fair value through profit or loss, were reclassified to Investment financial assets. The effects of the change in presentation on the consolidated statement of financial position as at 31 December 2017 were as follows:

	As previously reported	Reclassification	As reclassified
Non-derivative financial assets at fair value through profit or loss	313.4	(313.4)	–
• Non-derivative financial assets at fair value through profit or loss	313.1	(313.1)	–
• Non-derivative financial assets at fair value through profit or loss, pledged under repurchase agreements	0.3	(0.3)	–
Trading financial assets	–	277.2	277.2
• Trading financial assets	–	276.9	276.9
• Trading financial assets, pledged under repurchase agreements	–	0.3	0.3
Investment financial assets	285.6	36.2	321.8
• Investment financial assets	285.2	36.2	321.4

The effect of corresponding reclassifications on disclosure of the consolidated statement of cash flows for the year ended 31 December 2017 was as follows:

	As previously reported	Reclassification	As reclassified
Cash flows from/(used in) operating activities			
Net increase in financial assets at fair value through profit or loss	(46.9)	46.9	–
Net increase in trading financial assets	–	(47.8)	(47.8)
Net cash from in operating activities	1,433.7	(0.9)	1,432.8
Cash flows from/(used in) investing activities			
Proceeds from redemption and sales of investment financial assets designated as at fair value through profit or loss	–	0.9	0.9
Net cash from investing activities	1.5	0.9	2.4

The effect of corresponding reclassifications on Note 54 Related Party Transactions is presented below:

	As previously reported	Reclassification	As reclassified
Statement of financial position			
Government-related entities			
Non-derivative financial assets at fair value through profit or loss	172.7	(172.7)	–
Trading financial assets	–	168.9	168.9
Investment financial assets	216.8	3.8	220.6

Starting the adoption of IFRS 9 the Group adjusted the presentation of the comparative amounts in the consolidated income statement for the year ended 31 December 2017 to be consistent with the new presentation.

	As previously reported	Reclassification	As reclassified
Interest income	1,056.2	(1,056.2)	–
Interest income calculated using the effective interest method	–	1,016.6	1,016.6
Other interest income	–	39.6	39.6
Provision charge for impairment of other assets, credit related commitments and legal claims	(2.7)	2.7	–
Provision charge for credit losses on credit related commitments and other financial assets	–	(3.3)	(3.3)
Provision charge for legal claims and other commitments	–	0.6	0.6

Starting 3rd quarter 2018, the Group presents interest income on net investments in finance lease as separate line within Other interest income. The Group reclassified interest income on net investments in financial lease and certain other items from Interest income calculated using the effective interest method to Other interest income.

The effect of corresponding reclassifications on Note 5 Interest Income and Expense for the year ended 31 December 2017 is presented below:

	As previously reported	Reclassification	As reclassified
Loans and advances to customers	973.4	(24.0)	949.4
Net investment in finance lease	–	24.0	24.0

61. CHANGES IN PRESENTATION AND CORRECTION (CONTINUED)

The effect of corresponding reclassifications on Note 54 Related Party Transactions is presented below:

Income Statement	As previously reported	Reclassification	As reclassified
Interest Income arising from operations with Government-related entities			
Loans and advances to customers	207.3	(3.1)	204.2
Securities	25.7	(25.7)	–
Other financial assets, including securities	–	17.8	17.8
Financial assets at fair value through profit or loss	–	7.9	7.9
Net investment in finance lease	–	3.1	3.1

In the course of preparing its annual financial statements for the year ended 31 December 2018, the Group adjusted the effect of transition to IFRS 9 which was previously reported in the interim condensed consolidated financial statements for the periods ended 31 March 2018, 30 June 2018 and 30 September 2018.

The correction was driven by changes in the staging of certain corporate borrowers for which information about credit risk at origination date became available and by recalculation of the certain parameters of the expected credit loss model for retail borrowers following review of model's input data accuracy. As a result of the adjustment, the expected credit losses allowance as of the date of transition increased by 9.3 billion RUR, equity decreased by 7.4 billion RUR, and deferred tax asset increased by 1.9 billion RUR.

Effect on consolidated statement of changes in shareholders' equity previously reported in the interim condensed financial statements is as follows:

Retained earnings	As previously reported	Adjustment	As Adjusted
Closing balance (31 December 2017)	200.4	–	200.4
Recognition of expected credit losses under IFRS 9 (including lease receivables, loan commitments and financial guarantee contracts) and other remeasurement effects	(67.5)	(7.4)	(74.9)
Recognition of revenue under IFRS 15	1.1	–	1.1
Opening balance (1 January 2018)	134.0	(7.4)	126.6
Total equity			
Closing balance (31 December 2017)	1,479.7	–	1,479.7
Recognition of expected credit losses under IFRS 9 (including lease receivables, loan commitments and financial guarantee contracts) and other remeasurement effects	(62.6)	(7.4)	(74.9)
Recognition of revenue under IFRS 15	1.1	–	1.1
Opening balance (1 January 2018)	1,418.2	(7.4)	1,410.8

Effect on reconciliation from the opening to the closing balance of the loss allowance of loans and advances to customers previously reported in the interim condensed consolidated financial statements is as follows:

	As previously reported	Adjustment	As adjusted
Loans and advances to customers under IAS 39 / financial assets at amortised cost under IFRS 9	(601.4)	–	(601.4)
Net reclassification	32.5	–	32.5
Remeasurement	(164.9)	(9.3)	(174.2)
Opening balance (1 January 2018)	(733.8)	(9.3)	(743.1)

61. CHANGES IN PRESENTATION AND CORRECTION (CONTINUED)

Also, as at transition date the Group reassessed modifications of certain problematic loans to individuals and concluded that modifications were not substantial and did not result in derecognition of those loans. As a result, the Group reclassified such loans to individuals out of purchased credit-impaired to other ECL stages to as at 1 January 2018.

Effect of the adjustments above on reconciliation from the opening to the closing balance of the loss allowance of loans and advances to customers previously reported in the interim condensed financial statements is as follows:

	Opening balance (1 January 2018)			As reclassified
	As previously reported	Remeasurement	Reclassification	
Loans to legal entities at amortised cost				
12-month ECL	37.2	0.2	–	37.4
Lifetime ECL not credit-impaired	20.5	(4.3)	–	16.2
Lifetime ECL credit-impaired	413.0	(0.2)	–	412.8
Purchased credit-impaired	23.8	–	–	23.8
Loans and advances to customers at fair value through other comprehensive income	0.1	–	–	0.1
Total	494.6	(4.3)	–	490.3
Loans to individuals at amortised cost				
12-month ECL	26.4	5.8	–	32.2
Lifetime ECL not credit-impaired	8.0	1.9	0.1	10.0
Lifetime ECL credit-impaired	190.0	9.4	11.1	210.5
Purchased credit-impaired	14.8	(3.5)	(11.2)	0.1
Total	239.2	13.6	–	252.8