TATNEFT

Tatneft Group

IFRS CONSOLIDATED FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED 31 DECEMBER 2018

Contents

Independent Auditor's Report

To the Shareholders and Board of Directors of PJSC Tatneft:

Our opinion

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

What we have audited

The Group's consolidated financial statements comprise:

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

Basis for opinion

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

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

Independence

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

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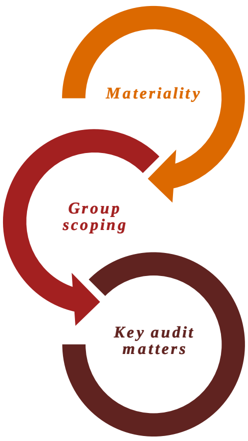
Our audit approach

Overview



Overall Group materiality: Russian Roubles ("RUB") 12,900 million, which represents 4.7% of profit before tax.

- We conducted audit work at 4 significant reporting entities.
- The Group engagement team visited Group's operations in Almetievsk, Nizhnekamsk and Moscow.
- Our audit scope addressed 95% of the Group's revenues and 94% of the Group's absolute value of underlying profit before tax.

Key audit matter

- Net impairment losses on financial assets.

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the consolidated financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall Group materiality for the consolidated financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, if any, both individually and in aggregate on the consolidated financial statements as a whole.

Overall Group materiality	RUB 12,900 million
How we determined it	4.7% of profit before tax
Rationale for the materiality benchmark applied	We chose profit before tax as the benchmark because, in our view, it is the benchmark against which the performance of the Group is most commonly measured by users, and is a generally accepted benchmark. We chose 4.7% which is consistent with quantitative materiality thresholds used for profit-oriented companies in this industry sector and prior year approach.

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.

Key audit matter	How our audit addressed the key audit matter
Net impairment losses on financial assets *Refer to Notes 7, 9 to the consolidated financial statements* At of 31 December 2018, as part of financial assets the Group recognises short-term and long-term loans issued (within Other short-term financial assets and Other long-term financial assets of the Consolidated Statement of Financial Position), and short-term and long-term accounts receivable. In accordance with IFRS 9 "Financial Instruments", starting from 1 January 2018 the Group management assesses expected credit losses in relation to other financial assets and accounts receivables prospectively and recognises an allowance for credit losses at each reporting date. The estimate of expected credit losses represents an unbiased and probability weighted amount that is determined by evaluating a range of possible outcomes, and reflects all reasonable and supportable information that is available at each reporting date about past events, current conditions and forecasts of future economic conditions.	We performed the following procedures to assess the appropriateness of valuation methods and methodology used in estimating recoverable values: • examination, on a sample basis, of the models and calculations used for the assessment of credit losses on a collective or individual basis; • analysis of key assumptions used by the Group's management when estimating the current market value of property provided as collateral under loan agreements. We engaged our valuation experts to review the valuation of the current market value of property pledged as collateral with the Group for the loans issued; • verification of the mathematical accuracy of discounted cash flow models (if applicable) and evaluation of the key assumptions used by the Group's management in these models.

Key audit matter	How our audit addressed the key audit matter
Where applicable, the Group evaluates information about each debtor's solvency, obtains experts' opinions on market values of property provided as collateral under loan agreements, prepares discounted cash flow models, and analyses additional relevant information. For the year ended 31 December 2018, the Group recognised net impairment losses on financial assets of RUB 14,955 million (Line "Net impairment losses on financial assets" in the Consolidated statement of profit or loss and other comprehensive income). We focused on this matter because of the materiality of the impairment and the significance of judgements and estimates involved in its calculation.	

How we tailored our Group audit scope

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls and the industry in which the Group operates.

In establishing the overall approach to the group audit, we determined the type of work that needed to be performed at reporting units by us, as the group engagement team, or component teams operating under our instruction. Where the work was performed by the component team of ZENIT Banking Group, we determined the level of involvement we needed to have in the audit work at this reporting unit to be able to conclude whether sufficient appropriate audit evidence had been obtained as a basis for our opinion on the Group's consolidated financial statements as a whole.

We identified the following significant reporting units where we performed full-scope audit procedures: PJSC Tatneft (parent holding company, corporate centre is located in Almetievsk), JSC TANECO (oil refinery subsidiary is located in Nizhnekamsk), PJSC Nizhnekamskshina (tires producing subsidiary is located in Nizhnekamsk) and ZENIT Banking Group (banking subsidiaries, corporate centre is located in Moscow). In addition, we performed specified audit procedures over selected financial information at a number of less significant reporting units in order to increase the level of audit comfort.

Other information

Management is responsible for the other information. The other information comprises "Management's discussion and analysis of financial condition and results of operations for the three months and the year ended 31 December 2018" (but does not include the consolidated financial statements and our auditor's report thereon), which we obtained prior to the date of this auditor's report, and PJSC Tatneft Annual Report 2018 and Quarterly Report of the Equity Securities Issuer for the 1st quarter 2019, which are expected to be made available to us after that date.

Our opinion on the consolidated financial statements does not cover the other information and we do not and 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 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. If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

When we read the PJSC Tatneft Annual Report 2018 and Quarterly Report of the Equity Securities Issuer for the 1st quarter 2019, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

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

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

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

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

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 scepticism throughout the audit. We also:

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

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

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

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

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

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

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

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

The certified auditor responsible for the audit resulting in this independent auditor's report is Maxim E. Timchenko.

AO PricewaterhouseCoopers Audit

29 March 2019

Moscow, Russian Federation

M.E. Timchenko, certified auditor (licence no. 01-000267), AO PricewaterhouseCoopers Audit

Audited entity: PJSC Tatneft

Record made in the Unified State Register of Legal Entities on 18 July 2002 under State Registration Number 1021601623702

423450, Russian Federation, Republic of Tatarstan, Almetievsk, Lenina str., 75

Independent auditor: AO PricewaterhouseCoopers Audit

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

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

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

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

TATNEFT
Consolidated Statement of Financial Position
(In millions of Russian Rubles)

	Note	31 December 2018	31 December 2017
Assets			
Cash and cash equivalents	6	65,489	42,797
Banking: Mandatory reserve deposits with CB RF		1,875	1,916
Accounts receivable, net	7	80,762	61,598
Banking: Loans to customers	8	53,797	44,495
Other short-term financial assets	9	32,901	68,925
Inventories	10	50,606	39,318
Prepaid expenses and other current assets	11	23,090	23,123
Prepaid income tax		852	1,027
Banking: Non-current assets held for sale		2,360	2,182
Total current assets		**311,732**	**285,381**
Long-term accounts receivable, net	7	2,930	3,439
Banking: Loans to customers	8	92,508	106,488
Other long-term financial assets	9	81,513	52,364
Investments in associates and joint ventures		637	658
Property, plant and equipment, net	12	701,922	651,460
Deferred income tax assets	13	3,548	1,502
Other long-term assets		6,498	6,162
Total non-current assets		**889,556**	**822,073**
Total assets		**1,201,288**	**1,107,454**
Liabilities and shareholders' equity			
Short-term debt and current portion of long-term debt	14	11,953	39,916
Accounts payable and accrued liabilities	15	42,989	41,529
Dividends payable	19	50,711	6,032
Banking: Other financial liabilities at fair value through profit and loss		1,190	-
Banking: Due to banks and CB RF	16	13,765	27,971
Banking: Customer accounts	17	183,654	158,436
Taxes payable	13	38,771	27,806
Income tax payable		3,254	3,563
Other short-term liabilities		533	1,043
Total current liabilities		**346,820**	**306,296**
Long-term debt, net of current portion	14	3,084	6,896
Banking: Due to banks and CB RF	16	4,660	5,669
Banking: Customer accounts	17	682	478
Decommissioning provision, net of current portion	12	34,338	38,017
Deferred income tax liability	13	31,486	27,323
Other long-term liabilities	18	3,437	4,046
Total non-current liabilities		**77,687**	**82,429**
Total liabilities		**424,507**	**388,725**
Shareholders' equity			
Preferred shares (authorised and issued at 31 December 2018 and 2017 – 147,508,500 shares; nominal value at 31 December 2018 and 2017 – RR1.00)	19	746	746
Common shares (authorised and issued at 31 December 2018 and 2017 – 2,178,690,700 shares; nominal value at 31 December 2018 and 2017 – RR1.00)	19	11,021	11,021
Additional paid-in capital		84,437	84,437
Accumulated other comprehensive income		1,804	1,652
Retained earnings		683,508	624,254
Less: Common shares held in treasury, at cost (75,483,000 shares at 31 December 2018 and 2017)		(10,251)	(10,251)
Total Group shareholders' equity		**771,265**	**711,859**
Non-controlling interest		**5,516**	**6,870**
Total shareholders' equity		**776,781**	**718,729**
Total liabilities and equity		**1,201,288**	**1,107,454**

Approved for issue and signed on behalf of the Board of Directors on 29/03 2019.

Voskoboinikov V.A.
Director of International Reporting

Maganov N.U.
CEO

TATNEFT
Consolidated Statement of Profit or Loss and Other Comprehensive Income
(In millions of Russian Rubles)

	Note	Year ended 31 December 2018	Year ended 31 December 2017
Sales and other operating revenues on non-banking activities	24	**910,534**	**681,159**
Costs and other deductions on non-banking activities			
Operating expenses		(132,215)	(123,517)
Purchased oil and refined products		(76,080)	(70,984)
Exploration	12	(688)	(1,143)
Transportation		(36,952)	(35,925)
Selling, general and administrative		(49,700)	(48,327)
Depreciation, depletion and amortization	12,24	(30,520)	(24,885)
Net impairment losses on financial assets	5,7,9	(14,955)	(15,156)
Net impairment losses on property, plant and equipment and other non-financial assets	12	(5,874)	(356)
Taxes other than income taxes	13	(293,162)	(194,316)
Maintenance of social infrastructure and transfer of social assets	12	(5,613)	(5,427)
Total costs and other deductions on non-banking activities		**(645,759)**	**(520,036)**
(Loss)/gain on disposals of interests in subsidiaries and associates, net		(1,842)	109
Other operating gains, net		488	1,343
Operating profit on non-banking activities		**263,421**	**162,575**
Net interest, fee and commission and other operating income/(expenses) and gains/(losses) on banking activities			
Interest, fee and commission income	22,23,24	23,259	30,964
Interest, fee and commission expense	22,23	(11,132)	(14,342)
Credit loss allowance	8	(1,310)	(8,685)
Operating expenses		(10,019)	(7,498)
Loss arising from dealing in foreign currencies, net		(205)	(27)
Other operating expense, net		(36)	(1,220)
Total net interest, fee and commission and other operating income/(expenses) and gains/(losses) on banking activities		**557**	**(808)**
Other income/(expenses)			
Foreign exchange gain/(loss), net	28	7,936	(1,618)
Interest income on non-banking activities	21	5,497	6,494
Interest expense on non-banking activities, net of amounts capitalised	21	(3,590)	(3,095)
Share of results of associates and joint ventures		(32)	(10)
Total other income, net	24	**9,811**	**1,771**
Profit before income tax		**273,789**	**163,538**
Income tax			
Current income tax expense		(58,015)	(34,227)
Deferred income tax expense		(4,226)	(5,419)
Total income tax expense	13	**(62,241)**	**(39,646)**
Profit for the period		**211,548**	**123,892**

(In millions of Russian Rubles)

	Note	Year ended 31 December 2018	Year ended 31 December 2017
Other comprehensive income/(loss) net of income tax:			
Items that may be reclassified subsequently to profit or loss:			
Foreign currency translation adjustments		(76)	476
Gain on debt financial assets at fair value through other comprehensive income, net		44	-
Unrealised holding gain on available-for-sale securities (for comparatives only)		-	133
Items that will not be reclassified to profit or loss:			
Loss on investments in equity financial assets at fair value through other comprehensive income, net		(150)	-
Actuarial gain/(loss) on employee benefit plans		334	(250)
Other comprehensive income		**152**	**359**
Total comprehensive income for the year		**211,700**	**124,251**
Profit/(loss) attributable to:			
- Group shareholders		211,812	123,139
- Non-controlling interest		(264)	753
		211,548	**123,892**
Total comprehensive income/(loss) attributable to:			
- Group shareholders		211,964	123,498
- Non-controlling interest		(264)	753
		211,700	**124,251**
Basic and diluted earnings per share (RR)			
Common	19	94.11	54.73
Preferred		93.89	54.32
Weighted average shares outstanding (millions of shares)			
Common	19	2,103	2,103
Preferred		148	148

TATNEFT
Consolidated Statement of Changes in Equity
(In millions of Russian Rubles)

	Attributable to Group shareholders										Non-controlling interest	Total equity
	Number of shares (thousands)	**Share capital**	**Additional paid-in capital**	**Treasury shares**	**Actuarial (loss)/gain on employee benefit plans**	**Foreign currency translation adjustments**	**Unrealised holding gains/(losses) on available-for-sale securities (for comparatives only)**	**Gain/(loss) on financial assets at fair value through other comprehensive income, net**	**Retained earnings**	**Total shareholders' equity**		
Balance at 1 January 2017	**2,250,718**	**11,767**	**85,224**	**(10,250)**	**(1,621)**	**1,201**	**1,713**	**-**	**615,477**	**703,511**	**5,393**	**708,904**
Profit for the year	-	-	-	-	-	-	-	-	123,139	123,139	753	123,892
Other comprehensive (loss)/income for the year	-	-	-	-	(250)	476	133	-	-	359	-	359
Total comprehensive (loss)/income for the year	**-**	**-**	**-**	**-**	**(250)**	**476**	**133**	**-**	**123,139**	**123,498**	**753**	**124,251**
Treasury shares	(2)	-	-	(1)	-	-	-	-	-	(1)	-	(1)
- Acquisitions	(92)	-	-	(32)	-	-	-	-	-	(32)	-	(32)
- Disposals	90	-	-	31	-	-	-	-	-	31	-	31
Business combinations	-	-	-	-	-	-	-	-	-	-	97	97
Acquisition of non-controlling interest in subsidiaries	-	-	(787)	-	-	-	-	--	-	(787)	787	-
Disposal of non-controlling interest in subsidiaries	-	-	-	-	-	-	-	-	-	-	(145)	(145)
Dividends declared (Note 19)	-	-	-	-	-	-	-	-	(114,362)	(114,362)	(15)	(114,377)
Balance at 31 December 2017	**2,250,716**	**11,767**	**84,437**	**(10,251)**	**(1,871)**	**1,677**	**1,846**	**-**	**624,254**	**711,859**	**6,870**	**718,729**
Effect of initial application of IFRS 9 (Note 5)	-	-	-	-	-	-	(1,846)	1,846	(6,959)	(6,959)	(2,048)	(9,007)
Restated balance at 1 January 2018	**2,250,716**	**11,767**	**84,437**	**(10,251)**	**(1,871)**	**1,677**	**-**	**1,846**	**617,295**	**704,900**	**4,822**	**709,722**
Profit/(loss) for the year	-	-	-	-	-	-	-	-	211,812	211,812	(264)	211,548
Other comprehensive income/(loss) for the year	-	-	-	-	334	(76)	-	(106)	-	152	-	152
Total comprehensive income/(loss) for the year	**-**	**-**	**-**	**-**	**334**	**(76)**	**-**	**(106)**	**211,812**	**211,964**	**(264)**	**211,700**
Acquisition of non-controlling interest in subsidiaries	-	-	-	-	-	-	-	-	-	-	(48)	(48)
Disposal of non-controlling interest in subsidiaries	-	-	-	-	-	-	-	-	-	-	1,052	1,052
Dividends declared (Note 19)	-	-	-	-	-	-	-	-	(145,599)	(145,599)	(46)	(145,645)
Balance at 31 December 2018	**2,250,716**	**11,767**	**84,437**	**(10,251)**	**(1,537)**	**1,601**	**-**	**1,740**	**683,508**	**771,265**	**5,516**	**776,781**

The accompanying notes are an integral part of these consolidated financial statements.

(In millions of Russian Rubles)

		Year ended 31 December 2018	Year ended 31 December 2017
Operating activities			
Profit for the year		211,548	123,892
Adjustments:			
Net interest, fee and commission and other operating (income)/expenses and (gains)/losses on banking activities		(557)	808
Depreciation, depletion and amortization		30,520	24,885
Income tax expense		62,241	39,646
Net impairment losses on financial assets	5,7,9	14,955	15,047
Net impairment losses on property, plant and equipment and other non-financial assets	12	5,874	356
Loss on disposals of interests in subsidiaries and associates, net		1,842	-
Effects of foreign exchange		1,445	(504)
Equity investments gain net of dividends received		32	10
Change in provision for impairment of financial assets (for comparatives only)		-	3,462
Interest income on non-banking activities		(5,497)	(6,494)
Interest expense on non-banking activities, net of amounts capitalised		3,590	3,095
Other		807	(559)
Changes in operational working capital, excluding cash:			
Accounts receivable		(27,786)	1,245
Inventories		(11,015)	(5,997)
Prepaid expenses and other current assets		132	66
Securities at fair value through profit or loss		504	(106)
Accounts payable and accrued liabilities		4,011	(6,265)
Taxes payable		10,939	4,071
Other non-current assets		73	375
Net cash provided by non-banking operating activities before income tax and interest		**303,658**	**197,033**
Net interest, fee and commission and other operating income/(expenses) and gains/(losses) on banking activities		557	(808)
Adjustments:			
Provision for loan impairment		1,310	8,685
Provision for losses on credit related commitments		(551)	-
Change in fair value of financial assets		917	-
Other		165	(1,842)
Changes in operational working capital on banking activities, excluding cash:			
Mandatory reserve deposits with Central Bank of Russian Federation		41	72
Due from banks		(589)	8,371
Banking loans to customers		(11,107)	15,861
Due to banks and Central Bank of Russian Federation		(16,149)	15,181
Banking customers accounts		18,413	(18,961)
Debt securities issued		(2,298)	(1,098)
Financial assets at fair value through profit or loss		4,989	(534)
Other assets and liabilities		-	(2,620)
Net cash (used)/provided by banking operating activities before income tax		**(4,302)**	**22,307**
Income taxes paid		(58,150)	(35,144)
Interest paid on non-banking activities		(846)	(160)
Interest received on non-banking activities		5,396	6,236
Net cash provided by operating activities		**245,756**	**190,272**

The accompanying notes are an integral part of these consolidated financial statements.

TATNEFT
Consolidated Statement of Cash Flows
(In millions of Russian Rubles)

		Year ended 31 December 2018	Year ended 31 December 2017
Investing activities			
Additions to property, plant and equipment		(97,945)	(84,986)
Proceeds from disposal of property, plant and equipment		1,693	1,744
Net cash outflow on acquisition of subsidiaries		(173)	(3,300)
Cash inflow from disposal of subsidiaries and associates, net of disposed cash		20	-
Purchase of available-for-sale financial assets (for comparatives only)		-	(32,399)
Purchase of financial assets at fair value through other comprehensive income		(35,086)	-
Purchase of held to maturity investments (for comparatives only)		-	(59,038)
Purchase of financial assets at amortised cost		(20,965)	-
Proceeds from disposal of available-for-sale financial assets (for comparatives only)		-	19,379
Proceeds from disposal of financial assets at fair value through other comprehensive income		36,574	-
Proceeds from redemption of held to maturity investments (for comparatives only)		-	13,680
Proceeds from redemption of financial assets at amortised cost		43,658	-
(Purchase)/proceeds from sale of non-current assets held for sale		170	901
Proceeds from/(Purchase of) investments in associates and joint ventures		10	(738)
Proceeds from redemption of bank deposits		21,314	33,399
Placement of bank deposits		(21,053)	(994)
Proceeds from redemption of loans and notes receivable	9	4,282	1,343
Issuance of loans and notes receivable	9	(24,068)	(1,316)
Change in restricted cash		-	3
Net cash used in investing activities		**(91,569)**	**(112,322)**
Financing activities			
Proceeds from issuance of debt from non-banking activities	28	25,920	25,107
Repayment of debt from non-banking activities	28	(49,466)	(5,434)
Issuance of bonds	28	-	2,365
Redemption of bonds	28	(6,979)	(25,740)
Proceeds from subordinated debt		-	194
Repayment of subordinated debt		(1,359)	-
Dividends paid to shareholders	19	(100,920)	(108,479)
Dividends paid to non-controlling shareholders	19	(46)	(15)
Purchase of treasury shares		-	(32)
Proceeds from sale of treasury shares		-	31
Proceeds from issuance of shares by subsidiaries		-	18
Net cash used in financing activities		**(132,850)**	**(111,985)**
Net change in cash and cash equivalents		**21,337**	**(34,035)**
Effect of foreign exchange on cash and cash equivalents		1,355	(274)
Cash and cash equivalents at the beginning of the period		42,797	77,106
Cash and cash equivalents at the end of the period		**65,489**	**42,797**

Note 1: Organisation

PJSC Tatneft (the "Company") and its subsidiaries (jointly referred to as "the Group") are engaged in crude oil exploration, development and production principally in the Republic of Tatarstan ("Tatarstan"), a republic within the Russian Federation. The Group also engages in refining and marketing of crude oil, refined products as well as production and marketing of petrochemicals and since October 2016, with acquisition of the controlling interest in ZENIT Banking Group (Bank ZENIT) the Group is also engaged in banking activities (Note 27).

The Company was incorporated as an open joint stock company effective 1 January 1994 (the "privatization date") pursuant to the approval of the State Property Management Committee of the Republic of Tatarstan (the "Government"). All assets and liabilities previously managed by the production association Tatneft, Bugulminsky Mechanical Plant, Menzelinsky Exploratory Drilling Department and Bavlinsky Drilling Department were transferred to the Company at their book value at the privatization date in accordance with Decree No. 1403 on Privatization and Restructuring of Enterprises and Corporations into Joint-Stock Companies. Such transfers were considered transfers between entities under common control at the privatization date, and were recorded at book value.

The Group does not have an ultimate controlling party.

As of 31 December 2018 and 2017 the government of Tatarstan controls about 36% of the Company's voting stock. Tatarstan also holds a "Golden Share", a special governmental right, in the Company. The exercise of its powers under the Golden Share enables the Tatarstan government to appoint one representative to the Board of Directors and one representative to the Revision Committee of the Company as well as to veto certain major decisions, including those relating to changes in the share capital, amendments to the Charter, liquidation or reorganization of the Company and "major" and "interested party" transactions as defined under Russian law. The Golden Share currently has an indefinite term. The Tatarstan government also controls or exercises significant influence over a number of the Group's suppliers and contractors.

The Company is domiciled in the Russian Federation. The address of its registered office is Lenina St., 75, Almetyevsk, Republic of Tatarstan, Russian Federation.

Note 2: Basis of preparation

The accompanying consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

These consolidated financial statements have been prepared on a historical cost basis, except for initial recognition of financial instruments based on fair value, revaluation of financial instruments categorised at fair value through profit or loss ("FVTPL") and at fair value through other comprehensive income ("FVOCI").

The entities of the Group maintain their accounting records and prepare their statutory financial statements principally in accordance with the Regulations on Accounting and Reporting of the Russian Federation ("RAR"), and applicable accounting and reporting standards of countries outside the Russian Federation. A number of entities of the Group prepare their financial statements in accordance with IFRS. The accompanying consolidated financial statements have been prepared from these accounting records and adjusted as necessary to comply with IFRS. The principal differences between RAR and IFRS relate to: (1) valuation (including indexation for the effect of hyperinflation in the Russian Federation through 2002) and depreciation of property, plant and equipment; (2) foreign currency translation; (3) deferred income taxes; (4) valuation allowances for unrecoverable assets; (5) consolidation; (6) share based payment; (7) accounting for oil and gas properties; (8) recognition and disclosure of guarantees, contingencies and commitments; (9) accounting for decommissioning provision; (10) pensions and other post-retirement benefits and (11) business combinations and goodwill.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

Note 3: Summary of significant accounting policies

Functional and presentation currency. The presentation currency of the Group is the Russian Ruble.

Management has determined the functional currency for the Company and each consolidated subsidiary of the Group, except for subsidiaries located outside of the Russian Federation, is the Russian Ruble because the majority of Group revenues, costs, property and equipment purchased, debt and trade liabilities are either priced, incurred, payable or otherwise measured in Russian Rubles. Accordingly, transactions and balances not measured in Russian Rubles (primarily US Dollars) have been re-measured into Russian Rubles in accordance with the relevant provisions of IAS 21 "The Effects of Changes in Foreign Exchange Rates".

For operations of major subsidiaries located outside of the Russian Federation, that primarily use US Dollar as the functional currency, adjustments resulting from translating foreign functional currency assets and liabilities into Russian Rubles are recorded in other comprehensive income and separate component of shareholders' equity entitled foreign currency translation adjustments. Revenues, expenses and cash flows are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions).

The official rate of exchange, as published by the Central Bank of Russian Federation ("CB RF"), of the Russian Ruble ("RR") to the US Dollar ("US $") at 31 December 2018 and 2017 was RR 69.47 and RR 57.60 to US $, respectively. Average rate of exchange for the years ended 31 December 2018 and 2017 were RR 62.71 and RR 58.35 per US $, respectively.

Consolidation. Subsidiaries are all entities over which the Group has control. The Group controls an entity when the Group has the power to direct relevant activities of the investee that significantly affect their returns, exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The Group uses the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognizes any non-controlling interest in the acquiree on an acquisition-by-acquisition basis at the non-controlling interest's proportionate share of the acquiree's net assets or at fair value.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded within non-current assets. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary, the difference is recognised directly in the profit and loss for the year.

Inter-company transactions, balances and unrealised gains and losses on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the cost cannot be recovered.

Associates and joint ventures. Associates and joint ventures 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 and joint ventures are accounted for using the equity method of accounting and are initially recognised at cost. Dividends received from associates and joint ventures reduce the carrying value of the investment in associates and joint ventures. Other post-acquisition changes in Group's share of net assets of an associate and joint ventures are recognised as follows: (i) the Group's share of profits or losses of associates or joint ventures is recorded in the consolidated profit or loss for the year as share of result of associates or joint ventures, (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 or joint ventures are recognised in profit or loss within the share of result of associates or joint ventures.

However, when the Group's share of losses in an associate or joint venture equals or exceeds its interest in the associate or joint venture, including any other unsecured receivables, the Group does not recognize further losses, unless it has incurred obligations or made payments on behalf of the associate or joint venture.

Note 3: Summary of significant accounting policies (continued)

Unrealised gains on transactions between the Group and its associates and joint ventures are eliminated to the extent of the Group's interest in the associates and joint ventures; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

The Group reviews equity method investments for impairment on an annual basis, and records impairment when circumstances indicate that the carrying value exceeds the recoverable amount.

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

Valuation techniques such as discounted cash flow models or models based on recent arm's length transactions or consideration of financial data of the investees are used to measure fair value of certain financial instruments for which external market pricing information is not available. Fair value measurements are analysed by level in the fair value hierarchy as follows: (i) level one are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities, (ii) level two measurements are valuations techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices), and (iii) level three measurements are valuations not based on solely observable market data (that is, the measurement requires significant unobservable inputs). Transfers between levels of the fair value hierarchy are deemed to have occurred at the end of the reporting period. Refer to Note 28.

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

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

The effective interest method is a method of allocating interest income or interest expense over the relevant period, so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the gross carrying amount of the financial instrument.

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

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

Note 3: Summary of significant accounting policies (continued)

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

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

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

Business model is determined for a group of assets (on a portfolio level) based on all relevant evidence about the activities that the Group undertakes to achieve the objective set out for the portfolio available at the date of the assessment. Factors considered by the Group in determining the business model include the purpose and composition of a portfolio, past experience on how the cash flows for the respective assets were collected, how risks are assessed and managed, how the assets' performance is assessed and how managers are compensated. Refer to Note 4 for critical judgements applied by the Group in determining the business models for its financial assets.

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

Where the contractual terms introduce exposure to risk or volatility that is inconsistent with a basic lending arrangement, the financial asset is classified and measured at FVTPL. The SPPI assessment is performed on initial recognition of an asset and it is not subsequently reassessed. Refer to Note 4 for critical judgements applied by the Group in performing the SPPI test for its financial assets.

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

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

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

Note 3: Summary of significant accounting policies (continued)

The Group applies a three stage model for impairment, based on changes in credit quality since initial recognition. A financial instrument that is not credit-impaired on initial recognition is classified in Stage 1. Financial assets in Stage 1 have their ECL measured at an amount equal to the portion of lifetime ECL that results from default events possible within the next 12 months or until contractual maturity, if shorter ("12 Months ECL"). If the Group identifies a significant increase in credit risk ("SICR") since initial recognition, the asset is transferred to Stage 2 and its ECL is measured based on ECL on a lifetime basis, that is, up until contractual maturity but considering expected prepayments, if any ("Lifetime ECL"). Refer to Note 28 for a description of how the Group determines when a SICR has occurred. If the Group determines that a financial asset is credit-impaired, the asset is transferred to Stage 3 and its ECL is measured as a Lifetime ECL. The Group's definition of credit impaired assets and definition of default is explained in Note 28. For financial assets that are purchased or originated credit-impaired ("POCI Assets"), the ECL is always measured as a Lifetime ECL. Note 28 provides information about inputs, assumptions and estimation techniques used in measuring ECL.

The Group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade and other receivables. To measure the expected credit losses, trade and other receivables have been grouped based on shared credit risk characteristics and the days past due. The Group calculates expected credit losses on trade receivables based on historical data assuming reasonable approximation of current losses rates adjusted on forward-looking information.

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

Financial assets – derecognition. The Group derecognises financial assets when (a) the assets are redeemed or the rights to cash flows from the assets otherwise expire or (b) the Group has transferred the rights to the cash flows from the financial assets or entered into a qualifying pass-through arrangement whilst (i) also transferring substantially all the risks and rewards of ownership of the assets or (ii) neither transferring nor retaining substantially all the risks and rewards of ownership but not retaining control.

Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose additional restrictions on the sale.

Financial assets – modification. The Group sometimes renegotiates or otherwise modifies the contractual terms of the financial assets. The Group assesses whether the modification of contractual cash flows is substantial considering, among other, the following factors: any new contractual terms that substantially affect the risk profile of the asset (e.g. profit share or equity-based return), significant change in interest rate, change in the currency denomination, new collateral or credit enhancement that significantly affects the credit risk associated with the asset or a significant extension of a loan when the borrower is not in financial difficulties.

If the modified terms are substantially different, the rights to cash flows from the original asset expire and the Group derecognises the original financial asset and recognises a new asset at its fair value. The date of renegotiation is considered to be the date of initial recognition for subsequent impairment calculation purposes, including determining whether a SICR has occurred. The Group also assesses whether the new loan or debt instrument meets the SPPI criterion. Any difference between the carrying amount of the original asset derecognised and fair value of the new substantially modified asset is recognised in profit or loss, unless the substance of the difference is attributed to a capital transaction with owners.

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

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

Note 3: Summary of significant accounting policies (continued)

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

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

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

Financial liabilities designated at FVTPL. The Group may designate certain liabilities at FVTPL at initial recognition. Gains and losses on such liabilities are presented in profit or loss except for the amount of change in the fair value that is attributable to changes in the credit risk of that liability (determined as the amount that is not attributable to changes in market conditions that give rise to market risk), which is recorded in OCI and is not subsequently reclassified to profit or loss. This is unless such a presentation would create, or enlarge, an accounting mismatch, in which case the gains and losses attributable to changes in credit risk of the liability are also presented in profit or loss.

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

Cash and cash equivalents. Cash represents cash on hand and in bank accounts and CB RF, other than mandatory reserves deposits with CB RF, which can be effectively withdrawn at any time without prior notice. Cash equivalents include highly liquid short-term investments that can be converted to a certain cash amount and mature within three months or less from the date of purchase. Cash and cash equivalents are carried at AC because: (i) they are held for collection of contractual cash flows and those cash flows represent SPPI, and (ii) they are not designated at FVTPL. Features mandated solely by legislation, such as the bail-in legislation in certain countries, do not have an impact on the SPPI test, unless they are included in contractual terms such that the feature would apply even if the legislation is subsequently changed.

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

Due from banks. Amounts due from banks other than those that are part of the Group are recorded when the Group advances money to counterparty banks due on fixed or determinable dates. Amounts due from other banks are carried at AC when: (i) they are held for the purposes of collecting contractual cash flows and those cash flows represent SPPI, and (ii) they are not designated at FVTPL. Due from banks that mature within three months or less from the date of placement are included in cash and cash equivalents.

Investments in debt securities. Based on the business model and the cash flow characteristics, the Group classifies investments in debt securities as carried at AC, FVOCI or FVTPL. Debt securities are carried at AC if they are held for collection of contractual cash flows and where those cash flows represent SPPI, and if they are not voluntarily designated at FVTPL in order to significantly reduce an accounting mismatch. Debt securities are carried at FVOCI if they are held for collection of contractual cash flows and for selling, where those cash flows represent SPPI, and if they are not designated at FVTPL.

Note 3: Summary of significant accounting policies (continued)

Interest income from these assets is calculated using the effective interest method and recognised in profit or loss. An impairment allowance estimated using the expected credit loss model is recognised in profit or loss for the year. All other changes in the carrying value are recognised in OCI. When the debt security is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from OCI to profit or loss.

Investments in debt securities are carried at FVTPL if they do not meet the criteria for AC or FVOCI. The Group may also irrevocably designate investments in debt securities at FVTPL on initial recognition if applying this option significantly reduces an accounting mismatch between financial assets and liabilities being recognised or measured on different accounting bases.

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

Loans and advances to customers. Loans and advances to customers are recorded when the Group advances money to purchase or originate a loan due from a customer. Based on the business model and the cash flow characteristics, the Group classifies loans and advances to customers into one of the following measurement categories: (i) AC: loans that are held for collection of contractual cash flows and those cash flows represent SPPI and loans that are not voluntarily designated at FVTPL, and (ii) FVTPL: loans that do not meet the SPPI test or other criteria for AC or FVOCI are measured at FVTPL.

Note 28 provides information about inputs, assumptions and estimation techniques used in measuring ECL.

Loan commitments. The Group issues commitments to provide loans in the course of its banking activities. These commitments are irrevocable or revocable only in response to a material adverse change. Such commitments are initially recognised at their fair value, which is normally evidenced by the amount of fees received. This amount is amortised on a straight line basis over the life of the commitment, except for commitments to originate loans if it is probable that the Group will enter into a specific lending arrangement and does not expect to sell the resulting loan shortly after origination; such loan commitment fees are deferred and included in the carrying value of the loan on initial recognition. At the end of each reporting period, the commitments are measured at (i) the remaining unamortised balance of the amount at initial recognition, plus (ii) the amount of the loss allowance determined based on the expected credit loss model, unless the commitment is to provide a loan at a below market interest rate, in which case the measurement is at the higher of these two amounts.

The carrying amount of the loan commitments represents a liability. For contracts that include both a loan and an undrawn commitment and where the Group cannot separately distinguish the ECL on the undrawn loan component from the loan component, the ECL on the undrawn commitment is recognised together with the loss allowance for the loan. To the extent that the combined ECLs exceed the gross carrying amount of the loan, they are recognised as a liability.

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

Note 3: Summary of significant accounting policies (continued)

Sale and repurchase agreements and lending of securities. Sale and repurchase agreements ("repo agreements"), which effectively provide a lender's return to the counterparty, are treated as secured financing transactions. Securities sold under such sale and repurchase agreements are not derecognised. Securities sold under repo agreements are presented as other financial assets carried at FVTPL, FVOCI, AC. The corresponding liability is presented within amounts "Due to other banks and CB RF" or "Customer accounts".

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

Notes receivable. Notes receivable are included in "Other financial assets" and are carried at AC if: (i) they are held for collection of contractual cash flows and those cash flows represent SPPI, and (ii) they are not designated at FVTPL.

Trade and other receivables. Trade and other receivables are recognised initially at fair value and are subsequently carried at AC using the effective interest method.

Trade and other payables. Trade payables are accrued when the counterparty performs its obligations under the contract and are recognised initially at fair value and subsequently carried at AC using the effective interest method.

Due to other banks and CB RF. Amounts due to other banks and CB RF are recorded when money or other assets are advanced to the Group by counterparty banks. The non-derivative liability is carried at AC. If the Group purchases its own debt, the liability is removed from the consolidated statement of financial position and the difference between the carrying amount of the liability and the consideration paid is included in gains or losses arising from retirement of debt.

Customer accounts. Customer accounts are non-derivative liabilities to individuals, state or corporate customers and are carried at AC.

Subordinated debt. Subordinated debt can only be paid in the event of a liquidation after the claims of other higher priority creditors have been met. Subordinated debt is carried at AC.

Debt securities and bonds issued. Debt securities issued include promissory notes and certificates of deposit issued by the Group to its customers in the course of its banking activities. Bonds issued represent securities issued by the Bank that are traded and quoted in the open market. Promissory notes carry a fixed date of repayment. These may be issued against cash deposits or as a payment instrument, which the customer can sell at a discount in the over-the-counter market. Debt securities and bonds issued are carried at AC. If the Group purchases its own debt, it is removed from the consolidated statement of financial position and the difference between the carrying amount and the amount paid is recognised as a gain or loss on redemption of debt.

Non-current assets classified as held for sale. Non-current assets are classified in the statement of financial position as "Non-current assets held for sale" if their carrying amount will be recovered principally through a sale transaction within twelve months after the end of the reporting period. Assets are 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 sale at a reasonable price; (d) the sale is expected within one year and (e) it is unlikely that significant changes to the plan to sell will be made or that the plan will be withdrawn. Non-current assets 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.

Non-current assets held for sale are measured at the lower of its carrying amount and fair value less costs of disposal. If the fair value less costs of disposal of an asset held for sale is lower than its carrying amount, an impairment loss is recognised in the consolidated statement of profit or loss and other comprehensive income as other operating income/expense. Any subsequent increase in an asset's fair value less costs of disposal is recognised to the extent of the cumulative impairment loss that was previously recognised in relation to that specific asset.

Precious metals. The Group has a practice of taking delivery of precious metals and selling them within a short period after delivery, for the purpose of generating a profit from short-term fluctuations in price or dealer's margin. Precious metals are carried at purchase price from CB RF and are subsequently measured at fair value based on London precious metals exchange.

Note 3: Summary of significant accounting policies (continued)

Inventories. Inventories of crude oil, refined oil products, materials and supplies, finished goods and other inventories are valued at the lower of cost or net realizable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated cost of completion and selling expenses. The Group uses the weighted-average-cost method. Costs include both direct and indirect expenditures incurred in bringing an item or product to its existing condition and location.

Prepaid expenses. Prepaid expenses include advances for purchases of products and services, insurance fees, prepayments for export duties, VAT and other taxes. Prepayments are carried at cost less provision for impairment.

Prepayments to acquire assets are transferred to the carrying amount of the asset once the Group has obtained control of the asset and it is probable that future economic benefits associated with the asset will flow to the Group. Prepayments for services such as insurance, transportation and others are written off to profit or loss when the goods or services relating to the prepayments are received.

If there is an indication that the assets, goods or services relating to a prepayment will not be received, the carrying value of the prepayment is written down accordingly and a corresponding impairment loss is recognised in the profit or loss for the year.

Mineral extraction tax. Mineral extraction tax (MET) on crude oil is defined monthly as an amount of volume produced per fixed tax rate (RR 919 per ton in 2018 and 2017, respectively) adjusted depending on the monthly average market prices of the Urals blend and the RR/US $ average exchange rate for the preceding month, taking into account the features of oil production. MET liabilities are lower for fields whose depletion rate exceeds 80% of their proved reserves as per the Russian classification of reserves and resources, as a result of using a reduction factor that depends on the level of depletion. The Company saves 3.5% at a field for each percent of depletion above the 80% threshold. In addition, lower MET is envisaged for small fields via application of a factor that characterises the volume of reserves. The amount of tax relief for depleted and small fields is calculated using the base MET rate of RR 559 per tonne (in 2017 - RR 559 per tonne).

Furthermore, the zero MET tax rate is applied to the production of highly viscous crude oil (with viscosity of 10,000 Megapascal second in reservoir conditions) and oil produced from Domanic productive sediments. In addition, another relief in the form of a lower MET is available for production of highly viscous oil with viscosity in the range from 200 to 10,000 Megapascal second (in reservoir conditions) and for production of oil in the Nenets Autonomous Okrug (via application of Kkan ratio that characterises the production area and oil properties. The saving in these circumstances is calculated using the base MET tax rate of RR 559 per tonne (in 2017 - RR 559 per tonne).

MET is recorded within Taxes other than income tax in the consolidated statements of profit or loss and other comprehensive income.

Value added tax. Value added tax (VAT) at a standard rate of 18% (starting from 1 January 2019 – 20%) is payable on the difference between output VAT on sales of goods and services and recoverable input VAT charged by suppliers. Output VAT is charged on the earliest of the dates: either the date of the shipment of goods (works, services) or the date of advance payment by the buyer. Input VAT can be recovered when purchased goods (works, services) are accounted for and other necessary requirements provided by the tax legislation are met. Where provision has been made for the ECL of receivables, the impairment loss is recorded for the gross amount of the debtor, including VAT.

Export of goods and rendering certain services related to exported goods are subject to 0% VAT rate upon the submission of confirmation documents to the tax authorities.

VAT related to sales and purchases is recognised in the Consolidated Statements of Financial Position on a gross basis and disclosed separately as Prepaid expenses and other current assets and Taxes payable.

Oil and gas exploration and development cost. Oil and gas exploration and development activities are accounted for using the successful efforts method whereby costs of acquiring unproved and proved oil and gas property as well as costs of drilling and equipping productive wells and related production facilities are capitalised.

Other exploration expenses, including geological and geophysical expenses and the costs of carrying and retaining undeveloped properties, are expensed as incurred. The costs of exploratory wells that find oil and gas reserves are capitalised as exploration and evaluation assets on a “field by field” basis pending determination of whether proved reserves have been found.

Note 3: Summary of significant accounting policies (continued)

Exploration and evaluation costs are subject to technical, commercial and management review as well as review for impairment at least once a year to confirm the continued intent to develop or otherwise extract value from the discovery. When indicators of impairment are present, resulting impairment loss is measured.

If subsequently commercial reserves are discovered, the carrying value, less losses from impairment of respective exploration and evaluation assets, is classified as development assets. However, if no commercial reserves are discovered, such costs are expensed after exploration and evaluation activities have been completed.

Property, plant and equipment. Property, plant and equipment are carried at historical cost of acquisition or construction less accumulated depreciation, depletion, amortization and impairment.

Proved oil and gas properties include the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located. The cost of maintenance, repairs and replacement of minor items of property are expensed when incurred within operating expenses; renewals and improvements of assets are capitalised and depreciated during the remaining useful life. Cost of replacing major parts or components of property, plant and equipment items are capitalised and the replaced part is retired.

Advances made on property, plant and equipment and construction in progress are accounted for within Construction in progress.

Long-lived assets, including proved oil and gas properties at a field level, are assessed for possible impairment in accordance with IAS 36 Impairment of assets, which requires long-lived assets with recorded values that are not expected to be recovered through future cash flows to be written down to their recoverable amount which is the higher of fair value less costs of disposal and value-in-use.

Individual assets are grouped for impairment purposes at the lowest level for which there are identifiable cash flows that are largely independent of the cash flows of other groups of assets - generally on a field-by-field basis for exploration and production assets, at an entire complex level for refining assets or at a site level for petrol stations. Impairment losses are recognised in the profit or loss for the year.

Impairments are reversed as applicable to the extent that the events or circumstances that triggered the original impairment have changed. The reversal of impairment would be limited to the original carrying value less depreciation which would have been otherwise charged had the impairment not been recorded.

Long-lived assets committed by management for disposal within one year, and meet the other criteria for held for sale, are accounted for at the lower of amortised cost or fair value, less cost of disposal. Costs of unproved oil and gas properties are evaluated periodically and any impairment assessed is charged to expense.

The Group calculates depreciation expense for oil and gas proved properties using the units-of-production method for each field based upon proved developed oil and gas reserves, except in the case of significant asset components whose useful life differs from the lifetime of the field, in which case the straight-line method is applied.

Oil and gas licenses for exploration of unproved reserves are capitalised within property, plant and equipment; they are depreciated on the straight-line basis over the period of each license validity.

Depreciation of all other property, plant and equipment is determined on the straight-line method based on estimated useful lives which are as follows:

	Years
Buildings and constructions	30-50
Machinery and equipment	10-35

Gains and losses on disposals of property, plant and equipment are determined by comparing proceeds, if any, with the carrying amount. Gains and losses are recorded in other income and expenses in the consolidated statement of profit or loss and other comprehensive income.

Debt. Debt is recognised initially at fair value, net of transaction costs incurred and is subsequently carried at AC using the effective interest method.

Interest income on non-banking activities. Interest income on non-banking activities is recognised on a time-proportion basis using the effective interest method. This method defers, as part of interest income, all fee received between the parties to the contract that are an integral part of the effective interest rate, all other premiums.

Note 3: Summary of significant accounting policies (continued)

Fees integral to the effective interest rate include origination fees received by the Group relating to the creation or acquisition of a financial asset.

For financial assets that are originated or purchased credit-impaired, the effective interest rate is the rate that discounts the expected cash flows (including the initial expected credit losses) to the fair value on initial recognition (normally represented by the purchase price). As a result, the effective interest is credit-adjusted.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of financial assets, except for (i) financial assets that have become credit impaired (Stage 3), for which interest revenue is calculated by applying the effective interest rate to their AC, net of the ECL provision, and (ii) financial assets that are purchased or originated credit impaired, for which the original credit-adjusted effective interest rate is applied to the AC.

Employee benefits, post-employment and other long-term benefits. Wages, salaries, contributions to the social insurance funds, paid annual leave and sick leave, bonuses, and non-monetary benefits (such as health services and kindergarten services) are accrued in the year in which the associated services are rendered by the employees of the Group. The Group has various pension plans covering substantially all eligible employees and members of management. The pension liabilities are measured at the present value of the estimated future cash outflows using interest rates of government securities, which have the same currency and terms to maturity approximating the terms of the related liability. Pension costs are recognised using the projected unit credit method.

The cost of providing pensions is accrued and charged to staff expense within operating expenses in the Consolidated Statement of Profit or Loss and Other Comprehensive Income reflecting the cost of benefits as they are earned over the service lives of employees.

Remeasurements of the net defined benefit liability arises as the actuarial gains or losses from changes in assumptions and from experience adjustments with regard to post employment benefit plans are recognised immediately in other comprehensive income. Actuarial gains and losses related to other long-term benefits are recognised immediately in the profit or loss for the year.

Past service costs are recognised as an expense immediately.

Plan assets are measured at fair value and are subject to certain limitations. Fair value of plan assets is based on market prices. When no market price is available the fair value of plan assets is estimated by different valuation techniques, including discounted expected future cash flow using a discount rate that reflects both the risk associated with the plan assets and maturity or expected disposal date of these assets.

In the normal course of business the Group contributes to the Russian Federation State Pension Fund on behalf of its employees. Mandatory contributions to the Fund are expensed when incurred and are included within staff costs in operating expenses.

Decommissioning provisions. The Group recognizes a liability for the fair value of legally required or constructive decommissioning provisions associated with long-lived assets in the period in which the retirement obligations are incurred. The Group has numerous asset removal obligations that it is required to perform under law or contract once an asset is permanently taken out of service. The Group's field exploration, development, and production activities include assets related to: well bores and related equipment and operating sites, gathering and oil processing systems, oil storage facilities and gathering pipelines. Generally, the Group's licenses and other operating permits require certain actions to be taken by the Group in the abandonment of these operations. Such actions include well abandonment activities, equipment dismantlement and other reclamation activities. The Group's estimates of future abandonment costs consider present regulatory or license requirements, as well as actual dismantling and other related costs. These liabilities are measured by the Group using the present value of the estimated future costs of decommissioning of these assets. The discount rate is reviewed at each reporting date and reflects current market assessments of the time value of money and the risks specific to the liability. Most of these costs are not expected to be incurred until several years, or decades, in the future and will be funded from general Group resources at the time of removal.

The Group capitalizes the associated decommissioning costs as part of the carrying amount of the long-lived assets. Changes in obligation, reassessed regularly, related to new circumstances or changes in law or technology, or in the estimated amount of the obligation, or in the pre-tax discount rates, are recognised as an increase or decrease of the cost of the relevant asset.

Note 3: Summary of significant accounting policies (continued)

The Group's petrochemical, refining and marketing and distribution operations are carried out at large manufacturing facilities and fuel outlets. The nature of these operations is such that the ultimate date of decommissioning of any sites or facilities is unclear. Current regulatory and licensing rules do not provide for liabilities related to the liquidation of such manufacturing facilities or of retail fuel outlets. Management therefore believes that there are no legal or contractual obligations related to decommissioning or other disposal of these assets.

Income Taxes. Effective 1 January 2012, the Company has established the Consolidated Taxpayer Group which currently includes 5 companies of the Group. Income taxes have been provided for in the consolidated financial statements in accordance with legislation enacted or substantively enacted by the end of the reporting period. The income tax charge comprises current tax and deferred tax and is recognised in profit or loss for the year, except if it is recognised in other comprehensive income or directly in equity because it relates to transactions that are also recognised, in the same or a different period, in other comprehensive income or directly in equity.

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.

Deferred income tax is provided using the balance sheet liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. In accordance with the initial recognition exemption, deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability in a transaction other than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit.

Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that the temporary difference will reverse in the future and there is sufficient future taxable profit available against which the deductions can be utilised.

Deferred tax balances are measured at tax rates enacted or substantively enacted at the end of the reporting period, which are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilised. Deferred tax assets and liabilities are netted only within the Consolidated Taxpayer Group or individual companies of the Group.

Income tax penalties expense and income tax penalties payable are included in Taxes other than income tax in the consolidated statement of profit or loss and other comprehensive income and taxes payable in the consolidated statement of financial position, respectively. Income tax interest expense and payable are included in interest expense in the consolidated statements of profit or loss and other comprehensive income and other accounts payable and accrued expenses in the consolidated statement of financial position, respectively.

Share capital. Ordinary shares and non-redeemable preference shares with discretionary dividends are both classified as equity.

Dividends paid to shareholders are determined by the Board of directors and approved at the annual or extraordinary shareholders' meeting. Dividends are recorded as a liability and deducted from equity in the period in which they are declared and approved.

Treasury shares. Common shares of the Company owned by the Group at the reporting date are designated as treasury shares and are recorded at cost using the weighted-average method. Gains on resale of treasury shares are credited to additional paid-in capital whereas losses are charged to additional paid-in capital to the extent that previous net gains from resale are included therein or otherwise to retained earnings.

Earnings per share. Preference shares are not redeemable and are considered to be participating shares.

Basic and diluted earnings per share are calculated by dividing profit or loss attributable to ordinary and preference share holders by the weighted average number of ordinary and preferred shares outstanding during the period. Profit or loss attributed to equity holders is reduced by the amount of dividends declared in the current period for each class of shares. The remaining profit or loss is allocated to common and preferred shares to the extent that each class may share in earnings if all the earnings for the period had been distributed. Treasury shares are excluded from calculations. The total earnings allocated to each class of shares are determined by adding together the amount allocated for dividends and the amount allocated for a participation feature.

Note 3: Summary of significant accounting policies (continued)

Revenue from Contracts with Customers. Revenues represent the fair value of consideration received or receivable for the sale of goods and services in the normal course of business, net of discounts, export duties, value-added tax and excise.

The Group's business activities include sales of crude oil and refined products, sales of tires and petrochemical raw materials. Revenues are recognized at a point in time when control over such products has transferred to a customer, which refers to ability to direct the use of, and obtain substantially all of the remaining benefits from the products. Transfer occurs when the products have been shipped to the specific location, the risks of obsolescence and loss have been transferred to the customer, and either the customer has accepted the products in accordance with the sales contract, the acceptance provisions have lapsed, or the group has objective evidence that all criteria for acceptance have been satisfied.

The Group considers indicators that customer has obtained control of an asset, which include, but are not limited to the following: the Group has a present right to payment for the products; the Group has transferred physical possession of the products; the customer has legal title to the products; the customer has the significant risks and rewards of ownership of the products; the customer has accepted the products. Not all of the indicators need to be met for management to conclude that control has transferred and revenue could be recognized. Management uses judgement to determine whether factors collectively indicate that the customer has obtained control.

When the consideration includes a variable amount, minimum amounts must be recognized that are not at significant risk of reversal. The sales price is determined on a provisional basis, and the fair value of the final sales price adjustment is re-estimated continuously with changes in fair value recognized as an adjustment to revenue.

The group operates a chain of own petrol (gas) stations selling refined products. Revenue from the sale of products is recognized when a group entity sells a product to the customer. Payment of the transaction price is due immediately when the customer purchases the fuel. Since no right of return, no refund liability recognized.

Revenues from providing services are recognized in the period in which the services are rendered.

A receivable is recognized when the goods are delivered as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due. No significant element of financing is deemed present as the sales are made with short-term credit terms consistent with market practice. As a consequence, the group does not adjust any of the transaction prices for the time value of money.

Recognition of interest, fee and commission income and expense on banking activities. Interest income and expense are recognised on an accrual basis calculated using the effective interest method. . This method defers, as part of interest income or expense, all fees paid or received between the parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

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

For financial assets that are originated or purchased credit-impaired, the effective interest rate is the rate that discounts the expected cash flows (including the initial expected credit losses) to the fair value on initial recognition (normally represented by the purchase price). As a result, the effective interest is credit-adjusted.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of financial assets, except for (i) financial assets that have become credit impaired (Stage 3), for which interest revenue is calculated by applying the effective interest rate to their AC, net of the ECL provision, and (ii) financial assets that are purchased or originated credit impaired, for which the original credit-adjusted effective interest rate is applied to the AC.

Fee and commission income is recognised over time on a straight line basis as the services are rendered, when the customer simultaneously receives and consumes the benefits provided by the Group's performance. Such income includes recurring fees for account maintenance, account servicing fees, account subscription fees, premium service package fees, portfolio and other asset management advisory and service fees, wealth management and financial planning services, or fees for servicing loans on behalf of third parties, etc. Variable fees are recognised only to the extent that management determines that it is highly probable that a significant reversal will not occur.

Note 3: Summary of significant accounting policies (continued)

Other fee and commission income is recognised at a point in time when the Group satisfies its performance obligation, usually upon execution of the underlying transaction. The amount of fee or commission received or receivable represents the transaction price for the services identified as distinct performance obligations. Such income includes fees for arranging a sale or purchase of foreign currencies on behalf of a customer, fees for processing payment transactions, fees for cash settlements, collection or cash disbursements, as well as, commissions and fees arising from negotiating, or participating in the negotiation of a transaction for a third party, such as the acquisition of loans, shares or other securities or the purchase or sale of businesses.

Transportation expenses. Transportation expenses recognised in the consolidated statements of profit or loss and other comprehensive income represent all expenses incurred by the Group to transport crude oil and refined products to end customers (they may include pipeline tariffs and any additional railroad costs, handling costs, port fees, sea freight and other costs). Compounding fees are included in selling, general and administrative expenses.

Accounting policies applicable to the comparative period ended 31 December 2017 that were amended by IFRS 9 and IFRS 15, are as follows.

Financial assets. All financial assets are initially recognised when an entity becomes a party to the contract, they are recognised at fair value plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Group's financial assets include cash and cash equivalents, restricted cash, mandatory reserve deposits with CB RF, banking customer loans, deposits, due from banks, securities, derivatives, precious metals, trade and other receivables, loans issued.

Financial assets have the following categories: (a) loans and receivables; (b) available-for-sale financial assets; (c) financial assets at fair value through profit or loss; (d) held to maturity investments. The Group initially recognises loans and receivables on the date that they are originated. All other financial assets are recognised initially on the trade date, which is the date that the Group becomes a party to the contractual provisions of the instrument. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

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

Loans and receivables. Loans and receivables is a category of financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses. The accrued interest is included in the profit and losses for the year. The allowance for impairment of loans and receivables is established if there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the loans and receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the receivable is impaired. The amount of the allowance is the difference between the carrying amount and the recoverable amount, being the present value of expected cash flows, discounted at the financial asset's original effective interest rate at the date of origination of the loan or receivable. The losses arising from impairment are recognised as selling, general and administrative expenses in the consolidated statement of profit or loss and other comprehensive income.

Due from banks. Amounts due from banks other than those that are part of the Group are recorded when the Group advances money to counterparty banks with no intention of trading the resulting unquoted non-derivative receivable due on fixed or determinable dates. Amounts due from other banks are carried at amortised cost. Deposits, placed in the course of banking activities in other banks having maturity exceeding one working day from the balance sheet date are treated as amounts due from banks. Due from banks that mature within three months or less from the date of placement are included in cash and cash equivalents. Due from banks are initially recognised at fair value. These balances are subsequently re-measured at amortised cost at the effective interest method and are carried net of any allowance for impairment.

Loans to customers. Loans issued in the course of banking activities that have fixed or determinable payments that are not quoted in an active market are classified as loans to customers. Loans to customers are measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Note 3: Summary of significant accounting policies (continued)

Financial assets at fair value through profit or loss. A financial asset is classified at fair value through profit or loss category if it is classified as held for trading or is designated as such upon initial recognition. Financial assets are designated at fair value through profit or loss if the Group manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Group's documented risk management or investment strategy. Financial assets at fair value through profit or loss are measured at fair value, and changes therein are recognised in profit and loss for the year. Coupon and interest earned on financial assets at fair value through profit or loss are reflected as interest, fee and commission income. Dividends received, all other elements of the changes in the fair value and gains or losses on derecognition are recorded in other operating income/(expenses) in the consolidated statement of profit or loss and other comprehensive income in the period in which they arise.

Available-for-sale financial assets. Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or are not classified in any of the above categories of financial assets. Available-for-sale financial assets include investment securities which the Group intends to hold for an indefinite period of time and which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses and foreign currency differences on available-for-sale debt instruments, are recognised in other comprehensive income and presented within equity. Unquoted equity instruments whose fair value cannot be measured reliably are carried at cost less any impairment losses. When an investment is derecognised the cumulative gain or loss in equity is also reclassified to profit and loss for the year. Dividends on available-for-sale equity instruments are recognised in profit or loss for the year when the Group's right to receive payment is established and it is probable that the dividends will be collected. Foreign exchange gains/losses on available-for-sale debt securities are reflected in profit or loss for the year. All other elements of changes in the fair value are recognised in other comprehensive income until the investment is derecognised or impaired, at which time the cumulative gain or loss is reclassified from other comprehensive income to profit or loss for the year. Impairment losses are recognised in profit or loss for the year when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of investment securities available for sale.

The Group assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired. Prolonged decline in the fair value of the security below its cost is considered as an indicator that the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss (measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the other comprehensive income) is recognised in the profit and loss for the year as a reclassification adjustment from other comprehensive income.

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

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

Impairment of financial assets carried at amortised 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 are its overdue status and realisability of related collateral, if any.

Repurchase agreements. Repurchase agreements ("REPO") are used by the Group as an element of its treasury management and trading business in a course of its banking activities and are treated as secured financing transactions.

A REPO is an agreement to transfer a financial asset to another party in exchange for cash or other consideration and a concurrent obligation to reacquire the financial assets at a future date for an amount equal to the cash or other consideration exchanged plus interest.

Note 3: Summary of significant accounting policies (continued)

Financial assets sold under REPO are included into financial assets at fair value through profit or loss, available-for-sale financial assets or held to maturity investments and funds received under these agreements are accounted for as amounts due to banks and CB RF and customer accounts as appropriate. Financial assets purchased under agreements to resell ("reverse repurchase") are recorded as amounts due from banks or loans to customers as appropriate. Gain/loss on the sale of the above instruments is recognised as interest income or expense on banking activities in the consolidated statement of profit or loss and other comprehensive income based on the difference between the repurchase price accreted to date using the effective interest method and the sale price when such instruments are sold to third parties. When the reverse REPO/REPO is fulfilled on its original terms, the effective yield/interest between the sale and repurchase price negotiated under the original contract is recognised using the effective interest method.

Financial liabilities. All financial liabilities are recognised initially at fair value and in the case of loans and borrowings, net of directly attributable transaction costs. The Group's financial liabilities include trade and other payables, due to banks and CB RF, banking customer accounts, debt securities and bonds issued, credit facilities, subordinated debt and other borrowings.

Financial liabilities are recognised initially at fair value. Subsequent to initial recognition, these financial liabilities are measured at amortised cost using the effective interest method.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expired. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the profit and loss for the year.

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

Revenue recognition. Revenues from the production and sale of crude oil, petroleum and petrochemical products and other products are recognized when risks and rewards of ownership are transferred and collectability is reasonably assured. Revenue is measured at the fair value of the consideration received or receivable taking into account the amount of any discounts and other incentives. Purchases and sales of inventory which are of a similar nature and value with the same counterparty that are entered into in contemplation of one another are combined, considered as a single arrangement and netted against each other in the consolidated statement of profit or loss and other comprehensive income. Revenue includes only economic benefits which flow to the Group. Taxes and duties arising on the sale of goods to third parties do not form part of revenue.

Interest income on non-banking activities. Interest income on non-banking activities is recognised on a time-proportion basis using the effective interest method.

Recognition of interest, fee and commission income and expense on banking activities. Interest income and expense are recognized on an accrual basis calculated using the effective interest method. The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability (or group 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 (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

Commissions and other fees are recognized when the related transactions are completed. Loan origination fees for loans issued to customers, are deferred (together with related direct costs) and recognized as an adjustment to the loans effective yield. Other income and expenses are recognized on an accrual basis.

Once a financial asset or group of similar financial assets has been written down (partly written down) as a result of an impairment loss, interest income is thereafter recognized using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Loan origination fees are deferred, together with the related direct costs, and recognized as an adjustment to the effective interest rate of the loan. Where it is probable that a loan commitment will lead to a specific lending arrangement, the loan commitment fees are deferred, together with the related direct costs, and recognized as an adjustment to the effective interest rate of the resulting loan. Where it is unlikely that a loan commitment will lead to a specific lending arrangement, the loan commitment fees are recognized in the consolidated statement of profit or loss and other comprehensive income over the remaining period of the loan commitment. Where a loan commitment expires without resulting in a loan, the loan commitment fee is recognized in the consolidated statement of profit or loss and other comprehensive income on expiry.

Note 3: Summary of significant accounting policies (continued)

Loan servicing fees are recognized as revenue as the services are provided. Loan syndication fees are recognized in the consolidated income statement when the syndication has been completed. All other commissions are recognized when services are provided.

Note 4: Critical accounting estimates and judgements in applying accounting policies

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 judgements are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Management of the Group also makes certain judgements, apart from those involving estimations, in the process of applying the accounting policies. Judgements that have the most significant effect on the amounts recognised in the 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:

- Estimation of oil and gas reserves;
- Useful life of property, plant and equipment;
- Decommissioning provisions;
- Impairment of property, plant and equipment;
- Accounting of investments in JSC "National Non-State Pension Fund";
- Financial assets impairment;
- Financial assets classification;
- Financial instruments fair value estimation.

Note 4: Critical accounting estimates and judgements in applying accounting policies (continued)

Estimation of oil and gas reserves. Oil and gas development and production assets are depreciated on a unit-of-production (UOP) basis for each field or group of fields with similar characteristics at a rate calculated by reference to proved developed reserves. Estimates of proved reserves are also used in the determination of whether impairments have arisen or should be reversed. Also, exploration drilling costs are capitalised pending the results of further exploration or appraisal activity, which may take several years to complete and before any related proved reserves can be booked.

Proved reserves are estimated by reference to available geological and engineering data and only include volumes for which access to market is assured with reasonable certainty. Estimates of oil and gas reserves are inherently imprecise, require the application of judgment and are subject to regular revision, either upward or downward, based on new information such as from the drilling of additional wells, observation of long-term reservoir performance under producing conditions and changes in economic factors, including product prices, contract terms or development plans. The Group estimates its oil and gas reserves in accordance with rules promulgated by the Oil and Gas Reserves Committee of the Society of Petroleum Engineers (SPE) for proved reserves.

Changes to the Group's estimates of proved developed reserves affect prospectively the amounts of depreciation, depletion and amortization charged and, consequently, the carrying amounts of oil and gas properties. It is expected, however, that in the normal course of business the diversity of the Group's portfolio will limit the effect of such revisions. The outcome of, or assessment of plans for, exploration or appraisal activity may result in the related capitalised exploration drilling costs being written off in the profit and loss for the year.

Useful life of property, plant and equipment. Based on the terms included in the licenses and past experience, management believes hydrocarbon production licenses will be extended past their current expiration dates at insignificant additional costs. As a result of the anticipated license extensions, the assets are depreciated over their useful lives beyond the end of the current license term.

Management assesses the useful life of an asset by considering the expected usage, estimated technical obsolescence, residual value, physical wear and tear and the operating environment in which the asset is located. Differences between such estimates and actual results may have a material impact on the amount of the carrying values of the property, plant and equipment and may result in adjustments to future depreciation rates and expenses for the period.

Management reviews the appropriateness of the assets' useful economic lives and residual values at the end of each reporting period. The review is based on the current condition of the assets, the estimated period during which they will continue to bring economic benefit to the Group and the estimated residual value.

Decommissioning provisions. Management makes provision for the future costs of decommissioning oil and gas production facilities, wells, pipelines, and related support equipment and for site restoration based on the best estimates of future costs and economic lives of the oil and gas assets. Estimating future decommissioning provisions is complex and requires management to make estimates and judgments with respect to removal obligations that will occur many years in the future.

Changes in the measurement of existing obligations can result from changes in estimated timing, future costs or discount rates used in valuation.

The amount recognised as a provision is the best estimate of the expenditures required to settle the present obligation at the reporting date based on current legislation in each jurisdiction where the Group's operating assets are located, and is also subject to change because of revisions and changes in laws and regulations and their interpretation. As a result of the subjectivity of these provisions there is uncertainty regarding both the amount and estimated timing of such costs.

Sensitivity analysis for changes in discount rate:

		Impact on decommissioning provision	
	Change in	**At 31 December 2018**	**At 31 December 2017**
Discount rate	+1%	(7,207)	(8,457)
	-1%	9,353	11,148

Information about decommissioning provision is presented in Note 12.

Note 4: Critical accounting estimates and judgements in applying accounting policies (continued)

Impairment of property, plant and equipment. At 31 December 2018 management assessed whether there is any indication of impairment of long-lived assets. As result impairment of exploration assets was recognised (Note 12). Based on the stable financial performance, absence of significant adverse changes in economic and market environment and in interest rates the management believes that there is no indication of impairment of other long-lived assets as of 31 December 2018 and 2017.

Accounting of investments in JSC "National Non-State Pension Fund"

As at 31 December 2018 and 2017 the Group has 74.46% of shares of JSC "National Non-Governmental Pension Fund". The Group does not exercise either control or significant influence over JSC "National Non-Governmental Pension Fund" based on corporate governance and pension legislation. These investments are presented within financial assets carried at FVOCI as at 31 December 2018 (within available-for-sale investments as at 31 December 2017).

Financial assets impairment

ECL measurement. Calculation and measurement of ECLs is an area of significant judgement, and implies methodology, models and data inputs. The following components of ECL calculation have the major impact on credit loss allowance for ECLs: default definition, significant increase in credit risk (SICR), probability of default (PD), exposure at default (EAD), loss given default (LGD), macromodels and scenario analysis for credit impaired loans. The Group regularly reviews and validates models and inputs to the models to reduce any differences between expected credit loss estimates and actual credit loss experience. Refer to Note 28.

Significant increase in credit risk (SICR). In order to determine whether there has been a significant increase in credit risk, the Group compares the risk of a default occurring over the life of a financial instrument at the end of the reporting date with the risk of default at the date of initial recognition. The assessment considers relative increase in credit risk rather than achieving a specific level of credit risk at the end of the reporting period. The Group considers all reasonable and supportable forward looking information available without undue cost and effort, which includes a range of factors, including behavioural aspects of particular customer portfolios. The Group identifies behavioural indicators of increases in credit risk prior to delinquency and incorporated appropriate forward looking information into the credit risk assessment, either at an individual instrument, or on a portfolio level. Refer to Note 28.

Financial assets classification

Business model assessment. The business model drives classification of financial assets. Management applied judgement in determining the level of aggregation and portfolios of financial instruments when performing the business model assessment. When assessing sales transactions, the Group considers their historical frequency, timing and value, reasons for the sales and expectations about future sales activity. Sales transactions aimed at minimising potential losses due to credit deterioration are considered consistent with the "hold to collect" business model. Other sales before maturity, not related to credit risk management activities, are also consistent with the "hold to collect" business model, provided that they are infrequent or insignificant in value, both individually and in aggregate. The Group assesses significance of sales transactions by comparing the value of the sales to the value of the portfolio subject to the business model assessment over the average life of the portfolio. In addition, sales of financial asset expected only in stress case scenario, or in response to an isolated event that is beyond the Group's control, is not recurring and could not have been anticipated by the Group, are regarded as incidental to the business model objective and do not impact the classification of the respective financial assets.

The "hold to collect and sell" business model means that assets are held to collect the cash flows, but selling is also integral to achieving the business model's objective, such as, managing liquidity needs, achieving a particular yield, or matching the duration of the financial assets to the duration of the liabilities that fund those assets.

The residual category includes those portfolios of financial assets, which are managed with the objective of realising cash flows primarily through sale, such as where a pattern of trading exists. Collecting contractual cash flow is often incidental for this business model.

Assessment whether cash flows are solely payments of principal and interest ("SPPI"). Determining whether a financial asset's cash flows are solely payments of principal and interest required judgement.

The time value of money element may be modified, for example, if a contractual interest rate is periodically reset but the frequency of that reset does not match the tenor of the debt instrument's underlying base interest rate, for example a loan pays three months interbank rate but the rate is reset every month. The effect of the modified time value of money was assessed by comparing relevant instrument's cash flows against a benchmark debt instrument with SPPI cash flows, in each period and cumulatively over the life of the instrument. The assessment was done for all reasonably possible scenarios, including reasonably possible financial stress situation that can occur in financial markets.

Note 4: Critical accounting estimates and judgements in applying accounting policies (continued)

The Group identified and considered contractual terms that change the timing or amount of contractual cash flows.

The SPPI criterion is met if a loan allows early settlement and the prepayment amount substantially represents principal and accrued interest, plus a reasonable additional compensation for the early termination of the contract. The asset's principal is the fair value at initial recognition less subsequent principal repayments, i.e. instalments net of interest determined using the effective interest method. As an exception to this principle, the standard also allows instruments with prepayment features that meet the following condition to meet SPPI: (i) the asset is originated at a premium or discount, (ii) the prepayment amount represents contractual per amount and accrued interest and a reasonable additional compensation for the early termination of the contract, and (iii) the fair value of the prepayment feature is immaterial at initial recognition.

The Group's loans, primarily to real estate developers, have cash flows that highly depend on performance of the underlying assets. The loans are carried at FVTPL where management determined that such loans are in substance non-recourse.

The instruments that failed the SPPI test are measured at FVTPL are described in Note 8.

Financial instruments fair value estimation. Financial instruments carried at FVTPL or FVOCI and all derivatives are stated at fair value. If a quoted market price is available for an instrument, the fair value is calculated based on the market price. When valuation parameters are not observable in the market or cannot be derived from observable market prices, the fair value is derived through analysis of other observable market data appropriate for each product and pricing models which use a mathematical methodology based on accepted financial theories. Pricing models take into account the contract terms of the securities as well as market-based valuation parameters, such as interest rates, volatility, exchange rates and the credit rating of the counterparty. Where market-based valuation parameters are missed, management will make a judgment as to its best estimate of that parameter in order to determine a reasonable reflection of how the market would be expected to price the instrument, in exercising this judgment, a variety of tools are used including proxy observable data, historical data, and extrapolation techniques. The best evidence of fair value of a financial instrument at initial recognition is the transaction price unless the instrument is evidenced by comparison with data from observable markets.

Any difference between the transaction price and the value based on a valuation technique is not recognised in the consolidated statement of profit or loss and other comprehensive income on initial recognition unless the value is based on valuation technique that uses only data from observable markets. Subsequent gains or losses are only recognised to the extent that they arise from a change in a factor that market participants would consider in setting a price.

Information on fair value of financial instruments where estimate is based on assumptions that do not utilize observable market prices is presented in Note 28.

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

- Impairment of loans to customers on banking activities (for comparatives only);
- Impairment of other loans (for comparatives only);
- Impairment of available-for-sale equity investments (for comparatives only);
- Held-to-maturity financial assets (for comparatives only).

Impairment of loans to customers on banking activities (for comparatives only). The Group regularly reviews its loans to assess for impairment. The Group's loan impairment provisions are established to recognize incurred impairment losses in its portfolio of loans and receivables. The Group considers accounting estimates related to allowance for impairment of loans and receivables a key source of estimation uncertainty because (i) they are highly susceptible to change from period to period as the assumptions about future default rates and valuation of potential losses relating to impaired loans and receivables are based on recent performance experience, and (ii) any significant difference between the Group's estimated losses and actual losses would require the Group to record provisions which could have a significant impact on its financial statements in future periods.

The Group uses management's judgment to estimate the amount of any impairment loss in cases where a borrower has financial difficulties and there are few available sources of historical data relating to similar borrowers. Similarly, the Group estimates changes in future cash flows based on past performance, past customer behaviour, observable data indicating an adverse change in the payment status of borrowers in a group, and national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the group of loans. The Group uses management's judgment to adjust observable data for a group of loans to reflect current circumstances not reflected in historical data.

Note 4: Critical accounting estimates and judgements in applying accounting policies (continued)

The allowances for impairment of financial assets in the consolidated financial statements have been determined on the basis of existing economic and political conditions. The Group is not in a position to predict what changes in conditions will take place in the Russian Federation and what effect such changes might have on the adequacy of the allowances for impairment of financial assets in future periods.

Impairment of other loans (for comparatives only). The Group also regularly reviews its other loans issued to assess impairment. In determining whether an impairment loss should be recorded in profit or loss, the Group makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows for borrowers. To assess future cash flows, management of the Group analyses the information on the debtor's solvency, requests expert estimates regarding the market value of the collateral provided, builds (where possible) models of discounted expected cash flows, requests additional information to estimate the probability of non-repayment of the relevant debt in the terms established by the contracts.

Impairment of available-for-sale equity investments (for comparatives only). The Group determines that available-for-sale equity investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgement. In making this judgement, the Group evaluates among other factors, the volatility in share price. In addition, impairment may be appropriate when there is evidence of changes in technology or a deterioration in the financial health of the investee, industry and sector performance, or operational or financing cash flows.

Held-to-maturity financial assets (for comparatives only). Management applies judgement in assessing whether financial assets can be categorised as held-to-maturity. In making this judgement, the Group evaluates its intention and ability to hold the assets to maturity. If the Group fails to keep these investments to maturity other than in certain specific circumstances – for example, selling an insignificant amount close to maturity – it will be required to reclassify the entire class as available-for-sale. The investments would, therefore, be measured at fair value rather than amortised cost. Furthermore, the Group would not be able to classify any financial assets as held-to-maturity for the following two annual reporting periods.

(in millions of Russian Rubles)

Note 5: Adoption of new or revised standards and interpretations

Adoption of IFRS 9. The Group has adopted IFRS 9, *Financial Instruments*, with a date of transition of 1 January 2018, which resulted in changes in accounting policies for recognition, classification and measurement of financial assets and liabilities and impairment of financial assets.

The Group elected not to restate comparative figures and recognised any adjustments to the carrying amounts of financial assets and liabilities at the date of initial application in the opening retained earnings of the current period. Consequently, the revised requirements of the IFRS 7, Financial Instruments: Disclosures, have only been applied to the current period. The comparative period disclosures repeat those disclosures made in the prior year.

Details of the specific IFRS 9 accounting policies applied in the current period are described in Note 3.

The impact of the IFRS 9 adoption on the Group is disclosed below:

	Measurement category IAS 39 as at 31 December 2017					Measurement category IFRS 9 as at 1 January 2018	
				Remeasurement			
Financial assets	**Category**	**Amount**	**Reclassification**	**ECL**	**Other**	**Category**	**Amount**
Cash and cash equivalents							
Cash on hand and in banks	Loans and receivables	29,219	-	-	-	Amortised cost	29,219
Term deposits	Loans and receivables	11,906	-	-	-	Amortised cost	11,906
Due from banks	Loans and receivables	1,672	-	-	-	Amortised cost	1,672
Banking: Mandatory reserve deposits with CB RF	Loans and receivables	1,916	-	-	-	Amortised cost	1,916
Accounts receivable							
Trade receivables	Loans and receivables	59,075	-	-	-	Amortised cost	59,075
Other financial receivables	Loans and receivables	5,771	-	(54)	-	Amortised cost	5,717
Banking: Loans to customers	Loans and receivables	150,983	(15,316)	(6,834)	-	Amortised cost	128,833
Banking: Loans to customers	Loans and receivables	-	15,316	-	(717)	FVTPL	14,599
Other financial assets							
Bank deposits	Loans and receivables	302	-	-	-	Amortised cost	302
Due from banks	Loans and receivables	1,183	-	-	-	Amortised cost	1,183
REPO with banks	Loans and receivables	459	-	-	-	Amortised cost	459
Notes receivable	Loans and receivables	456	-	-	-	Amortised cost	456
Loans to employees	Loans and receivables	1,558	-	(354)	-	Amortised cost	1,204
Other loans	Loans and receivables	11,321	(1,559)	(1,569)	-	Amortised cost	8,193
Other loans	Loans and receivables	-	1,559	-	-	FVTPL	1,559
Held-for-trading financial assets	FVTPL	8,501	(1,028)	-	9	FVTPL	7,482
Held-for-trading financial assets	FVTPL	-	1,510	-	-	FVOCI	1,510
Available-for-sale financial assets	Available-for-sale	41,705	(482)	(193)	-	FVOCI	41,030
Held to maturity financial assets	Held-to-maturity	55,805	(854)	(201)	-	Amortised cost	54,750
Held to maturity financial assets	Held-to-maturity	-	854	-	(153)	FVTPL	701

(in millions of Russian Rubles)

Note 5: Adoption of new or revised standards and interpretations (continued)

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

	Measurement category		Provision for impairment under IAS 39 or IAS 37 at 31 December 2017	Effect		Credit loss allowance under IFRS 9 at 1 January 2018
	IAS 39	IFRS 9		Remeasu-rement	Reclassi-fication	
Accounts receivable						
Trade receivables	Loans and receivables	Amortised cost	(1,676)	-	-	(1,676)
Other financial receivables	Loans and receivables	Amortised cost	(2,419)	(54)	-	(2,473)
Banking: Loans to customers	Loans and receivables	Amortised cost	(4,925)	(6,834)	-	(11,759)
Banking: Loans to customers	Loans and receivables	FVTPL	(2,357)	-	2,357	-
Other financial assets						
Bank deposits	Loans and receivables	Amortised cost	(5,547)	-	-	(5,547)
Notes receivable	Loans and receivables	Amortised cost	(318)	-	-	(318)
Loans to employees	Loans and receivables	Amortised cost	(1,420)	(354)	-	(1,774)
Other loans	Loans and receivables	Amortised cost	(7,490)	(1,569)	-	(9,059)
Other loans	Loans and receivables	FVTPL	(404)	-	-	(404)
Available-for-sale financial assets	Available-for-sale	FVOCI	-	(193)	-	(193)
Held to maturity financial assets	Held-to-maturity	Amortised cost	-	(201)	-	(201)
Credit related commitments			(248)	(710)	-	(958)
Total			**(26,804)**	**(9,915)**	**2,357**	**(34,362)**

As a result of adoption of IFRS 9 "Financial instruments" the Group discloses gains / losses from accrual / reversal of provision of financial assets determined in accordance with requirements of IFRS 9 in "Net impairment losses on financial assets" of the Consolidated Statement of Profit or Loss and Other Comprehensive Income for 2018 year. All other gains / losses from accrual / reversal of provision of other assets are disclosed in "Net impairment losses on property, plant and equipment and other non-financial assets". Comparable information was reclassified appropriately as follows.

	Amount for 2017 year		
FSLI	**Before changes**	**Changes**	**After changes**
Net impairment losses on financial assets	-	(15,156)	(15,156)
Net impairment losses on property, plant and equipment and other non-financial assets	-	(356)	(356)
Loss on impairments of property, plant and equipment and other assets	(15,512)	15,512	-

Also starting from 2018 year net impairment losses on accounts receivable are disclosed in "Net impairment losses on financial assets" of the Consolidated Statement of Profit or Loss and Other Comprehensive Income, whereas in 2017 year they were disclosed in "Selling, general and administrative expenses" in amount RR 1,591 million of the Consolidated Statement of Profit or Loss and Other Comprehensive Income.

(in millions of Russian Rubles)

Note 5: Adoption of new or revised standards and interpretations (continued)

The effect of the transition to IFRS 9 on equity is as follows:

Opening equity balance under IAS 39 at 31 December 2017	**718,729**
Recognition of ECL under IFRS 9 for financial assets at AC	(9,012)
Recognition of ECL under IFRS 9 for financial assets at FVOCI	(193)
Recognition of ECL under IFRS 9 for credit related commitments	(710)
Remeasurement of loans and advances at FVTPL	(717)
Other remeasurement	(144)
Deferred tax	1,769
Total effect of initial application of IFRS 9	**(9,007)**
Including attributable to non-controlling interest	(2,048)
Revised opening balance under IFRS 9 at 1 January 2018	**709,722**

Adoption of IFRS 15. The group has adopted IFRS 15 Revenue from Contracts with Customers from 1 January 2018. In accordance with the transition provisions in IFRS 15, the Group has elected simplified transition method with the effect of transition to be recognised as at 1 January 2018. The Group applies IFRS 15 retrospectively only to contracts that are not completed at the date of initial application. An impact on the Group's consolidated financial statements from the adoption of the new standard on 1 January 2018 is not significant. Contract assets are not significant for the Group. Contract liabilities are presented as Advances received from customers in Note 15.

In addition to IFRS 9 and IFRS 15, the following amended standards became effective for the Group from 1 January 2018, but did not have any material impact on the Group:

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

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

IFRS 16, Leases (issued on 13 January 2016 and effective for annual periods beginning on or after 1 January 2019). The new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. All leases result in the lessee obtaining the right to use an asset at the start of the lease and, if lease payments are made over time, also obtaining financing. Accordingly, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. Lessees will be required to recognise: (a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and (b) depreciation of lease assets separately from interest on lease liabilities in the statement of profit or loss and other comprehensive income. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

The Group decided that it will apply the standard from its mandatory adoption date of 1 January 2019 using the modified retrospective method, without restatement of comparatives. Right-of-use assets mainly will be represented by the right to use oilfield equipment obtained under lease agreements and will be evaluated at the amount of the lease liability on adoption.

(in millions of Russian Rubles)

Note 5: Adoption of new or revised standards and interpretations (continued)

As at 31 December 2018 the Group has non-cancellable lease commitments of RR 6,119 million. A reconciliation of the operating lease commitments disclosed in Note 26 to the recognised liability is as follows:

	31 December 2018 / 1 January 2019
Total future minimum lease payments for non-cancellable operating leases (Note 26)	6,119
- Future lease payments that are due in periods subject to lease extension options that are reasonably certain to be exercised	20,875
- Effect of discounting to present value	(11,576)
Total lease liabilities	**15,418**

The Group expects to recognise right-of-use assets in the amount of the lease liabilities. The amount may be adjusted upon completion of the assessment regarding the lease terms.

The activity of the Group as a lessor is not material and, therefore, will not have a significant impact on the financial statements.

IFRIC 23 "Uncertainty over Income Tax Treatments" (issued on 7 June 2017 and effective for annual periods beginning on or after 1 January 2019). IAS 12 specifies how to account for current and deferred tax, but not how to reflect the effects of uncertainty. The interpretation clarifies how to apply the recognition and measurement requirements in IAS 12 when there is uncertainty over income tax treatments. An entity should determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments based on which approach better predicts the resolution of the uncertainty. An entity should assume that a taxation authority will examine amounts it has a right to examine and have full knowledge of all related information when making those examinations. If an entity concludes it is not probable that the taxation authority will accept an uncertain tax treatment, the effect of uncertainty will be reflected in determining the related taxable profit or loss, tax bases, unused tax losses, unused tax credits or tax rates, by using either the most likely amount or the expected value, depending on which method the entity expects to better predict the resolution of the uncertainty. An entity will reflect the effect of a change in facts and circumstances or of new information that affects the judgments or estimates required by the interpretation as a change in accounting estimate.

Examples of changes in facts and circumstances or new information that can result in the reassessment of a judgment or estimate include, but are not limited to, examinations or actions by a taxation authority, changes in rules established by a taxation authority or the expiry of a taxation authority's right to examine or re-examine a tax treatment. The absence of agreement or disagreement by a taxation authority with a tax treatment, in isolation, is unlikely to constitute a change in facts and circumstances or new information that affects the judgments and estimates required by the Interpretation. The interpretation is not expected to have a material impact on the Group's consolidated financial statements.

(in millions of Russian Rubles)

Note 5: Adoption of new or revised standards and interpretations (continued)

The following other new standards and interpretations are not expected to have any material impact on the Group's consolidated financial statements when adopted:

- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture – Amendments to IFRS 10 and IAS 28 (issued on 11 September 2014 and effective for annual periods beginning on or after a date to be determined by the IASB);
- IFRS 17 "Insurance Contracts" (issued on 18 May 2017 and effective for annual periods beginning on or after 1 January 2021). IFRS 17 replaces IFRS 4, which has given companies dispensation to carry on accounting for insurance contracts using existing practices. As a consequence, it was difficult for investors to compare and contrast the financial performance of otherwise similar insurance companies. IFRS 17 is a single principle-based standard to account for all types of insurance contracts, including reinsurance contracts that an insurer holds.
- Prepayment Features with Negative Compensation – Amendments to IFRS 9 (issued on 12 October 2017 and effective for annual periods beginning on or after 1 January 2019).
- Amendments to IAS 28 "Long-term Interests in Associates and Joint Ventures" (issued on 12 October 2017 and effective for annual periods beginning on or after 1 January 2019).
- Annual Improvements to IFRSs 2015-2017 cycle – amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23 (issued on 12 December 2017 and effective for annual periods beginning on or after 1 January 2019).
- Amendments to IAS 19 "Plan Amendment, Curtailment or Settlement" (issued on 7 February 2018 and effective for annual periods beginning on or after 1 January 2019). The amendments specify how to determine pension expenses when changes to a defined benefit pension plan occur.
- Amendments to the Conceptual Framework for Financial Reporting (issued on 29 March 2018 and effective for annual periods beginning on or after 1 January 2020).
- Definition of a business – Amendments to IFRS 3 (issued on 22 October 2018 and effective for acquisitions from the beginning of annual reporting period that starts on or after 1 January 2020). The amendments revise definition of a business.
- Definition of materiality – Amendments to IAS 1 and IAS 8 (issued on 31 October 2018 and effective for annual periods beginning on or after 1 January 2020).The amendments clarify the definition of material and how it should be applied by including in the definition guidance that until now has featured elsewhere in IFRS. In addition, the explanations accompanying the definition have been improved.

Note 6: Cash and cash equivalents

Cash and cash equivalents comprise the following:

	At 31 December 2018	At 31 December 2017
Cash on hand and in banks	42,340	29,219
Term deposits with original maturity of less than three months	22,078	11,906
Due from banks	1,071	1,672
Total cash and cash equivalents	**65,489**	**42,797**

Term deposits with original maturity of less than three months represent deposits placed in banks in the course of non-banking activities. Due from banks represent deposits with original maturities of less than three months placed in the course of banking activities in banks other than those that are part of the Group. The fair value and credit quality analysis of cash and cash equivalents is presented in Note 28.

(in millions of Russian Rubles)

Note 7: Accounts receivable

Short-term and long-term accounts receivable comprise the following:

	At 31 December 2018	At 31 December 2017
Short-term accounts receivable:		
Trade receivables	79,088	58,696
Other financial receivables	8,150	5,025
Other non-financial receivables	144	191
Less credit loss allowance	(6,620)	(2,314)
Total short-term accounts receivable	**80,762**	**61,598**
Long-term accounts receivable:		
Trade receivables	1,569	2,055
Other financial receivables	3,063	3,165
Less credit loss allowance	(1,702)	(1,781)
Total long-term accounts receivable	**2,930**	**3,439**
Total trade and other receivables	**83,692**	**65,037**

Fair value of short-term and long-term accounts receivable is presented in Note 28.

The Group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade and other receivables.

The credit loss allowance for trade and other receivables is determined according to provision matrix presented in the table below. The provision matrix is based the number of days that an asset is past due, with a distribution to portfolios of receivables, homogeneous in terms of credit risk. In addition to the number of days that an asset is past due, types of products sold, geographical specificity of distributional channels and other factors were taken into account.

Analysis by credit quality of trade and other receivables is as follows:

	Loss rate	Gross carrying amount	Lifetime ECL
Trade receivables			
- current	0.197%	78,244	(157)
- less than 90 days overdue	89.34%	798	(713)
- 91 to 180 days overdue	0.59%	88	(1)
- over 180 days overdue	89,68%	1,527	(1,369)
Total trade receivables (gross carrying amount)		**80,657**	
Credit loss allowance		(2,240)	
Total trade receivables (carrying amount)		**78,417**	
Other receivables			
- current	0.735%	5,168	(37)
- less than 90 days overdue	100%	12	(12)
- 91 to 180 days overdue	0%	-	-
- over 180 days overdue	100%	6,033	(6,033)
Total other receivables (gross carrying amount)		**11,213**	
Credit loss allowance		(6,082)	
Total other receivables (carrying amount)		**5,131**	

(in millions of Russian Rubles)

Note 7: Accounts receivable (continued)

The following table explains the changes in the credit loss allowance for trade and other receivables under simplified ECL model between the beginning and the end of the annual period:

	2018	
	Trade receivables	**Other receivables**
Balance at 1 January 2018	**(1,676)**	**(2,419)**
New originated or purchased	(734)	(3,635)
Other movements	-	(53)
Total credit loss allowance charge in profit or loss for the period	**(734)**	**(3,688)**
Write-offs	228	25
FX movements	(58)	-
Balance at 31 December 2018	**(2,240)**	**(6,082)**

Analysis by credit quality of trade and other receivables is as follows:

	At 31 December 2018		At 31 December 2017	
	Trade receivables	**Other receivables**	**Trade receivables**	**Other receivables**
Neither past due nor impaired				
- international crude oil and oil products traders	21,373	-	14,188	-
- Russian crude oil and oil products traders	8,252	-	5,392	-
- Russian refineries	14,160	-	12,933	-
- central and eastern Europe refineries	15,910	-	14,383	-
- Russian tire dealers and automotive manufacturers	4,732	-	3,718	-
- Natural monopoly entity	5,170	-		
- Russian construction companies	325	-	625	-
- unrated	8,322	5,168	7,512	4,678
including related parties	*2,697*	*369*	*2,374*	*590*
Total neither past due nor impaired	**78,244**	**5,168**	**58,751**	**4,678**
Past due but not impaired				
- less than 90 days overdue	85	12	279	67
- 91 to 180 days overdue	88	-	45	11
- over 180 days overdue	-	-	-	26
Total past due but not impaired	**173**	**12**	**324**	**104**
Individually determined to be impaired (gross)				
- less than 90 days overdue	713	-	-	-
- 91 to 180 days overdue	-	-	-	-
- over 180 days overdue	1,527	6,033	1,676	3,599
Total individually impaired	**2,240**	**6,033**	**1,676**	**3,599**
Less provision for impairment	(2,240)	(6,082)	(1,676)	(2,419)
Total	**78,417**	**5,131**	**59,075**	**5,962**

(in millions of Russian Rubles)

Note 7: Accounts receivable (continued)

Movements in the impairment provision for trade and other receivables during 2017 are as follows:

	2017	
	Trade receivables	**Other receivables**
Provision for impairment at 1 January	**(1,409)**	**(333)**
Provision for impairment during the year	(302)	(2,371)
Foreign exchange gain	25	-
Change in Group structure	10	285
Provision for impairment at 31 December	**(1,676)**	**(2,419)**

Note 8: Banking: Loans to customers

	At 31 December 2018	**At 31 December 2017**
Loans to legal entities	106,538	122,699
Loans to individuals	39,935	35,566
Loans to customers at AC before impairment	**146,473**	**158,265**
Credit loss allowance	(13,069)	(7,282)
Total loans to customers at AC	**133,404**	**150,983**
Loans to customers at FVTPL	12,901	-
Total loans to customers	**146,305**	**150,983**
Less: long term loans at FVTPL	(12,901)	-
Less: long term loans at AC	(85,905)	(112,579)
Less: credit loss allowance for long term loans	6,298	6,091
Total short term loans to customers and current portion of long term loans to customers at AC	**53,797**	**44,495**

As at 31 December 2018 and 2017 the Group granted loans to 20 and 17 customers totalling RR 51,743 million and RR 50,314 million respectively, which individually exceeded 5% of the Bank ZENIT equity.

As at 31 December 2018 and 2017, the total amount of pledged loans to legal entities is RR 1,742 million and RR 3,297 million and loans to individuals is RR 5,422 million and RR 5,985 million respectively. The loans are pledged against the funds accounted within Due to banks and CB RF.

The Group holds a portfolio of loans and advances to customers that does not meet the SPPI requirement for AC classification under IFRS 9. Dominant features that failed SPPI test were the following: the amount of net operating cash flows according to business-plan is not sufficient to fully repayment of loans within the period specified in loan contract; the time value of money is not compensated to the Bank, interest payments will be performed in the end of loan contract; amount of collateral is not sufficient for repayment of loan. As a result, these loans and advances were classified as at FVTPL from the date of initial recognition. Loans and advances to customers at FVTPL are measured taking into account the credit risk. The carrying amount presented in the consolidated statement of financial position best represents the Group's maximum exposure to credit risk arising from loans and advances to customers.

Loans and advances to legal entities which due to transition to IFRS 9 were reclassified at fair value through profit or loss, at 1 January 2018 amounted to RR 14,599 million (31 December 2017: these loans were measured at amortised cost, their carrying amount being RR 17,673 million before impairment provision, the provision amounting to RR 2,357 million). The fair value of loans and advances to customers, including a breakdown by fair value hierarchy level, is disclosed in Note 28. Information on related party balances is disclosed in Note 25.

(in millions of Russian Rubles)

Note 8: Banking: Loans to customers (continued)

Movements in the provision for loan impairment during the year ended 31 December 2018 are as follows:

	Loans to legal entities	Loans to individuals	Total
Credit loss allowance as at 1 January 2018	**(10,605)**	**(1,154)**	**(11,759)**
Net provision for credit loss allowance during the period	(928)	(382)	(1,310)
Credit loss allowance as at 31 December 2018	**(11,533)**	**(1,536)**	**(13,069)**

Movements in the provision for loan impairment during the year ended 31 December 2017 are as follows:

	Loans to legal entities	Loans to individuals	Total
Provision for loan impairment at 1 January 2017	**(1,030)**	**(137)**	**(1,167)**
Net provision charge for loan impairment during the period	(8,194)	(491)	(8,685)
Loans and advances to customers written off during the period	-	41	41
Cession	2,336	26	2,362
FX translation	167	-	167
Provision for loan impairment as at 31 December 2017	**(6,721)**	**(561)**	**(7,282)**

Risk concentrations by customer industry within the customer loan portfolio are as follows:

	At 31 December 2018		**At 31 December 2017**	
	Gross book value	**Share in customer loan portfolio, %**	**Gross book value**	**Share in customer loan portfolio, %**
Trade	28,943	18.16%	28,480	18.00%
Manufacturing	24,471	15.35%	24,676	15.59%
Construction	16,542	10.38%	23,996	15.16%
Services	22,877	14.35%	29,298	18.51%
Food	1,474	0.92%	3,547	2.24%
Finance	12,080	7.58%	7,907	5.00%
Agriculture	1,538	0.97%	1,187	0.75%
Oil and gas	2,533	1.59%	1,376	0.87%
Individuals, including:	39,936	25.06%	35,566	22.47%
mortgage loans	25,333	15.90%	23,347	14.75%
consumer loans	13,247	8.31%	10,634	6.72%
car loans	846	0.53%	999	0.63%
plastic cards overdrafts	479	0.30%	585	0.37%
other	31	0.02%	1	0.00%
Other	8,979	5.63%	2,232	1.41%
Total loans to customers before impairment	**159,373**	**100%**	**158,265**	**100%**

Loans to customers' credit quality analysis is presented in Note 28.

(in millions of Russian Rubles)

Note 9: Other financial assets

Other short-term financial assets comprise the following as at 31 December 2018:

	At 31 December 2018
Financial assets at AC	
Notes receivable (net of credit loss allowance of RR 249 million as of 31 December 2018)	136
Other loans (net of credit loss allowance of RR 261 million as of 31 December 2018)	3,220
Bank deposits (net of credit loss allowance of RR 5,544 million as of 31 December 2018)	11
Due from banks	997
REPO with banks	537
Securities held by the Group (net of credit loss allowance of RR 47 million as of 31 December 2018):	4,632
Russian government and municipal debt securities	675
Corporate debt securities	3,957
Securities pledged under sale and repurchase agreements (net of credit loss allowance of RR 37 million as of 31 December 2018):	8,267
Russian government and municipal debt securities	2,272
Corporate debt securities	5,995
Financial assets at FVTPL	
Securities held by the Group:	4,017
Russian government and municipal debt securities	287
Corporate debt securities	2,018
Corporate shares	186
Derivatives	1,526
Financial assets at FVOCI	
Securities held by the Group:	11,084
Russian government and municipal debt securities	176
Corporate debt securities	10,719
Corporate shares	189
Total short-term financial assets	**32,901**

(in millions of Russian Rubles)

Note 9: Other financial assets (continued)

Other short-term financial assets comprise the following as at 31 December 2017:

	At 31 December 2017
Loans and receivables	
Notes receivable	1
Loans	455
Bank deposits (net of provision for impairment of RR 5,547 million as at 31 December 2017)	2
Due from banks	956
REPO with banks	459
Held-for-trading financial assets	
Securities held by the Group:	6,006
Russian government and municipal debt securities	1,564
Corporate debt securities	4,265
Corporate shares	177
Securities pledged under sale and repurchase agreements:	2,495
Russian government and municipal debt securities	1,022
Corporate debt securities	1,473
Available-for-sale financial assets	
Securities held by the Group:	6,680
Russian government and municipal debt securities	12
Corporate debt securities	6,668
Securities pledged under sale and repurchase agreements:	3,976
Russian government and municipal debt securities	1,052
Corporate debt securities	2,924
Held to maturity investments	
Securities held by the Group:	32,362
Russian government and municipal debt securities	238
Corporate debt securities	32,124
Securities pledged under sale and repurchase agreements:	15,533
Russian government and municipal debt securities	2,191
Corporate debt securities	13,342
Total short-term financial assets	**68,925**

(in millions of Russian Rubles)

Note 9: Other financial assets (continued)

Other long-term financial assets comprise the following as at 31 December 2018:

	At 31 December 2018
Financial assets at AC	
Notes receivable (net of credit loss allowance of RR 318 million as of 31 December 2018)	320
Loans to employees (net of credit loss allowance of RR 1,776 million as of 31 December 2018)	1,046
Other loans (net of credit loss allowance of RR 17,746 million as of 31 December 2018)	25,450
Bank deposits	646
Due from banks	1,018
Securities held by the Group (net of credit loss allowance of RR 138 million as of 31 December 2018):	19,867
Russian government and municipal debt securities	2,301
Corporate debt securities	17,566
Financial assets at FVTPL	
Other loans	117
Securities held by the Group:	757
Corporate shares	757
Financial assets at FVOCI	
Securities held by the Group:	32,292
Russian government and municipal debt securities	36
Corporate shares	12,317
Corporate debt securities	6,851
Investment fund units	13,088
Total long-term financial assets	**81,513**

Other long-term financial assets comprise the following as at 31 December 2017:

	At 31 December 2017
Loans and receivables	
Notes receivable (net of provision for impairment of RR 318 million as at 31 December 2017)	455
Loans to employees (net of provision for impairment RR 1,420 million as at 31 December 2017)	1,558
Other loans (net of provision for impairment of RR 7,894 million as at 31 December 2017)	10,866
Bank deposits	300
Due from banks	227
Available-for-sale financial assets	
Securities held by the Group:	31,049
Corporate shares	12,824
Russian government and municipal debt securities	1,711
Corporate debt securities	3,558
Investment fund units	12,956
Held to maturity investments	
Securities held by the Group:	7,909
Russian government and municipal debt securities	3,732
Corporate debt securities	4,177
Total long-term financial assets	**52,364**

The fair value of financial assets and valuation techniques used are disclosed in Note 28.

As at 31 December 2018 and 31 December 2017 RR 10,083 million and RR 19,757 million of due to banks was received under sale and repurchase agreements, fair value of securities pledged amounts to RR 8,268 million and RR 22,004 million.

(in millions of Russian Rubles)

Note 9: Other financial assets (continued)

Corporate bonds consist of Russian Ruble, US Dollar and Euro denominated bonds and Eurobonds issued by Russian banks and companies.

Federal loan bonds consist of Russian Ruble denominated government securities issued by the Ministry of Finance of the Russian Federation, which are commonly referred to as "OFZ" and Russian Federation Eurobonds.

Municipal bonds consist of Russian Ruble denominated bonds issued by regional and municipal authorities of the Russian Federation.

Corporate shares at FVTPL include quoted shares of Russian companies and banks. At 31 December 2018 unquoted securities at FVOCI include investment in AK BARS Bank ordinary shares (17.24%) in the amount of RR 7,300 million. At 31 December 2017 investment in AK BARS Bank ordinary shares was included to available-for-sale financial assets.

Investment fund units are solely presented with investment in closed mutual investment rental fund AK BARS – Gorizont. The main assets of this fund are the land plots located in Tatarstan Republic. The Group does not exercise significant influence over this investment and therefore accounts for it as a financial assets at FVOCI (2017: available-for-sale investment).

The following table discloses the changes in the credit loss allowance and gross carrying amount for other loans carried at amortised cost between the beginning and the end of the reporting period:

	Credit loss allowance				Gross carrying amount			
	Stage 1 (12-months ECL)	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit im-paired)**	**Total**	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit im-paired)**	**Total**
Other loans								
At 1 January 2018	-	(232)	(8,827)	(9,059)	49	1,768	15,435	17,252
Movements with impact on credit loss allowance charge for the period:								
Transfers:								
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	-	36	(36)	-	-	(195)	195	-
Net remeasurement of credit loss allowance within the same stage	-	(17)	(8,273)	(8,290)	-	-	-	-
New originated or purchased	-	(323)	(703)	(1,026)	34	22,407	751	23,192
Total movements with impact on credit loss allowance charge for the period	**-**	**(304)**	**(9,012)**	**(9,316)**	**34**	**22,212**	**946**	**23,192**
Movements without impact on credit loss allowance charge for the period:								
Disposals	-	6	1,296	1,302	-	(263)	(3,171)	(3,434)
Reclassification from other financial assets	-	(13)	(921)	(934)	-	2,500	7,167	9,667
At 31 December 2018	**-**	**(543)**	**(17,464)**	**(18,007)**	**83**	**26,217**	**20,377**	**46,677**

In December 2018 the Group entered into a transaction to acquire the rights of certain Russian government controlled banks under the credit facilities extended to NEFIS Group, a leading Russian household chemicals, oil and fats manufacturer. Total rights in the amount of RR 21,506 million were accounted as other loans in other long-term financial assets carried at amortised cost at 31 December 2018.

(in millions of Russian Rubles)

Note 10: Inventories

	At 31 December 2018	At 31 December 2017
Materials and supplies	17,640	13,692
Crude oil	12,003	8,745
Refined oil products	11,621	12,541
Petrochemical supplies and finished goods	9,342	4,340
Total inventories	**50,606**	**39,318**

Note 11: Prepaid expenses and other current assets

Prepaid expenses and other current assets are as follows:

	At 31 December 2018	At 31 December 2017
Prepaid export duties	3,818	3,003
VAT recoverable	7,873	6,817
Advances	8,670	10,534
Prepaid transportation expenses	1,752	1,247
Other	977	1,522
Prepaid expenses and other current assets	**23,090**	**23,123**

(in millions of Russian Rubles)

Note 12: Property, plant and equipment

	Oil and gas properties	Buildings and constructions	Machinery and equipment	Construction in progress	Total
Cost					
As of 31 December 2016	**331,486**	**197,502**	**131,525**	**168,815**	**829,328**
Additions	-	-	-	88,514	88,514
Disposals	(697)	(599)	(954)	(1,760)	(4,010)
Changes in Group structure	-	214	(647)	5	(428)
Transfers	46,438	(1,045)	15,015	(60,408)	-
Changes in decommissioning provision	5,101	-	-	-	5,101
As of 31 December 2017	**382,326**	**196,072**	**144,939**	**195,168**	**918,505**
Depreciation, depletion and amortisation					
As of 31 December 2016	**152,505**	**33,978**	**59,231**	**-**	**245,714**
Depreciation charge	11,328	4,852	7,440	-	23,620
Disposals	(610)	(123)	(924)	-	(1,657)
Changes in Group structure	-	25	(657)	-	(632)
Transfers	5,133	(4,968)	(165)	-	-
As of 31 December 2017	**168,356**	**33,764**	**64,925**	**-**	**267,045**
Net book value					
As of 31 December 2016	**178,981**	**163,524**	**72,294**	**168,815**	**583,614**
As of 31 December 2017	**213,970**	**162,308**	**80,014**	**195,168**	**651,460**
Cost					
As of 31 December 2017	**382,326**	**196,072**	**144,939**	**195,168**	**918,505**
Additions	-	-	-	95,761	95,761
Disposals	(3,060)	(1,453)	(1,669)	(4,832)	(11,014)
Changes in Group structure	-	(726)	(679)	103	(1,302)
Transfers	24,377	26,969	14,938	(66,284)	-
Changes in decommissioning provision	(6,253)	-	-	-	(6,253)
As of 31 December 2018	**397,390**	**220,862**	**157,529**	**219,916**	**995,697**
Depreciation, depletion and amortisation					
As of 31 December 2017	**168,356**	**33,764**	**64,925**	**-**	**267,045**
Depreciation charge	14,363	6,783	9,999	-	31,145
Disposals	(2,156)	(454)	(982)	-	(3,592)
Changes in Group structure	-	(216)	(607)	-	(823)
Transfers	(1,204)	3,699	(2,495)	-	-
As of 31 December 2018	**179,359**	**43,576**	**70,840**	**-**	**293,775**
Net book value					
As of 31 December 2017	**213,970**	**162,308**	**80,014**	**195,168**	**651,460**
As of 31 December 2018	**218,031**	**177,286**	**86,689**	**219,916**	**701,922**

Additions for the year include construction of TANECO refinery complex and superviscous oil fields facilities.

Within construction in progress there are advances for construction of RR 15,318 million and RR 10,047 million at 31 December 2018 and 2017, respectively.

(in millions of Russian Rubles)

Note 12: Property, plant and equipment (continued)

As stated in Note 3, the Group calculates depreciation, depletion and amortization for oil and gas properties using the units-of-production method over proved developed oil and gas reserves. The proved developed reserves used in the units-of-production method assume the extension of the Group's production license beyond their current expiration dates until the end of the economic lives of the fields as discussed below in further detail.

The Group's oil and gas fields are located principally on the territory of Tatarstan. The Group obtains licenses from the governmental authorities to explore and produce oil and gas from these fields. The Group's existing production licenses for its major fields expire, after their recent extension, between 2038 and 2090, with other production licenses expiring between 2019 and 2105. The economic lives of several of the Group's licensed fields extend beyond the dates of licenses expiration. Under Russian law, the Group is entitled to renew the licenses to the end of the economic lives of the fields, provided certain conditions are met.

Management is reasonably certain that the Group will be allowed to produce oil from the Group's reserves after the expiration of existing production licenses and until the end of the economic lives of the fields. "Reasonable certainty" is the applicable standard for defining proved reserves under the SEC's Regulation S-X, Rule 4-10.

Changes in the net book value of exploration and evaluation assets are presented below:

At 1 January 2017	**17,069**
Additions	2,091
Reclassification to development assets	(640)
Charged to expense	-
At 31 December 2017	**18,520**
Additions	2,018
Reclassification to development assets	(642)
Charged to expense	(3,178)
At 31 December 2018	**16,718**

For the years ended 31 December 2018 and 2017, operating and investing cash flows used for exploration and evaluation activities amounted to RR 688 million and RR 2,018 million and RR 1,143 million and RR 2,091 million, respectively.

Social assets. During the years ended 31 December 2018 and 2017 the Group transferred social assets with a net book value of RR 21 million and RR 9 million, respectively, to local authorities. At 31 December 2018 and 2017 the Group held social assets with a net book value of RR 9,232 million and RR 6,025 million, respectively, all of which were constructed after the privatization date.

The social assets comprise mainly dormitories, hotels, gyms and other facilities. The Group may transfer some of these social assets to local authorities in the future, but does not expect these to be significant. The Group incurred social infrastructure expenses of RR 5,592 million and RR 5,418 million for the years ended 31 December 2018 and 2017, respectively, for maintenance that mainly relates to housing, schools and cultural buildings.

Decommissioning provisions.

The following table summarizes changes in the Group's decommissioning provision for the year:

	2018	**2017**
Balance at the beginning of period	**38,081**	**30,406**
Unwinding of discount	2,936	2,603
New obligations	630	1,905
Release of existing obligations	(308)	(31)
Changes in estimates	(6,882)	3,196
Balance at the end of period	**34,457**	**38,081**
Less: current portion of decommissioning provisions (Note 15)	(119)	(64)
Long-term balance at the end of period	**34,338**	**38,017**

In 2018 and 2017 the Group recorded the change in estimate for oil and gas properties decommissioning primarily due to the change in discount rate and expected long-term inflation rate.

(in millions of Russian Rubles)

Note 12: Property, plant and equipment (continued)

Key assumptions used for evaluation of decommissioning provision were as follows:

	At 31 December 2018	At 31 December 2017
Discount rate	8.75%	7.70%
Inflation rate	4.21%	4.00%

Note 13: Taxes

Income tax expense comprises the following:

	Year ended 31 December 2018	Year ended 31 December 2017
Current income tax expense	(58,015)	(34,227)
Deferred income tax expense	(4,226)	(5,419)
Income tax expense for the year	**(62,241)**	**(39,646)**

Presented below is reconciliation between the provision for income taxes and taxes determined by applying the statutory tax rate 20% to income before income taxes:

	Year ended 31 December 2018	Year ended 31 December 2017
Profit before income tax	273,789	163,538
Theoretical income tax expense at statutory rate	(54,758)	(32,708)
Increase due to:		
Non-deductible expenses, net	(7,653)	(7,076)
Other	170	138
Income tax expense	**(62,241)**	**(39,646)**

At 31 December 2018 no provision has been made for taxable temporary differences of RR 62,453 million (2017: RR 40,070 million) of undistributed earnings of certain subsidiaries. These earnings have been and will continue to be reinvested. These earnings, except for undistributed earnings of subsidiaries operating in a tax free jurisdictions, could become subject to additional tax of approximately RR 1,185 million (2017: RR 880 million) if they were remitted as dividends.

Deferred income taxes reflect the impact of temporary differences between the amount of assets and liabilities recognised for financial reporting purposes and such amounts recognised for statutory tax purposes. Deferred tax assets (liabilities) are comprised of the following:

	At 31 December 2018	At 31 December 2017
Tax loss carry forward	3,281	3,517
Decommissioning provision	6,868	7,603
Prepaid expenses and other current assets	278	166
Accounts receivable	230	-
Long-term loans and certificates of deposits	2,131	-
Long-term investments	395	74
Other	1,333	2,001
Deferred income tax assets	**14,516**	**13,361**
Property, plant and equipment	(39,602)	(36,681)
Inventories	(2,824)	(1,914)
Accounts receivable	-	(494)
Long-term investments	(15)	(11)
Other liabilities	(13)	(82)
Deferred income tax liabilities	**(42,454)**	**(39,182)**
Net deferred tax liability	**(27,938)**	**(25,821)**

(in millions of Russian Rubles)

Note 13: Taxes (continued)

Deferred income taxes are reflected in the consolidated statement of financial position as follows:

	At 31 December 2018	At 31 December 2017
Deferred income tax asset	3,548	1,502
Deferred income tax liability	(31,486)	(27,323)
Net deferred tax liability	**(27,938)**	**(25,821)**

Deferred tax assets are recognised for the carry-forward of unused tax losses and unused tax credits to the extent that it is probable that taxable profits will be available against which the unused tax losses/credits can be utilised.

Tax losses carry forward. At 31 December 2018, the Group had recognised deferred income tax assets of RR 3,281 million (RR 3,517 million at 31 December 2017) in respect of unused tax loss carry forwards of RR 16,405 million (RR 17,587 million at 31 December 2017). Starting from 1 January 2017 the amendments to the Russian tax legislation became effective in respect of tax loss carry forwards. The amendments affect tax losses incurred and accumulated since 2007 that have not been utilised. The ten year expiry period for tax loss carry-forwards no longer applies. The amendments also set limitation on utilisation of tax loss carry forwards that will apply during the period from 2018 to 2021. The amount of losses that can be utilised each year during that period is limited to 50% of annual taxable profit. In determining future taxable profits and the amount of tax benefits that are probable in the future management makes judgments including expectations regarding the Group's ability to generate sufficient future taxable income and the projected time period over which deferred tax benefits will be realised.

The Group doesn't have any unrecognised potential deferred tax assets in respect of deductible temporary differences.

The Group is subject to a number of taxes other than income taxes, which are detailed as follows:

	Year ended 31 December 2018	Year ended 31 December 2017
Mineral extraction tax	284,118	186,585
Property tax	6,680	5,896
Penalties and interest	73	123
Other	2,291	1,712
Total taxes other than income taxes	**293,162**	**194,316**

For mineral extraction tax for fields whose depletion rate exceeds a certain threshold the Group received a tax relief of approximately RR 52.2 billion and RR 30.4 billion for the years ended 31 December 2018 and 2017, respectively.

At 31 December 2018 and 2017 taxes payable were as follows:

	At 31 December 2018	At 31 December 2017
Mineral extraction tax	21,692	20,030
Value Added Tax	7,622	2,789
Excise	2,683	1,118
Export duties	2,493	1,344
Property tax	1,549	774
Other	2,732	1,751
Total taxes payable	**38,771**	**27,806**

(in millions of Russian Rubles)

Note 14: Debt

	At 31 December 2018	At 31 December 2017
Short-term debt		
Bonds issued	1,056	6,836
Subordinated debt	2,160	-
Debt securities issued	1,061	3,330
US $75 million 2011 credit facility	1,397	1,508
US $144.5 million 2011 credit facility	2,932	2,917
EUR 55 million 2013 credit facility	2,353	2,364
RR 40,000 million 2017 credit facility	-	20,955
Other debt	994	2,006
Total short-term debt, including current portion of long-term debt	**11,953**	**39,916**
Long-term debt		
Bonds issued	-	906
Subordinated debt	1,420	4,492
Debt securities issued	69	98
Other debt	1,595	1,400
Total long-term debt, net of current portion	**3,084**	**6,896**

Fair value of debt is presented in Note 28. Maturity and currency analysis of debt is presented in Note 28. Debt issued to related parties is presented in Note 25.

Credit facilities. In November 2011, TANECO entered into a US $75 million credit facility with equal semi-annual repayments during ten years. The loan was arranged by Nordea Bank AB (Publ), Société Générale and Sumitomo Mitsui Banking Corporation Europe Limited. The loan bears interest at LIBOR plus 1.1% per annum. The loan agreement requires compliance with certain financial covenants including, but not limited to, minimum levels of consolidated tangible net worth and interest coverage ratios.

In November 2011, TANECO entered into a US $144.5 million credit facility with equal semi-annual repayments during ten years with the first repayment date on 15 May, 2014. The loan was arranged by Société Générale, Sumitomo Mitsui Banking Corporation Europe Limited and the Bank of Tokyo-Mitsubishi UFJ LTD. The loan bears interest at LIBOR plus 1.25% per annum. The loan agreement requires compliance with certain financial covenants including, but not limited to, minimum levels of consolidated tangible net worth and interest coverage ratios.

In May 2013, TANECO entered into a Euro 55 million credit facility with equal semi-annual repayment during ten years. The loan was arranged by The Royal Bank of Scotland plc and Sumitomo Mitsui Banking Corporation Europe Limited. The loan bears interest at LIBOR plus 1.5% per annum. In accordance with credit facility terms repayment of the debt is performed in USD. The loan agreement requires compliance with certain financial covenants including, but not limited to, minimum levels of consolidated tangible net worth and interest coverage ratios. In May 2016 this credit facility was assigned to Citibank Europe plc, UK Branch with credit facility details remaining.

In December 2017 the Company entered into revolving credit facility with differentiated interest rates for up to RR 40,000 million. The credit facility is arranged by Sberbank and expires in 2020. In December 2017 the Company received a loan under this credit facility at rates ranging from 6.91% to 7.44% which was fully repaid in February 2018. In March 2018 the Company received a new loan under this credit facility at rate 6,60 % per annum which was fully repaid in April 2018.

Bonds issued. At 31 December 2018 and 2017 bonds issued are bonds denominated in Russian Rubles issued by Bank ZENIT that mature between 2019 and 2025 and between 2018 and 2025, respectively. At 31 December 2018 and 2017 the annual coupon rates on these securities range from 7.5% to 8.0% and 8.5% to 10.75% respectively. The majority of bonds allow early repurchase at the request of the bond holder as set in the respective offering documents. In addition, the issuer at any time with the consent of the bond holder, may purchase/repay the bonds early with the possibility of subsequently placing the bonds in the market. Such purchase/repayment of the bonds does not constitute an early redemption.

Subordinated debt. At 31 December 2018 and 2017 subordinated debt is presented by two and three subordinated loans raised by Bank ZENIT respectively. Subordinated loans bear interest at rates ranging from 6.5% to 9.5% and mature from 2019 to 2024 at 31 December 2018 and 2017.

(in millions of Russian Rubles)

Note 14: Debt (continued)

Bank ZENIT is obliged to comply with certain financial covenants in relation to subordinated loan maturing in December 2024 bearing an interest rate of 9.5%. At 31 December 2018 Bank ZENIT was in compliance with these covenants.

Information about subordinated loans received by Bank ZENIT from Deposit Insurance Agency (DIA) within the Russian Federation Government programme for additional capitalisation of Russian banks is presented in Note 28.

Debt securities issued. At 31 December 2018 and 2017 debt securities are promissory notes issued by Bank ZENIT at a discount to nominal value and interest bearing promissory notes denominated in Russian Rubles and US Dollars. Maturity dates of these promissory notes vary from 2019 to 2028.

As at 31 December 2018 and 2017 non-interest-bearing promissory notes of the aggregate nominal value of RR 469 million and RR 505 million respectively were issued by the Group for settlement purposes and mature primarily on demand.

Note 15: Accounts payable and accrued liabilities

	At 31 December 2018	At 31 December 2017
Trade payables	25,728	22,366
Other payables	1,013	3,400
Total financial liabilities within trade and other payables	**26,741**	**25,766**
Salaries and wages payable	4,465	3,374
Advances received from customers	6,197	8,003
Current portion of decommissioning provisions (Note 12)	119	64
Other accounts payable and accrued liabilities	5,467	4,322
Total non-financial liabilities	**16,248**	**15,763**
Accounts payable and accrued liabilities	**42,989**	**41,529**

Revenue in amount of RR 8,003 million was recognised in the current reporting period related to the contract liabilities as at 1 January 2018.

The fair value of each class of financial liabilities included in short-term trade and other payables at 31 December 2018 and 2017 is presented in Note 28.

Note 16: Banking: Due to banks and CB RF

	At 31 December 2018	At 31 December 2017
Term deposits from other banks	4,073	5,994
Term deposits from CB RF	2,731	6,826
REPO	10,083	19,757
Correspondent accounts and other banks' overnight deposits	1,538	1,063
Total due to banks and CB RF	**18,425**	**33,640**
Less: long term due to banks and CB RF	(4,660)	(5,669)
Total short term of due to banks and CB RF	**13,765**	**27,971**

(in millions of Russian Rubles)

Note 16: Banking: Due to banks and CB RF (continued)

Within due to banks and CB RF at 31 December 2018 and 2017 there are RR 16,523 million and RR 16,514 million respectively of correspondent accounts and term deposits from four Russian banks, which individually exceeded 5% of the Bank ZENIT equity.

Note 17: Banking: Customer accounts

	At 31 December 2018	At 31 December 2017
State and public organizations		
Current / settlement accounts	577	612
Term deposits	347	639
Other legal entities		
Current / settlement accounts	22,385	19,963
Term deposits	37,679	27,390
Individuals		
Current / settlement accounts	14,958	12,489
Term deposits	108,390	97,821
Total customer accounts	**184,336**	**158,914**
Less: long-term customer accounts	(682)	(478)
Total short-term customer accounts	**183,654**	**158,436**

Within customer accounts at 31 December 2018 and 2017 there are RR 48,549 million and RR 8,171 million of current/settlement accounts and term deposits from 19 and 3 customers respectively, which individually exceeded 5% of the Bank ZENIT equity.

Risk concentrations by customer industry within customer accounts are as follows:

	At 31 December 2018		At 31 December 2017	
	Carrying value	Share in customer loan portfolio, %	Carrying value	Share in customer loan portfolio, %
Individuals	123,348	66.91%	110,310	69.41%
Finance	20,479	11.11%	11,709	7.37%
Oil and gas	3,659	1.99%	2,575	1.62%
Trade	8,097	4.39%	6,051	3.81%
Services	10,886	5.91%	13,165	8.28%
Manufacturing	5,801	3.15%	7,581	4.77%
Construction	4,741	2.57%	5,257	3.31%
Other	7,325	3.97%	2,266	1.43%
Total customer accounts	**184,336**	**100%**	**158,914**	**100%**

(in millions of Russian Rubles)

Note 18: Other long-term liabilities

Other long-term liabilities are as follows:

	At 31 December 2018	At 31 December 2017
Pension liability	3,287	4,040
Other long-term liabilities	150	6
Total other long-term liabilities	**3,437**	**4,046**

Pension liabilities

The Group has various pension plans covering substantially all eligible employees and members of management. The amount of contributions, frequency of benefit payments and other conditions of these plans are regulated by the "Statement of Organization of Non-Governmental Pension Benefits for OAO Tatneft Employees" and the contracts concluded between the Company or its subsidiaries, management, and the JSC "National Non-Governmental Pension Fund" (the Fund). In accordance with these contracts the Group is committed to make certain contributions on behalf of all employees and guarantees a minimum benefit upon retirement. Contributions or benefits are generally based upon grade and years of service upon reaching official retirement age (according to the Law 350-FZ on amending the appointment and payment of pensions), and for management are based upon employment contract terms. In accordance with the provisions of collective agreements concluded on an annual basis between the Company or its subsidiaries and their employees, the Group is obliged to pay other certain post-employment benefits, the amounts of which are generally based on salary grade and years of service at the time of retirement.

Principal actuarial assumptions are as follows:

	At 31 December 2018	At 31 December 2017
Discount rate	8.70%	7.38%
Rate of increase in salary levels	5.35%	6.01%
Actuarial rate of NPF	3.0%	3.0%
Statutory insurance contributions rate	30.85%	30.77%

Management has assessed that reasonable changes in the principal significant actuarial assumptions will not have a significant impact on the consolidated statements of profit of loss and other comprehensive income or the liability recognised in the consolidated statement of financial position.

Amounts recognised in the consolidated statement of financial position:

	At 31 December 2018	At 31 December 2017
Present value of defined benefit obligation	4,182	5,717
Less: Fair value of plan assets	(895)	(1,677)
Net defined benefit liability	**3,287**	**4,040**

Change in the defined benefit obligation amount:

	2018	2017
Defined benefit obligation at beginning year	5,717	5,442
Effect of exchange rate changes	2	(11)
Current service cost	141	119
Interest cost	374	340
Benefits paid	(396)	(455)
Remeasurement (gains)/losses:		
Actuarial gains arising from changes in financial assumptions	(757)	(77)
Actuarial (gains)/losses arising from changes in demographic assumptions	(252)	295
Actuarial (gains)/losses – Experience	(1)	64
Curtailment	(646)	-
Defined benefit obligation at the end of the year	**4,182**	**5,717**

(in millions of Russian Rubles)

Note 18: Other long-term liabilities (continued)

The amounts recognised in profit or loss are as follows:

	2018	2017
Service cost	64	119
Net interest expense	251	208
Remeasurement losses/(gains):		
Actuarial gains arising from changes in financial assumptions	(151)	(20)
Actuarial (gains)/losses arising from changes in demographic assumptions	(96)	54
Actuarial gains – Experience	(68)	(29)
Total included in 'employee benefits expense'	**-**	**332**

The amounts recognised in other comprehensive income are as follows:

	2018	2017
Remeasurement (gains)/losses:		
Actuarial gains arising from changes in financial assumptions	(606)	(57)
Actuarial (gains)/losses arising from changes in demographic assumptions	(157)	241
Actuarial losses – Experience	427	77
Effect of exchange rate changes	2	(11)
Total included in other comprehensive income	**(334)**	**250**

Reconciliation of the opening and closing balances of plan assets' fair value:

	2018	2017
Plan assets at beginning of year	1,677	1,586
Interest income	124	132
Contributions	112	136
Benefits paid	(89)	(193)
Actuarial (losses)/gains	(360)	16
Curtailment	(569)	-
Plan assets at year end	**895**	**1,677**

The annual contributions made by the Group are managed by the Fund. The primary investment objectives of the Fund are to achieve the highest rate of total return within prudent levels of risk and liquidity, to diversify and mitigate potential downside risk associated with the investments, and to provide adequate liquidity for benefit payments and portfolio management.

Plan assets structure:

	At 31 December 2018	At 31 December 2017
Russian corporate bonds and equity securities of Russian issuers	52.37%	57.99%
Russian government and regions bonds	23.37%	17.83%
Bank deposits	23.13%	21.97%
Foreign government securities	0.93%	2.11%
Other	0.20%	0.1%
Total plan assets	**100%**	**100%**

Based on Group's best estimate expected contributions to be paid during the next annual reporting period are RR 579 million.

Note 19: Shareholders' equity

Authorised share capital. At 31 December 2018 and 2017 the authorised and paid share capital consists of 2,178,690,700 voting common shares and 147,508,500 non-voting preferred shares; both classes of shares have a nominal value of RR 1.00 per share. The nominal value of authorised share capital differs from its carrying value due to effect of the hyperinflation of capital contributions made before 2003.

Golden share. Tatarstan holds a "Golden Share" – a special governmental right – in the Company. The exercise of its powers under the Golden Share enables the Tatarstan government to appoint one representative to the Board of Directors and Revision Commission of the Company and to veto certain major decisions, including those relating to changes in the share capital, amendments to the Charter, liquidation or reorganization and "major" and "interested party" transactions as defined under Russian law. The Golden Share currently has an indefinite term. The Tatarstan government also controls or exercises significant influence over a number of the Company's suppliers, contractors and customers (see also Note 1).

Rights attributable to preferred shares. Unless a different amount is approved at the annual shareholders meeting, preferred shares earn dividends equal to their nominal value. The amount of a dividend for a preferred share may not be less than the amount of a dividend for a common share. Preferred shareholders may vote at meetings only on the following decisions:

- the amendment of the dividends payable per preferred share;
- the issuance of additional shares with rights greater than the current rights of preferred shareholders; and
- the liquidation or reorganization of the Company.

The decisions listed above can be made only if approved by 75% of preferred shareholders.

Holders of preferred shares acquire the same voting rights as holders of common shares in the event that preferred dividends are either not declared, or declared but not paid. On liquidation, the shareholders are entitled to receive a distribution of net assets. Under Russian Joint Stock Companies Law and the Company's charter in case of liquidation, preferred shareholders have priority over shareholders holding common shares to be paid declared but unpaid dividends on preferred shares and the liquidation value of preferred shares, if any.

Amounts available for distribution to shareholders. Amounts available for distribution to shareholders are based on the Company's non-consolidated statutory accounts prepared in accordance with RAR, which differ significantly from IFRS (see Note 2). Russian legislation identifies the basis of distribution as the current period net profit calculated in accordance with RAR. However, this legislation and other statutory laws and regulations dealing with distribution rights are open to legal interpretation. For the years ended 31 December 2018 and 2017, the Company had a statutory current profit of RR 197,523 million and RR 100,022 million, respectively.

In December 2018, the shareholders of the Company approved the payment of interim dividends for the nine months ended 30 September 2018, including previously paid interim dividends for the six months ended 30 June 2018, in the amount of RR 52.53 per preference and ordinary share. Dividends will be paid in the beginning of 2019.

In September 2018 the shareholders of the Company approved the payment of interim dividends for the six months ended 30 June 2018 in amount of RR 30.27 per preference and ordinary share. Dividends were paid in the fourth quarter of 2018.

In June 2018 the shareholders of the Company approved the payment of dividends for the year ended 31 December 2017 in amount of RR 39.94 per preference and ordinary share, including previously paid interim dividends for the nine months ended 30 September 2017 in the amount of RR 27.78 per preference and ordinary share. Dividends were paid in the third quarter of 2018.

In June 2017 the shareholders of the Company approved the payment of dividends for the year ended 31 December 2016 in amount of RR 22.81 per preference and ordinary share. Dividends were paid in the third quarter of 2017.

(in millions of Russian Rubles)

Note 19: Shareholders' equity (continued)

Earnings per share. Preference shares are not redeemable and are considered to be participating shares. Basic and diluted earnings per share are calculated by dividing profit or loss attributable to ordinary and preference shareholders by the weighted average number of ordinary and preferred shares outstanding during the period. Profit or loss attributed to equity holders is reduced by the amount of dividends declared in the current period for each class of shares. The remaining profit or loss is allocated to common and preferred shares to the extent that each class may have share in earnings if all the earnings for the period had been distributed. Treasury shares are excluded from calculations. The total earnings allocated to each class of shares are determined by adding together the amount allocated for dividends and the amount allocated for a participation feature.

	Year ended 31 December 2018	Year ended 31 December 2017
Profit attributable to Group shareholders	211,812	123,139
Common share dividends	(136,057)	(106,900)
Preferred share dividends	(9,542)	(7,462)
Income available to common and preferred shareholders, net of dividends	**66,213**	**8,777**
Basic and diluted:		
Weighted average number of shares outstanding (millions of shares):		
Common	2,103	2,103
Preferred	148	148
Combined weighted average number of common and preferred shares outstanding	2,251	2,251
Basic and diluted earnings per share (RR)		
Common	94.11	54.73
Preferred	93.89	54.32

Non-controlling interest. Non-controlling interest is adjusted by dividends declared and paid by the Group's subsidiaries amounting to RR 46 million and RR 15 million at 31 December 2018 and 2017, respectively.

Note 20: Employee benefit expenses

	Year ended 31 December 2018	Year ended 31 December 2017
Wages and salaries	34,567	31,135
Statutory insurance contributions	9,793	8,872
Pension costs – defined benefit plans (Note 18)	-	332
Other employee benefits	1,837	1,390
Total employee benefit expense	**46,197**	**41,729**

Employee benefit expenses are included in operating expenses, selling, general and administrative expenses and maintenance of social infrastructure and transfer of social assets, other expenses and operating expenses on banking activities in the consolidated statement of profit or loss and other comprehensive income.

(in millions of Russian Rubles)

Note 21: Interest income and interest expense on non-banking activities

Interest income on non-banking activities comprises the following:

	Year ended 31 December 2018	Year ended 31 December 2017
Interest income from loans and receivables (for comparatives only)	-	6,319
Interest income from financial assets at AC	5,225	-
Unwinding of the present value discount of long-term financial assets	272	175
Total interest income on non-banking activities	**5,497**	**6,494**

Interest expense on non-banking activities comprises the following:

	Year ended 31 December 2018	Year ended 31 December 2017
Bank loans	(593)	(425)
Unwinding of the present value discount of decommissioning provision	(2,936)	(2,603)
Unwinding of the present value discount of long-term financial assets and liabilities	(61)	(67)
Total interest expenses on non-banking activities	**(3,590)**	**(3,095)**

Note 22: Interest income and expense on banking activity

	Year ended 31 December:	
	2018	**2017**
Interest income		
Loans to customers	15,518	22,644
Due from banks	436	1,820
Securities at AC	2,286	-
Held-to-maturity investments (for comparatives only)	-	1,209
Correspondent accounts	39	40
Financial assets held-for-trading (for comparatives only)	-	528
Securities at FVTPL	339	-
Available-for-sale financial assets (for comparatives only)	-	1,080
Securities at FVOCI	867	-
Total interest income on banking activity	**19,485**	**27,321**
Interest expense		
Term deposits of individuals	(4,389)	(5,771)
Term deposits of legal entities	(2,005)	(2,674)
RUR-denominated bonds issued	(614)	(2,011)
Subordinated debt	(466)	(921)
Term placements of banks	(2,455)	(1,736)
Debt securities issued	(48)	(117)
Total interest expense on banking activity	**(9,977)**	**(13,230)**
Net interest income on banking activity	**9,508**	**14,091**

(in millions of Russian Rubles)

Note 23: Fee and commission income and expense on banking activity

	Year ended 31 December:	
	2018	**2017**
Settlement transactions	2,499	2,048
Cash transactions	501	607
Operations with foreign currencies	392	396
Guarantees issued	234	319
Transactions with securities	37	24
Asset management	8	12
Other	103	237
Total fee and commission income on banking activity	**3,774**	**3,643**
Settlement transactions	(874)	(797)
Cash transactions	(164)	(124)
Transactions with securities	(34)	(65)
Operations with foreign currencies	(24)	(21)
Commission on guarantees received	(12)	(8)
Other	(166)	(97)
Total fee and commission expense on banking activity	**(1,274)**	**(1,112)**
Net fee and commission income on banking activity	**2,500**	**2,531**

Note 24: Segment information

Operating segments are components that engage in business activities that may earn revenues or incur expenses, whose operating results are regularly reviewed by the Board of Directors and the Management Committee and for which discrete financial information is available.

Segments whose revenue, result or assets are ten percent or more of all the segments are reported separately.

The Group's business activities are conducted predominantly through four main operating segments:

- Exploration and production consists of exploration, development, extraction and sale of own crude oil. Intersegment sales consist of transfer of crude oil to refinery and other goods and services provided to other operating segments,
- Refining and marketing comprises purchases and sales of crude oil and refined products from third parties, own refining activities and retailing operations,
- Petrochemical products include production and sales of tires and petrochemical raw materials and refined products, which are used in production of tires,
- Banking segment includes operations of Banking Group ZENIT.

Other sales include revenues from ancillary services provided by the specialised subdivisions and subsidiaries of the Group, such as sales of oilfield equipment and drilling services provided to other companies in Tatarstan, revenues from the sale of auxiliary petrochemical related services and materials as well as other business activities, which do not constitute reportable business segments.

The Group evaluates performance of its reportable operating segments and allocates resources based on segment earnings, defined as profit before income tax not including interest income, expense on non-banking activities, and gains from equity investments, other income (expenses) and foreign exchange loss or gain. Intersegment sales are at prices that approximate market. Group financing (including interest expense and interest income on non-banking activities) and income taxes are managed on a Group basis and are not allocated to operating segments.

For the year ended 31 December 2018, revenues of RR 98,183 million or 11% of the Group's total sales and operating revenues is derived from one external customer.

(in millions of Russian Rubles)

Note 24: Segment information (continued)

For the year ended 31 December 2017, revenues of RR 72,733 million or 11% and of RR 71,616 million or 11% of the Group's total sales and operating revenues is derived from two external customers.

These revenues represent sales of crude oil and are attributable to the exploration and production segment and refining and marketing segment. Management does not believe the Group is dependent on any particular customer.

Segment sales and other operating revenues. Reportable operating segment sales and other operating revenues are stated in the following table:

	Year ended 31 December 2018	Year ended 31 December 2017
Exploration and production		
Domestic own crude oil	167,694	91,781
CIS own crude oil	28,395	20,781
Non-CIS own crude oil	270,966	244,947
Other	4,908	4,131
Intersegment sales	191,912	113,245
Total exploration and production	**663,875**	**474,885**
Refining and marketing		
Domestic sales		
Crude oil purchased for resale	-	418
Refined products	183,497	126,576
Total Domestic sales	183,497	126,994
CIS sales		
Refined products	20,565	12,267
Total CIS sales(1)	20,565	12,267
Non-CIS sales		
Crude oil purchased for resale	7,282	7,289
Refined products	150,960	102,809
Total non-CIS sales(2)	158,242	110,098
Other	8,579	7,670
Intersegment sales	1,239	1,031
Total refining and marketing	**372,122**	**258,060**
Petrochemicals		
Tires – domestic sales	33,316	35,655
Tires – CIS sales	10,418	8,648
Tires – non-CIS sales	3,806	2,255
Petrochemical products and other	4,248	3,091
Intersegment sales	994	973
Total petrochemicals	**52,782**	**50,622**
Banking		
Interest income	19,485	27,321
Fee and commission income	3,774	3,643
Total banking	**23,259**	**30,964**
Total segment sales	**1,112,038**	**814,531**
Corporate and other sales	15,900	12,841
Elimination of intersegment sales	(194,145)	(115,249)
Total sales and other operating revenues	**933,793**	**712,123**

(1) - CIS is an abbreviation for Commonwealth of Independent States (excluding the Russian Federation).
(2) - Non-CIS sales of crude oil and refined products are mainly made to Germany, Switzerland, Netherlands and United Kingdom based traders and Poland based refineries.

(in millions of Russian Rubles)

Note 24: Segment information (continued)

Segment earnings

	Year ended 31 December 2018	Year ended 31 December 2017
Segment earnings		
Exploration and production	267,320	179,577
Refining and marketing	33,867	15,969
Petrochemicals	3,634	2,409
Banking	269	(3,155)
Total segment earnings	**305,090**	**194,800**
Corporate and other	(41,112)	(33,033)
Other income	9,811	1,771
Profit before income tax	**273,789**	**163,538**

For the year ended 31 December 2018 and 2017 corporate and other loss includes loss on impairments of financial assets, charity, maintenance of social infrastructure and transfer of social assets.

From the 1 January 2018 Tatneft Group includes Head Office administrative expenses in the corporate and other loss. For the prior periods administrative expenses were included in the Exploration and Production segment results. Management believes that changes made meet the criteria of relevant and reliable information. Changes made are disclosed retrospectively in the consolidated financial statements, administrative expenses in the amount of RR 6,846 million were included in the corporate and other losses.

Segment assets

	At 31 December 2018	At 31 December 2017
Assets		
Exploration and production	368,991	340,525
Refining and marketing	406,407	366,804
Petrochemicals	32,923	26,820
Banking	252,854	251,444
Corporate and other	140,113	121,861
Total assets	**1,201,288**	**1,107,454**

As of 31 December 2018 corporate and other includes RR 41,059 million of property, plant and equipment, RR 24,341 million of securities at FVOCI, RR 49 million of debt securities at AC and RR 22,378 million of bank deposits at AC.

As of 31 December 2017 corporate and other includes RR 33,496 million of property, plant and equipment, RR 23,556 million of available-for-sale investments, RR 23,994 million of investments held to maturity and RR 12,208 million of bank deposits.

The Group’s assets and operations are primarily located and conducted in the Russian Federation.

(in millions of Russian Rubles)

Note 24: Segment information (continued)

Segment depreciation, depletion and amortisation and additions to property, plant and equipment

	Year ended 31 December 2018	Year ended 31 December 2017
Depreciation, depletion and amortization		
Exploration and production	15,797	13,850
Refining and marketing	11,595	8,434
Petrochemicals	1,687	1,781
Banking	326	244
Corporate and other	1,114	576
Total depreciation, depletion and amortization	**30,520**	**24,885**
Additions to property, plant and equipment		
Exploration and production	39,361	41,313
Refining and marketing	41,235	39,246
Petrochemicals	1,731	2,428
Banking	596	2,489
Corporate and other	6,585	8,117
Total additions to property, plant and equipment	**89 508**	**93,593**

For the years ended 31 December 2018 and 2017 additions to property, plant and equipment of exploration and production segment are shown net of RR 6,253 million decrease and RR 5,101 million increase, respectively, associated with changes in the decommissioning provision.

Note 25: Related party transactions

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

Transactions are entered into in the normal course of business with associates, joint ventures, government related companies, key management personnel and other related parties. These transactions include sales and purchases of refined products, purchases of electricity, transportation services and banking transactions. The Group enters into transactions with related parties based on market or regulated prices.

Associates, joint ventures and other related parties

The amounts of transactions for each period with associates, joint ventures and other related parties are as follows:

	Year ended 31 December 2018	Year ended 31 December 2017
Revenues and income		
Sales of refined products	14	11
Other sales	250	255
Interest income	302	139
Costs and expenses		
Other services	905	896
Other purchases	579	574

(in millions of Russian Rubles)

Note 25: Related party transactions (continued)

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

	At 31 December 2018	At 31 December 2017
Assets		
Accounts receivable, net	148	534
Banking: Loans to customers	193	20
Other financial assets		
Notes receivable	249	-
Other loans receivable	51	-
Prepaid expenses and other current assets	276	553
Due from related parties short-term	**917**	**1,107**
Long-term accounts receivable	114	280
Loans to customers	-	21
Other financial assets		
Available for sale (for comparatives only)	-	3,400
Securities at FVOCI	5,249	-
Other loans receivable	912	2,443
Due from related parties long-term	**6,275**	**6,144**
Liabilities		
Accounts payable and accrued liabilities	(61)	(169)
Banking: Customer accounts	(1,668)	(1,711)
Due to related parties short-term	**(1,729)**	**(1,880)**
Banking: Customer accounts	-	(165)
Due to related parties long-term	**-**	**(165)**

(in millions of Russian Rubles)

Note 25: Related party transactions (continued)

Government related companies

At 31 December 2018 and 2017 the outstanding balances with Government related companies were as follows:

	At 31 December 2018	At 31 December 2017
Assets		
Cash and cash equivalents	16,810	12,678
Banking: Mandatory reserve deposits with CB RF	1,875	1,916
Accounts receivable	6,795	2,306
Banking: Loans to customers	7,496	2,415
Other financial assets		
Bank deposits	-	1
Available-for-sale (for comparatives only)	-	8,006
Securities at FVOCI	10,209	-
Held-to-maturity (for comparatives only)	-	37,795
Securities at AC	8,349	-
Trading securities (for comparatives only)	-	5,095
Securities at FVTPL	1,679	-
Other loans receivable	40	120
Prepaid expenses and other current assets	5,067	6,579
Due from related parties short-term	**58,320**	**76,911**
Long-term accounts receivable	1,221	1,086
Loans to customers	500	1,991
Other financial assets		
Bank deposits	346	-
Available-for-sale (for comparatives only)	-	10,680
Securities at FVOCI	11,001	-
Held to maturity (for comparatives only)	-	6,781
Securities at AC	8,192	-
Other loans receivable	192	174
Advances for construction	1,430	3,510
Due from related parties long-term	**22,882**	**24,222**
Liabilities		
Accounts payable and accrued liabilities	(1,420)	(873)
Banking: Due to banks and CB RF	(100)	(4,771)
Banking: Customer accounts	(6,298)	(2,418)
Debt		
Other debt	(3,121)	(21,580)
Due to related parties short-term	**(10,939)**	**(29,642)**
Debt		
Subordinated debt	-	(2,141)
Other debt	-	(13)
Banking: Due to banks and CB RF	(2,631)	(2,055)
Due to related parties long-term	**(2,631)**	**(4,209)**

(in millions of Russian Rubles)

Note 25: Related party transactions (continued)

The amounts of transactions for each period with Government related companies are as follows:

	Year ended 31 December 2018	Year ended 31 December 2017
Sales of crude oil	1,132	-
Sales of refined products	20,965	11,093
Other sales	4,287	4,476
Interest income	4,988	4,132
Interest expense	1,019	1,484
Purchases of refined products	34,184	34,461
Purchases of electricity	16,691	14,384
Purchases of transportation services	23,831	26,729
Other services	4,485	4,426
Other purchases	3,822	1,340

In December 2018 the Group entered into a transaction to acquire the rights of certain Russian government controlled banks under the credit facilities extended to NEFIS Group (Note 9).

Compensation to key management personnel

The key management personnel of the Group includes members of the Board of Directors and the Management Board of PJSC Tatneft.

As of 31 December 2018 and 2017 total remuneration, including pension cost, for key management personnel was RR 1,089 million and RR 903 million, respectively.

At 31 December 2018 and 2017 key management personnel customer accounts in Bank ZENIT amounted to RR 31,290 million and RR 26,312 million, respectively.

Note 26: Contingencies and commitments

Operating Environment of the Group

The Russian Federation displays certain characteristics of an emerging market. Its economy is particularly sensitive to oil and gas prices. Tax, currency and customs legislation is sometimes subject to varying interpretations and contributes to the challenges faced by companies operating in the Russian Federation.

The Russian economy continues to be negatively impacted by ongoing political tension in the region and international sanctions against certain Russian companies and individuals. Firm oil prices, low unemployment and rising wages supported a modest growth of the economy in 2018.

The ongoing uncertainty and volatility of the financial markets and other risks could have significant negative effects on the Russian financial and corporate sectors. Management determined provisions for impairment by considering the economic situation and outlook at the end of the reporting period.

These events may have a further significant impact on the Group's future operations and financial position, the effect of which is difficult to predict.

The future economic development of the Russian Federation is dependent upon external factors and internal measures undertaken by the government to sustain growth, and to change the tax, legal and regulatory environment. Management believes it is taking all necessary measures to support the sustainability and development of the Group's business in the current business and economic environment.

Capital commitments. As of 31 December 2018 and 2017 the Group has outstanding capital commitments of approximately RR 38,327 million and RR 42,758 million, respectively, mainly for the construction of the TANECO refinery complex and superviscous oil fields facilities construction. These commitments are expected to be paid between 2019 and 2022.

Management believes the Group's current and long-term capital expenditures program can be funded through cash flows generated from existing operations as well as lines of credit available to the Company. The TANECO refinery project has been funded from the Company's cash flow with the support of the bank facilities (Note 14).

Management believes the Company has the ability to obtain syndicated loans and other financings as needed to continue funding the TANECO refinery project, refinance any maturing debts as well as finance business acquisitions and other transactions that may arise in the future.

(in millions of Russian Rubles)

Note 26: Contingencies and commitments (continued)

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

	At 31 December 2018	At 31 December 2017
Less than one year	2,849	2,867
More than one year and less than five years	2,980	1,266
More than five years	290	301
Total operating lease commitments	**6,119**	**4,434**

Credit related commitments. The credit related commitments comprise loan commitments, letters of credit and guarantees. The contractual commitments represent the value at risk should the contract be fully drawn upon, the client defaults, and the value of any existing collateral becomes worthless. In general, certain part of Group's import letters of credit are collateralised with cash deposits or collateral pledged to the Group and accordingly the Group normally assumes minimal risk.

Outstanding credit related commitments are as follows:

	At 31 December 2018	At 31 December 2017
Loan commitments	18,810	26,421
Guarantees issued	20,467	14,525
Import letters of credit	271	1,676
Total credit related commitments before impairment	**39,548**	**42,622**
Less: allowance for credit related commitment impairment	(426)	(66)
Less: client funds held as security for guarantees issued	(29)	(658)
Less: client funds held as security for import letter of credit	(806)	(250)
Total credit related commitments	**38,287**	**41,648**

Taxation. The Russian tax legislation is subject to varying interpretations and changes which can occur frequently. Management's interpretation of the legislation, as applied to the transactions and activities, may be challenged by the tax authorities. The tax authorities may take a different position in their interpretation of the legislation, and it is possible that transactions and activities that have not been challenged in the past may be challenged.

The Russian transfer pricing legislation is generally aligned with the international transfer pricing principles developed by the Organisation for Economic Cooperation and Development (OECD), with certain specific features. This legislation allows tax authorities to assess additional taxes for controllable transactions (transactions between related parties and certain transactions between unrelated parties) if such transactions are not on an arm's length basis.

Tax liabilities arising from intercompany transactions are determined using actual transaction prices. It is possible, with the evolution of the interpretation of the transfer pricing rules, that such prices could be challenged. Management believes that its pricing policy is arm's length and it has implemented internal processes to be in compliance with the new transfer pricing legislation. The Group believes that its interpretation of the new legislation is appropriate and the Group's tax position will be sustained.

Environmental contingencies. The Group, through its predecessor entities, has operated in Tatarstan for many years without developed environmental laws, regulations and the Group's policies. Environmental regulations and their enforcement are currently being considered in the Russian Federation and the Group is monitoring its potential obligations related thereto. The outcome of environmental liabilities under proposed or any future environmental legislation cannot reasonably be estimated at present, but could be material. Under existing legislation, however, management believes that there are no probable liabilities, which would have a material adverse effect on the operating results or financial position of the Group.

Note 26: Contingencies and commitments (continued)

Legal contingencies. The Group is subject to various lawsuits and claims arising in the ordinary course of business. The outcomes of such contingencies, lawsuits or other proceedings cannot be determined at present. In the case of all known contingencies the Group accrues a liability when the loss is probable and the amount is reasonably estimable. Based on currently available information, management believes that it is remote that future costs related to known contingent liability exposures would have a material adverse impact on the Group's consolidated financial statements.

Social commitments. The Group contributes significantly to the maintenance of local infrastructure and the welfare of its employees within Tatarstan, which includes contributions towards the construction, development and maintenance of housing, hospitals and transport services, recreation and other social needs. Such funding is periodically determined by the Board of Directors after consultation with governmental authorities and recorded as expenditures when incurred.

Transportation of crude oil. The Group transports substantially all of the crude oil that it sells in export and local markets through trunk pipelines in Russia that are controlled by Transneft, the state-owned monopoly owner and operator of Russia's trunk crude oil pipelines. The Group's crude oil is blended in the Transneft pipeline system with other crude oil of varying qualities to produce an export blend commonly referred to as Urals. There is currently no equalization scheme for differences in crude oil quality within the Transneft pipeline system and the implementation of any such scheme or the impact of it on the Group's business is not currently determinable.

Ukrtatnafta. In May 2008, Tatneft commenced international arbitration against Ukraine on the basis of the agreement between the Government of the Russian Federation and the Cabinet of Ministries of Ukraine on the Encouragement and Mutual Protection of Investments of 27 November 1998 ("Russia-Ukraine BIT") in connection with the forcible takeover of Ukrtatnafta and seizure of shares of the Group in Ukrtatnafta. In July 2014 the arbitral tribunal issued the award holding Ukraine liable for violation of the Russia-Ukraine BIT and required Ukraine to pay Tatneft US$ 112 million plus interest. Ukraine filed a request for annulment of the award in the Court of Appeal in Paris, France (seat of arbitration), which on 29 November 2016 rejected the request for annulment. In March 2017 Ukraine filed a cassation appeal against the Paris Court of Appeal decision of 29 November 2016 rejecting its request for annulment. Tatneft filed a motion with the Court of Cassation to exclude Ukraine's cassation appeal from the Cassation Court docket without prejudice due to Ukraine's failure to perform the decision of the Court of Appeal requiring Ukraine to compensate Tatneft's legal expenses in relation to the appeal and commence performance of the tribunal's award. On 9 November 2017, Tatneft's motion was granted.

At this time, it is not clear whether and when the cassation appeal will be heard. Filing of the cassation appeal does not preclude Tatneft from commencing enforcement of the award. Accordingly, Tatneft has commenced recognition and enforcement procedures in relation to this arbitration award in the USA, England and the Russian Federation. In March 2017, Tatneft filed a petition to recognize and enforce the award in the U.S. District Court for the District of Columbia, which is now pending and is subject to various procedural actions by Tatneft and Ukraine. On 19 March 2018, the U.S. District Court for the District of Columbia denied Ukraine's challenge to the U.S. court's jurisdiction, Ukraine's motion to stay the enforcement proceedings pending the outcome of the French proceedings and Ukraine's motion for jurisdictional discovery. On 17 April 2018, Ukraine appealed this decision to the United States Court of Appeals for the District of Columbia Circuit; the District Court has stayed proceedings on Ukraine's remaining objections to enforcement of the award in the United States pending this appeal. The hearing before the United States Court of Appeals took place on 28 November 2018. The United States Court of Appeal reserved the decision and proceedings are now pending the decisions by this court.

In April 2017, Tatneft filed an application for recognition of the award and permission to enforce the award in the High Court of England and Wales. In May 2017, the High Court approved Tatneft's application to enforce the award, however the order granting Tatneft's application and the enforcement procedure are subject to challenge by Ukraine. Ukraine challenged the jurisdiction of the English courts to consider Tatneft's petition for recognition and enforcement of the award and a hearing on this threshold issue was held in the High Court of England and Wales in June 2018. On 13 July 2018, the High Court rejected Ukraine's challenge to jurisdiction in its entirety. Ukraine was granted the permission to appeal the High Court's judgment to the Court of Appeals solely on one ground while all other grounds were rejected). The appeal is scheduled for hearing in May 2019. Any remaining objections of Ukraine to recognition and enforcement in England and Wales are stayed pending the appeal.

Note 26: Contingencies and commitments (continued)

On 27 June 2017 the Arbitration Court of the City of Moscow terminated the proceedings in relation to Tatneft's application for recognition and enforcement of the award due to Ukraine's alleged jurisdictional immunity and lack of effective jurisdiction of the Arbitration Court of the City of Moscow to consider the application. On 22 August 2017, the Arbitration Court of the Moscow District overturned this ruling. Tatneft's petition for enforcement of the award was returned to the Arbitration Court of the City of Moscow for further consideration. Several hearings took place in 2017-2018. On 22 June 2018 the Arbitration Court of the City of Moscow transferred the case for consideration by the Arbitration Court of Stavropol Region because Ukraine's property was identified in that region. Tatneft appealed this ruling to the Arbitration Court of the Moscow District. On 2 August 2018, the Arbitration Court of the Moscow District upheld the ruling of the Arbitration Court of the City of Moscow. On 28 February 2019 the Arbitration Court of Stavropol Region recognised the award and gave permission to enforce it in Russia. The ruling of the Arbitration Court of Stavropol Region has entered in force immediately. Ukraine may appeal this ruling to the Arbitration Court of the North Caucasian District within one month from the date of its issuance.

On 23 March 2016 Tatneft commenced court proceedings in England against Gennady Bogolyubov, Igor Kolomoisky, Alexander Yaroslavsky and Pavel Ovcharenko. Tatneft alleges that in 2009 those individuals fraudulently diverted to themselves sums owed to Tatneft for oil it had supplied to Kremenchug refinery (Ukrtatnafta). Tatneft claims damages of US$ 334.1 million plus interest. On 8 November 2016, the High Court refused the claim. On 23 November 2016, Tatneft requested from the Court of Appeals permission to appeal the judgement of 8 November 2016. Tatneft's appeal was heard by the Court of Appeals at the end of July 2017. On October 18 the Court of Appeals found that Tatneft's claim should not have been dismissed by the High Court and that the case may proceed to trial. The trial has been listed for autumn 2020.

Libya. As a result of the political situation in Libya, in February 2011 the Group had to entirely suspend its operations in that country and evacuate all its personnel. In February 2013 the Group started the process of resuming its activities in Libya, including the return of its personnel to a branch in Tripoli and recommencement of some exploration activities. Due to the deterioration of security situation in Libya in the second half of 2014 the Group had to suspend all of its operations and announced a force-majeure under the Exploration and Production Sharing Agreements, acknowledged by the National Oil Company, which is continuing as of the date of this consolidated financial statements. The Group is constantly monitoring the security and political situation in Libya, and plans to resume its operations once the conditions permit to do so.

As of 31 December 2018 the Group had approximately RR 5,116 million of assets associated with its Libyan operations of which RR 4,899 million is related to capitalised exploration costs, RR 210 million of inventories and RR 7 million of cash. As of 31 December 2017 the Group had approximately RR 5,759 million of assets associated with its Libyan operations of which RR 5,545 million is related to capitalised exploration costs, RR 210 million of inventories and RR 4 million of cash.

(in millions of Russian Rubles)

Note 27: Principal subsidiaries

Set out below are the Group's principal subsidiaries at 31 December 2018. The joint-stock companies as listed below (except for PJSC "Nizhnekamskshina") have share capital consisting solely of ordinary shares. The proportion of ownership interests held equals to the voting rights held by Group. PJSC "Nizhnekamskshina" has share capital consisting of ordinary and preference shares. 82% of voting right and 84.5% of ownership interest are held by the Group, 18% of voting rights and 15.5% of ownership interest are held by non-controlling interests. The country of incorporation or registration is also their principal place of business. For all principal subsidiaries the country of incorporation is the Russian Federation, except for Tatneft Europe AG, which is incorporated in Switzerland.

		At 31 December 2018		At 31 December 2017	
Name of entity	**Principal activity**	**% of ownership interest held by the Group**	**% of ownership interest held by the NCI**	**% of ownership interest held by the Group**	**% of ownership interest held by the NCI**
Bank ZENIT	Banking operations	71.89	28.11	71.89	28.11
Tatneft Europe AG	Export oil sales	100	-	100	-
TANECO	Oil refinery	100	-	100	-
Nizhnekamskshina	Tires production	84.5	15.5	84.5	15.5
Nizhnekamskiy zavod shin CMK	Tires production	100	-	100	-
Trade House Kama	Tires sales	100	-	100	-
Tatneft-AZS Centr	Oil products sales	100	-	100	-
Tatneft-AZS-Zapad	Oil products sales	100	-	100	-

The summarised financial information relating to the subsidiaries with material non-controlling interest was as follows:

	Current assets	Non-current assets	Current liabilities	Non-current liabilities	Revenue	Profit
Year ended 31 December 2018						
Bank ZENIT	121,300	133,315	224,675	8,233	23,347	322
Nizhnekamskshina PJSC	1,576	3,783	6,567	-	20,368	237
Total	**122,876**	**137,098**	**231,242**	**8,233**	**43,715**	**559**
Year ended 31 December 2017						
Bank ZENIT	123,503	129,344	211,321	13,148	35,414	1,146
Nizhnekamskshina PJSC	1,135	4,195	6,789	-	16,652	167
Total	**124,638**	**133,539**	**218,110**	**13,148**	**52,066**	**1,313**

Note 28: Financial risk management

Financial risk management objectives and policies.

The Group‘s activities expose it to a variety of financial risks: market risk (including foreign currency risk, interest rate risk and commodity price risk), credit risk and liquidity risk. The Group‘s overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group‘s financial performance. The Group has introduced a risk management system and developed a number of procedures to measure, assess and monitor risks and select the relevant risk management techniques.

(in millions of Russian Rubles)

Note 28: Financial risk management (continued)

Market risk

Market risk is the risk or uncertainty arising from possible market price movements and their impact on the future performance of a business.

The Group takes on exposure to market risks. Market risks arise from open positions in (a) foreign currencies, (b) interest rate risk and (c) commodity and financial instruments price risk.

a) Currency risk

The Group operates internationally and is exposed to currency risk arising from various currency exposures primarily with respect to the US Dollar. Foreign exchange risk arises from assets, liabilities, commercial transactions and financing denominated in foreign currencies.
The table below summarises the Group's exposure to foreign currency exchange rate risk as of 31 December 2018.

	Russian Ruble	US Dollar	Other	Total
Financial assets				
Cash and cash equivalents				
Cash on hand and in banks	25,249	14,353	2,738	42,340
Term deposits with original maturity of less than three months	22,078	-	-	22,078
Due from banks	29	657	385	1,071
Restricted cash	-	-	-	-
Banking: Mandatory reserves with CB RF	1,875	-	-	1,875
Accounts receivable				
Trade receivables	42,750	35,299	368	78,417
Other financial receivables	5,130	1	-	5,131
Banking: Loans to customers	131,907	8,220	6,178	146,305
Other financial assets				
Bank deposits	310	347	-	657
Due from banks	168	428	1,419	2,015
REPO with banks	537	-	-	537
Notes receivable	456	-	-	456
Loans to employees	1,046	-	-	1,046
Other loans	28,517	270	-	28,787
Securities at FVTPL	3,149	1,625	-	4,774
Securities at FVOCI	38,773	4,603	-	43,376
Securities at AC	18,718	14,048	-	32,766
Total financial assets	**320,692**	**79,851**	**11,088**	**411,631**
Financial liabilities				
Trade and other financial payables				
Trade payables	25,727	1	-	25,728
Dividend payable	50,711	-	-	50,711
Other payables	933	80	-	1,013
Banking: Other finance liabilities FVPL	1,190	-	-	1,190
Debt				
Bonds issued	1,056	-	-	1,056
Subordinated debt	2,160	1,420	-	3,580
Debt securities issued	981	149	-	1,130
Credit facilities	-	6,682	-	6,682
Other debt	1,754	835	-	2,589
Banking: Due to banks and CB RF	15,212	3,087	126	18,425
Banking: Customer accounts	144,070	33,764	6,502	184,336
Other short-term liabilities	533	-	-	533
Total financial liabilities	**244,327**	**46,018**	**6,628**	**296,973**
Net balance sheet position	**76,217**	**33,833**	**4,460**	**114,510**

(in millions of Russian Rubles)

Note 28: Financial risk management (continued)

The table below summarises the Group's exposure to foreign currency exchange rate risk as of 31 December 2017.

	Russian Ruble	US Dollar	Other	Total
Financial assets				
Cash and cash equivalents				
Cash on hand and in banks	21,748	4,255	3,216	29,219
Term deposits with original maturity of less than three months	11,906	-	-	11,906
Due from banks	1,501	171	-	1,672
Restricted cash	-	-	-	-
Banking: Mandatory reserves with CB RF	1,916	-	-	1,916
Accounts receivable				
Trade receivables	34,733	23,934	408	59,075
Other financial receivables	5,751	14	6	5,771
Banking: Loans to customers	136,085	13,958	940	150,983
Other financial assets				
Bank deposits	302	-	-	302
Due from banks	330	1,285	27	1,642
Notes receivable	456	-	-	456
Loans to employees	1,558	-	-	1,558
Other loans	10,769	552	-	11,321
Financial assets at fair value through profit or loss	6,147	2,354		8,501
Available-for-sale financial assets	37,681	3,520	503	41,705
Held to maturity investments	48,831	6,974	-	55,805
Total financial assets	**319,714**	**57,018**	**5,100**	**381,832**
Financial liabilities				
Trade and other financial payables				
Trade payables	21,543	352	471	22,366
Dividend payable	6,032	-	-	6,032
Other payables	3,312	88	-	3,400
Debt				
Bonds issued	7,742	-	-	7,742
Subordinated debt	2,161	2,331	-	4,492
Debt securities issued	1,491	1,937	-	3,428
Credit facilities	20,955	6,789	-	27,744
Other debt	1,556	1,486	364	3,406
Banking: Due to banks and CB RF	31,233	1,758	649	33,640
Banking: Customer accounts	125,344	27 208	6 362	158,914
Other short-term liabilities	256	-	-	256
Total financial liabilities	**221,625**	**41,949**	**7,846**	**271,420**
Net balance sheet position	**98,089**	**15,069**	**(2,746)**	**110,412**

For the year ended 31 December 2018 the Group recognised RR 21,483 million and RR 13,547 million foreign exchange gains and losses respectively in the consolidated statement of profit or loss and other comprehensive income (for the year ended 31 December 2017: RR 10,257 million and RR 11,875 million, respectively).

The following table presents sensitivities of profit and loss and equity to changes in US Dollar exchange rates applied at the end of the reporting period relative to Russian Ruble:

	Year ended 31 December 2018		Year ended 31 December 2017	
	Impact on profit before tax	Impact on equity	Impact on profit before tax	Impact on equity
US Dollar strengthening by 10%	3,376	2,701	1,501	1,200
US Dollar weakening by 10%	(3,376)	(2,701)	(1,501)	(1,200)

(in millions of Russian Rubles)

Note 28: Financial risk management (continued)

b) Interest rate risk.

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in interest rates.

Non-banking operations interest rate risk management

The majority of the Group's borrowings is at variable interest rates (linked to the LIBOR rate). To mitigate the risk of significant changes in the LIBOR rate, the Group's treasury function performs periodic analysis of the interest rate environment. The Group does not have a formal policy of determining how much of the Group's exposure should be to fixed or variable rates. However, the Group performs periodic analysis of the current interest rate environment and depending on that analysis at the time of raising new debts management makes decisions whether to obtain financing on fixed-rate or variable-rate basis would be more beneficial to the Group over the expected period until maturity.

Banking operations interest rate risk management
The majority of the Group's interest rate sensitive banking financial assets and liabilities are at fixed rates. Therefore, the Group's interest rate risk arises primarily from unmatched positions on maturities of assets and liabilities carried at fixed rates.

Management of interest rate risk is performed through analysis of the structure of assets and liabilities by repricing dates. Interest rates that are contractually fixed on both assets and liabilities may be renegotiated before any new credit tranche is issued to reflect current market conditions. All new credit products and transactions are assessed in respect of interest rate risk upfront, prior to starting these transactions.

Additionally, as disclosed in the maturity analysis below, the maturity dates applicable to the majority of the Group's assets and liabilities are relatively short-term and that provides the Group with a certain level of flexibility to react to changing market conditions.

The Group's overall interest rate risk is monitored by Assets and liabilities committee ("ALCO") which reviews the structure of assets and liabilities, current and projected interest rates. Treasury departments of Bank ZENIT are responsible for day-to-day management of the interest rate mismatch, preliminary approval of interest rates on projected transactions, preparation and submission for approval suggestions on acceptable interest rate levels by instrument and duration. Risk management departments of Bank ZENIT review current interest rate gaps and assess resulting effects of interest rate risk on the Group's interest margin and economic capital.

The interest rate risk measurement system provides the ability to evaluate a risk profile from two different, but complementary points of view. From the economic value point of view the effect of changes in interest rates and the associated volatility of the present value of all future cash flows is considered and is calculated as the change in the sensitivity of fair value using a shock effect on the interest rate curve. From the profit point of view the effect generated by measuring interest rates on net profit in the form of interest and, therefore, on the associated effect on net interest income on a 1-year horizon is analysed. Interest rate risk reporting is compiled and reported to the Bank ZENIT's Management Board on a quarterly basis.

Interest rate risk analysis on banking and non-banking operations of the Group

The table below summarises the Group's exposure to interest rate risks. The table presents the aggregated amounts of the Group's financial assets and liabilities at carrying amounts, categorised by the earlier of contractual interest repricing or maturity dates:

	Demand and less than 1 month	**From 1 to 6 months**	**From 6 to 12 months**	**From 1 to 5 years**	**More than 5 years**	**Non-sensitive**	**Total**
31 December 2018							
Total financial assets	73,319	41,463	20,961	92,419	54,469	129,000	411,631
Total financial liabilities	41,385	46,508	57,113	44,540	1,560	105,867	296,973
Net interest sensitivity gap	**31,934**	**(5,045)**	**(36,152)**	**47,879**	**52,909**	**23,133**	**114,658**
31 December 2017							
Total financial assets	77,018	34,751	37,788	74,011	56,817	101,447	381,832
Total financial liabilities	65,755	82,390	50,466	12,359	3,489	56,961	271,420
Net interest sensitivity gap	**11,264**	**(47,639)**	**(12,678)**	**61,652**	**53,328**	**44,486**	**110,412**

(in millions of Russian Rubles)

Note 28: Financial risk management (continued)

The table below summarises the effective average year end interest rates, by major currencies (US Dollars, Russian Rubles), for financial instruments outstanding as of 31 December 2018 and 2017. The analysis has been prepared on the basis of weighted average effective interest rates for the various financial instruments using year-end contractual terms and conditions.

	At 31 December 2018		At 31 December 2017	
	Russian Ruble	US Dollar	Russian Ruble	US Dollar
Financial assets				
Cash and cash equivalents				
Cash on hand and in banks	6.26%	0.30%	7.31%	0.76%
Term deposits	7.96%	-	7.39%	-
Due from banks	1.20%	-	7.40%	-
Banking: Loans to customers	8.30%	6.60%	11.71%	6.91%
Other financial assets				
Bank deposits	13.00%	1.60%	13.00%	-
Due from banks	1.20%	-	8.18%	1.14%
Notes receivable	0.10%	-	0.10%	-
Loans to employees	3.19%	-	3.19%	-
Other loans	9.25%	-	8.32%	-
Securities at FVTPL	5.56%	7.89%	-	-
Financial assets at fair value through profit or loss (for comparatives only)	-	-	9.31%	6.44%
Securities at FVOCI	7.76%	5.86%	-	-
Available-for-sale financial assets (for comparatives only)	-	-	8.31%	8.10%
Securities at AC	9.18%	6.11%	-	-
Held to maturity investments (for comparatives only)	-	-	9.33%	8.92%
Financial liabilities				
Debt				
Bonds issued	7.73%	-	9.90%	-
Subordinated debt	6.50%	9.50%	7.10%	8.80%
Debt securities issued	2.92%	2.30%	5.40%	1.90%
Credit facilities	-	4.18%	7.17%	3.10%
Other debt	5.24%	2.91%	1.90%	2.90%
Banking: Other financial liabilities at fair value through profit and loss	7.90%	-	-	-
Banking: Due to banks and CB RF	7.58%	2.00%	7.90%	2.50%
Banking: Customer accounts	5.46%	2.80%	7.40%	1.70%

The following table presents a sensitivity analysis of interest rate risk on banking and non-banking financial assets and liabilities:

	Year ended 31 December 2018		Year ended 31 December 2017	
	Impact on profit before tax	Impact on equity	Impact on profit before tax	Impact on equity
Increase by 100 basis points	(1,147)	(917)	(659)	(527)
Decrease by 100 basis points	1,147	917	659	527

c) Commodity and financial instruments price risk

Commodity price risk management

Commodity price risk is the risk or uncertainty arising from possible movements in prices for crude oil and related products, and their impact on the Group's future performance and results of the Group's operations. A decline in the prices could result in a decrease in net income and cash flows. The Group's overall strategy in production and sales of crude oil and related products is centrally managed.

(in millions of Russian Rubles)

Note 28: Financial risk management (continued)

The Group assesses on a regular basis potential scenarios for future fluctuation in commodity prices and their impacts on operational and investment decisions.

However, in the current environment management estimates may materially differ from actual future impact on the Group's financial position. Actual results, and the impact on the Group's operations and financial position, may differ from management's estimates of potential scenarios.

Financial instruments price risk management

Financial instruments price risk is the risk that movements in market prices resulting from factors associated with an issuer of financial instruments (specific risk) and general changes in the market prices of financial instruments (general risk) will affect the fair value or future cash flows of a financial instrument and, as a result, the Group's profitability.

Financial instruments price risk for financial instruments held within the Group's financial assets at fair value through profit or loss is managed: (a) through maintaining a diversified structure of portfolios; and (b) by setting position limits (i.e. limits restricting the total amount of an investment or maximum mismatch between respective assets and liabilities) as well as stop-loss and call-level limits, in addition to these, the Group sets limits on a maximum duration of debt financial instruments. When necessary the Group establishes margin and collateral requirements.

Financial instruments price risk is managed primarily through daily mark-to-market procedures, sensitivity analysis and control of limits established for various types of financial instruments.

Sensitivity to changes in other prices is estimated using the Value at Risk (VaR) methodology. This is a way to assess potential losses that may occur at a risk position as a result of changes in market rates and prices in a certain period of time with a given level of confidence.

VaR estimates in respect of financial assets at fair value through profit or loss and available-for-sale financial assets as of 31 December 2018 and 2017 are as follows:

	Year ended 31 December 2018		**Year ended 31 December 2017**	
	Impact on profit before tax	**Impact on equity**	**Impact on profit before tax**	**Impact on equity**
Fixed income securities price risk	104	83	105	84
Equity securities price risk	12	10	-	-
Total price risk	**116**	**93**	**105**	**84**

Credit risk

The Group exposes itself to credit risk, which is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to meet an obligation.

Exposure to credit risk arises as a result of the Group's lending and other transactions with counterparties, giving rise to financial assets and off-balance sheet credit-related commitments.

The Group's maximum exposure to credit risk is reflected in the carrying amounts of financial assets in the consolidated statement of financial position. For financial guarantees issued, commitments to extend credit, undrawn credit lines and export/import letters of credit, the maximum exposure to credit risk is the amount of the commitment.

The estimation of credit risk for risk management purposes is complex and involves the use of models, as the risk varies depending on market conditions, expected cash flows and the passage of time. The assessment of credit risk for a portfolio of assets entails further estimations of the likelihood of defaults occurring, the associated loss ratios and default correlations between counterparties.

Expected credit loss (ECL) measurement. 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 is determined by evaluating a range of possible outcomes. ECL measurement is based on four components used by the Group: Probability of Default ("PD"), Exposure at Default ("EAD"), Loss Given Default ("LGD") and Discount Rate.

Note 28: Financial risk management (continued)

EAD is an estimate of exposure at a future default date, taking into account expected changes in the exposure after the reporting period, including repayments of principal and interest, and expected drawdowns on committed facilities. The EAD on credit related commitments is estimated using Credit Conversion Factor ("CCF"). CCF is a coefficient that shows the probability of conversion of the committed amounts to an on-balance sheet exposure within a defined period.

PD an estimate of the likelihood of default to occur over a given time period. LGD is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from any collateral. It is usually expressed as a percentage of the EAD. The expected losses are discounted to present value at the end of the reporting period. The discount rate represents the effective interest rate ("EIR") for the financial instrument or an approximation thereof.

Expected credit losses are modelled over instrument's lifetime period. The lifetime period is equal to the remaining contractual period to maturity of debt instruments, adjusted for expected prepayments, if any. For loan commitments and financial guarantee contracts, it is the contractual period over which an entity has a present contractual obligation to extend credit.

Management models Lifetime ECL, that is, losses that result from all possible default events over the remaining lifetime period of the financial instrument. The 12-month ECL, represents a portion of lifetime ECLs that result from default events on a financial instrument that are possible within 12 months after the reporting period, or remaining lifetime period of the financial instrument if it is less than a year.

The ECLs that are estimated by management for the purposes of these financial statements are point-in-time estimates, rather than through-the-cycle estimates that are commonly used for regulatory purposes. The estimates consider forward-looking information, that is, ECLs reflect probability weighted development of key macroeconomic variables that have an impact on credit risk.

The ECL modelling does not differ for Purchased or Originated Credit Impaired ("POCI") financial assets, except that (a) gross carrying value and discount rate are based on cash flows that were recoverable at initial recognition of the asset, rather than based on contractual cash flows, and (b) the ECL is always a lifetime ECL. POCI assets are financial assets that are credit-impaired upon initial recognition, such as impaired loans acquired in a past business combination.

Credit risk management. Credit risk is the single largest risk for the Group's business; management therefore carefully manages its exposure to credit risk.

An assessment is performed at each reporting date to identify a significant increase in credit risk since initial recognition of a financial instrument. Such assessment is performed on the basis of qualitative and quantitative information:

- Quantitative assessment is performed on the basis of a change in risk of default arising over the expected lifetime of a financial asset.
- Qualitative assessment implies that a number of factors are important for assessing significant increase in credit risk (restructuring indicative of problems, establishing favourable schedule for repaying loan interest and principal, significant changes in expected results of operations and behaviour of a borrower and other material changes).

Financial assets move from Stage 1 to Stage 2 if there is one or a combination of the following factors:

- financial assets are over 30 days overdue;
- credit rating deteriorates;
- there are early warning indicators of an increase in credit risk; a need to change previously agreed on terms of the agreement to create more favourable environment for a customer due to his inability to meet current liabilities because of the customer's financial position; full or partial refinancing of the current debt which would not be required if the client did not experience financial difficulties;
- a customer has no rating at the reporting date;
- information on future changes in assets that may result in credit losses not considered in the rating systems is identified (e.g. military conflicts in the region that may have a significant impact on future credit quality).

Note 28: Financial risk management (continued)

A default is recognised if one or a combination of the following events occur:

- financial assets are over 90 days overdue (a rebuttable presumption);
- a default rating is assigned;
- restructuring indicative of problems is undertaken;
- a favourable schedule for repaying interest and principal with payments to be made at the end of the term is granted.

Non-banking activities credit risk management

Credit risk arises from cash and cash equivalents, bank deposits, loans and notes receivables, as well as credit exposures to customers including outstanding trade and other receivables.

Credit risks related to accounts receivable are systematically monitored taking into account the customer's financial position, past experience and other factors. Management systematically reviews ageing analysis of receivables and uses this information for calculation of expected credit losses. A significant portion of the Group's accounts receivable is due from domestic and export trading companies. The Group does not always require collateral to limit the exposure to loss; however, in most cases letters of credit and prepayments are used, especially with respect to accounts receivables from non-CIS sales of crude oil. The Group operates with various customers and a substantial part of its sales relate to major customers. Although collection of accounts receivable could be influenced by economic factors affecting these customers, management believes there is no significant risk of loss to the Group beyond the provisions already recorded. Credit risk analysis for accounts receivable is presented in Note 7.

The Group performs an ongoing assessment and monitoring of the risk of default. In addition, as part of its cash management and credit risk function, the Group regularly evaluates the creditworthiness of financial and banking institutions where it deposits cash.

The Group deposits available cash mostly with financial institutions in the Russian Federation. To manage this credit risk, the Group allocates its available cash to a variety of Russian banks. Management periodically reviews the credit worthiness of the banks in which it deposits cash.

Banking activities credit risk management

The Group's credit risk policies prescribe its acceptance only through formalized procedures and only based on decisions of the authorized collegial body. The Bank ZENIT has a system of credit committees responsible for making credit decisions, the main objective of which is to create a high-quality loan portfolio that ensures the implementation of the strategy, credit policies and risk management policies. The credit committees of Bank ZENIT, authorized to make credit decisions, have a clear segmentation according to business lines, lending segments and the amount of authority.

Credit committees and their level of responsibility in respect of approval of maximum exposures on a borrower or group of related borrowers are as follows:

	Maximum exposure allowed to be approved, RR million
Credit committee	Not limited*
Credit committee on small and medium-sized business borrowers	400
Credit committee on retail lending	90

* Within the limits of standards N6 and N25

The Group structures the level of credit risk it undertakes by placing the appropriate limits. Limits are set by the Group on an individual (for example, for specific customers and counterparties), group and portfolio basis (for example, industry and regional limits, limits on types of operations, etc.).

Internal regulations on financial analysis and risk assessment are created and applied to each segment of the lending activity, including lending to legal entities, individuals, small and medium-sized businesses and other categories of borrowers.

To reduce the level of risk, the Group accepts collateral in the form of pledges, sureties and guarantees. In case of acceptance of a surety, the Group performs a financial analysis of the guarantor. The assessment of collateral is performed internally by special division responsible for collateral assessment and control. They use several methodologies developed for each type of collateral.

Valuations performed by third parties, including independent appraisal firms authorized by the Group, may serve as additional data for such assessment. The Group usually requires collateral to be insured by insurance companies authorized by the Group.

Note 28: Financial risk management (continued)

Credit risk for off-balance sheet financial instruments is defined as the possibility of sustaining a loss as the result of another party to a financial instrument failing to perform in accordance with the terms of the contract. The Group uses the same credit policies in assuming conditional obligations as it does for on balance sheet financial instruments, through established credit approvals, risk control limits and monitoring procedures.
Risk management departments monitor compliance with the requirements of external and internal polices of risk assessment, credit decision making, authority to make credit decisions, and work with collaterals.
To quantify the credit risk, the Group uses internal models (rating systems). In the absence of a model, the assessment can be carried out in one of the alternative ways:

- based on the average values obtained on the internal statistics;
- using external ratings of international rating agencies (S&P, Fitch, Moody`s), mapped to the internal scale of the Bank ZENIT.

The system of internal ratings has been applied by Bank ZENIT since 1999 and is continuously updated and developed. The information accumulated over this period provides a sound ground for assessment of ratings migration and allows the Group to calibrate corresponding parameters of default probability.

The Group updates and validates internal models and approaches on a periodic basis, but at least once a year. For the purpose of information disclosure, assets are grouped in one of the 4 credit quality rating categories in order of credit quality deterioration (credit risk increase) in accordance with the approaches outlined below:

Rating group	PD interval	Corresponding ratings of external international rating agencies		Description
		S&P \ Fitch	Moody`s	
I	0.00% … 2.40%	«AAA» … «B+»	«Aaa» … «B1»	Rating group I, characterized by the best credit quality and low probability of default. There are no events (trends) associated with the Clients' activities that can have a negative and (or) threatening effect their financial stability and (or) solvency in the near future.
II	2.40% … 26.50%	«B» … «B-»	«B2» … «Caa3»	Rating group II, characterized by acceptable credit quality and a certain probability of default. There may be negative events (trends) associated with the Clients' activities that can affect their financial stability and (or) solvency in the near future.
III	26.50% … 65.80%	«CCC» … «C»	«Ca» … «C»	Rating group III, characterized by doubtful credit quality and a high probability of default. As a rule, there are negative and (or) threatening events (trends) associated with the Clients' activities that can affect their financial stability and (or) solvency in the near future.
IV	100.00%	«D»	«D»	Rating group IV, default category includes Clients that fall under the criteria of the Bank's definition of default. Redemption is unlikely.

The Group does not enter into transactions with an initial rating of III or IV.
In order to monitor the credit risk, responsible employees of credit departments prepare regular reports based on a structured analysis of the Client's business and financial performance. Management obtains and analyses all information about significant risks related to customers with deteriorating creditworthiness.

Credit risk monitoring has an important role in maintaining the quality of loans at least as good as at the moment of credit limits approval, in preventing losses on the formed portfolio in excess of planned norms and consists in:

- maintaining constant contact and holding regular risk-focused discussions (meetings) with the borrower by business managers;
- structured and continuous monitoring of the implementation of financial and non-financial covenants using the control register;
- carrying out, with an established frequency, regular inspections of the volume, type and conditions of maintenance of the pledged items, its validity and insurance;
- conducting a quarterly analysis of the financial and economic activities of the borrower and monitoring its financial position;

Note 28: Financial risk management (continued)

- monitoring of proper loan maintenance and repayment (tranches);
- compulsory comprehensive annual review of the risk limit established for the Client in order to re-approve, increase or reduce it (in case of negative trends in the borrower's activity, in its sector, in the economy as a whole, etc.);
- analysis of actual exposures versus established limits;
- control over compliance with internal policies, procedures, instructions and orders issued by respective management bodies;
- monitoring of macroeconomic parameters in order to check the adequacy of risk assessment and forecast;
- portfolio analysis showing trends in levels of default, concentrations, diversifications by borrowers or groups of borrowers, products, industries, countries, etc.

In order to ensure financial stability, forecast expected losses, plan capital requirements, calculate risk-appetite limits, the Group performs periodic stress-testing of credit risk. The stress-testing tool includes regression models based on macroeconomic factors. A mandatory condition for the application of regression models is their high quality, confirmed by the results of validation.

The Group’s divisions carry out loan maturity analysis and follow-up control over overdue balances.

For more detailed analyses please refer to https://www.zenit.ru/rus/about_bank/disclosure/financial-statements/

Credit risk analysis on banking and non-banking operations of the Group

The Group uses the following rating categories for the analysis of credit quality of assets other than loans to customers and accounts receivable:

- investment grade ratings classification referred to as Aaa to Baa3 for Moody’s Investment Services, as AAA to BBB- for Fitch Rating and as AAA to BBB- for Standard and Poor’s Rating, respectively;
- non-investment (speculative) grade ratings classification referred to as Ba1 to C for Moody’s Investment Services, as BB+ to B- for Fitch Rating and as BB+ to D for Standard and Poor’s Rating, respectively.

(in millions of Russian Rubles)

Note 28: Financial risk management (continued)

The following table contains an analysis of the credit risk exposure of cash and cash equivalents including mandatory reserve deposits with CB RF. The carrying amount as at 31 December 2018 also represents the Group's maximum exposure to credit risk on these financial assets.

	Stage 1 (12-months ECL)	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit im-paired)**	**POCI**	**Total**
Cash on hand and cash in banks					
- Investment grade rating	31,721	-	-	-	31,721
- Non-investment grade rating	4,030	-	-	-	4,030
- Unrated	6,589	-	-	-	6,589
Gross carrying amount	**42,340**	**-**	**-**	**-**	**42,340**
Credit loss allowance	-	-	-	-	-
Carrying amount	**42,340**	**-**	**-**	**-**	**42,340**
Term deposits with original maturity of less than three months					
- Investment grade rating	6,468	-	-	-	6,468
- Non-investment grade rating	15,610	-	-	-	15,610
- Unrated	-	-	-	-	-
Gross carrying amount	**22,078**	**-**	**-**	**-**	**22,078**
Credit loss allowance	-	-	-	-	-
Carrying amount	**22,078**	**-**	**-**	**-**	**22,078**
Due from banks					
- Investment grade rating	-	-	-	-	-
- Non-investment grade rating	1,071	-	-	-	1,071
- Unrated	-	-	-	-	-
Gross carrying amount	**1,071**	**-**	**-**	**-**	**1,071**
Credit loss allowance	-	-	-	-	-
Carrying amount	**1,071**	**-**	**-**	**-**	**1,071**
Mandatory reserve deposits with CB RF					
- Investment grade rating	1,875	-	-	-	1,875
- Non-investment grade rating	-	-	-	-	-
- Unrated	-	-	-	-	-
Gross carrying amount	**1,875**	**-**	**-**	**-**	**1,875**
Credit loss allowance	-	-	-	-	-
Carrying amount	**1,875**	**-**	**-**	**-**	**1,875**

(in millions of Russian Rubles)

Note 28: Financial risk management (continued)

The following table contains an analysis of the credit risk exposure of other financial assets carried at AC and at FVOCI for which ECL allowance is recognised other than cash and cash equivalents including mandatory reserve deposits with CB RF, loans to customers and accounts receivable. The carrying amount as at 31 December 2018 also represents the Group's maximum exposure to credit risk on these financial assets.

	Stage 1 (12-months ECL)	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit im-paired)**	**POCI**	**Total**
Notes receivable					
- Investment grade rating	-	-	-	-	
- Non-investment grade rating	-	-	-	-	
- Unrated	-	456	566	-	1,022
Gross carrying amount	**-**	**456**	**566**	**-**	**1,022**
Credit loss allowance	-	-	(566)	-	(566)
Carrying amount	**-**	**456**	**-**	**-**	**456**
Other loans					
- Investment grade rating	-	-	-	-	-
- Non-investment grade rating	-	-	-	-	-
- Unrated	83	26,217	20,377	-	46,677
Gross carrying amount	**83**	**26,217**	**20,377**	**-**	**46,677**
Credit loss allowance	-	(543)	(17,464)	-	(18,007)
Carrying amount	**83**	**25,674**	**2,913**	**-**	**28,670**
Loans to employees					
- Investment grade rating	-	-	-	-	
- Non-investment grade rating	-	-	-	-	
- Unrated	-	-	2,822	-	2,822
Gross carrying amount	-	**-**	**2,822**	**-**	**2,822**
Credit loss allowance	-	-	(1,776)	-	(1,776)
Carrying amount	-	**-**	**1,046**	**-**	**1,046**
Bank deposits					
- Investment grade rating	346	-	-	-	346
- Non-investment grade rating	-	-	-	-	
- Unrated	311	-	5,544	-	5,855
Gross carrying amount	**657**	**-**	**5,544**	**-**	**6,201**
Credit loss allowance	-	-	(5,544)	-	(5,544)
Carrying amount	**657**	**-**	**-**	**-**	**657**
Due from banks					
- Investment grade rating	333	-	-	-	333
- Non-investment grade rating	1,599	-	-	-	1,599
- Unrated	83	-	-	-	83
Gross carrying amount	**2,015**	**-**	**-**	**-**	**2,015**
Credit loss allowance	-	-	-	-	-
Carrying amount	**2,015**	**-**	**-**	**-**	**2,015**

(in millions of Russian Rubles)

Note 28: Financial risk management (continued)

	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit im-paired)	POCI	Total
REPO with banks					
- Investment grade rating	537	-	-	-	537
- Non-investment grade rating	-	-	-	-	-
- Unrated	-	-	-	-	-
Gross carrying amount	**537**	**-**	**-**	**-**	**537**
Credit loss allowance	-	-	-	-	-
Carrying amount	**537**	**-**	**-**	**-**	**537**
Debt securities at AC					
- Investment grade rating	32,938	3	-	-	32,941
- Non-investment grade rating	35	10	-	-	45
- Unrated	-	1	-	-	1
Gross carrying amount	**32,973**	**14**	**-**	**-**	**32,987**
Credit loss allowance	(221)	-	-	-	(221)
Carrying amount	**32,752**	**14**	**-**	**-**	**32,766**
Debt securities at FVOCI					
- Investment grade rating	15,662	-	-	-	15,662
- Non-investment grade rating	1,677	-	-	-	1,677
- Unrated	478	89	-	-	567
Gross carrying amount	**17,817**	**89**	**-**	**-**	**17,906**
Credit loss allowance	(124)	-	-	-	(124)
Carrying amount	**17,693**	**89**	**-**	**-**	**17,782**

(in millions of Russian Rubles)

Note 28: Financial risk management (continued)

The table below shows credit quality of assets other than loans to customers and accounts receivable as of 31 December 2017:

	Investment grade rating	Non-investment grade rating	Unrated	Total
Cash and cash equivalents				
Cash on hand and in banks	3,114	9,188	16,917	29,219
Term deposits	8,012	3,859	35	11,906
Due from banks	-	1,672	-	1,672
Banking: Mandatory reserves with CB RF	-	-	1,916	1,916
Other financial assets				
Bank deposits	-	1	301	302
Due from banks	-	1,613	-	1,613
Notes receivable	-	-	456	456
Other loans	-	-	3,260	3,260
Financial assets at fair value through profit or loss	1,952	3,191	3,358	8,501
Available-for-sale financial assets	4,360	12,509	11,870	28,739
Held to maturity investments	21,681	29,924	4,200	55,805
Past due but not impaired	-	-	-	-
Individually impaired				
Other financial assets				
Bank deposits	-	-	5,547	5,547
Due from banks	-	30	-	30
Notes receivable	-	-	318	318
Loans to employees	-	-	2,978	2,978
Other loans			15,955	15,955
Financial assets at fair value through profit or loss	-	-	298	298
Available-for-sale financial assets	-	318	19,602	19,920
Held to maturity investments	-	-	-	-
Less: provision for impairment	-	(348)	(22,114)	(22,462)
Total credit risk	**39,119**	**61,957**	**64,897**	**165,973**

Within short term bank deposits there are RR 5,400 million of deposits placed with Tatfondbank. In March 2017, by the order of CB RF the license to conduct banking operations was withdrawn from Tatfondbank. At 31 December 2018 and 2017 the Group created a provision for impairment of deposits placed with Tatfondbank in the amount of RR 5,400 million.

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due.

Non-banking operations liquidity risk management

The Group's approach to managing liquidity is to ensure that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation. In managing its liquidity risk, the Group maintains adequate cash reserves and debt facilities, continuously monitors forecast and actual cash flows and matches the maturity profiles of financial assets and liabilities on non-banking activities.

The Group prepares various financial plans (monthly, quarterly and annually) which ensures that the Group has sufficient cash on demand to meet expected operational expenses, financial obligations and investing activities for a period of 30 days or more. To fund cash requirements of a more permanent nature, the Group will normally raise long-term debt in available international and domestic markets.

Note 28: Financial risk management (continued)

Banking operations liquidity risk management

The objective of liquidity risk management is to ensure the stable operations of all banks of the Group, the possibility of uninterrupted operations in accordance with the Group's business plans, including the timely fulfilment of all obligations to customers and counterparties related to making payments, as well as minimising the negative impact on financial results, own funds (capital), the Group's reputation for a possible liquidity deficit. Also, the priority objective of liquidity risk management is to ensure that all banks of the Group comply with the mandatory liquidity ratios established by the Central Bank of Russia.

The Group's approach to banking operations liquidity management is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when due under both ordinary and stressed conditions, without incurring unacceptable losses or damaging the Group's reputation.

The Group endeavors to maintain a stable and diversified funding base including core corporate and individual customer accounts; short-, medium- and long-term loans from other banks; promissory notes and bonds issued. On the other hand, the Group tends to keep diversified portfolios of liquid and highly liquid assets in order to be able to settle unforeseen liquidity requirements in an efficient and timely manner.

Key parameters in liquidity risk management such as the structure of assets and liabilities, composition of liquid assets and acceptable liquidity risks are established by Assets and Liabilities Management Committee (ALCO). ALCO sets and reviews limits on liquidity gaps which are assessed on the basis of liquidity stress-tests in regard to medium- and long-term liquidity. These tests are performed using the following information:

- current structure of assets and liabilities including any known renewal arrangements as at the date of the respective test;
- amounts, maturity and liquidity profiles of transactions projected by business units;
- current and projected characteristics of liquid assets which include, apart from cash and cash equivalents, amounts due from other banks and certain financial assets held-for-trading; and
- relevant external factors.

The resulting models allow for the assessment of future expected cash flows due to projected future business and different crisis scenarios. While managing liquidity risk treasury departments of the Group distinguish liquidity required within a current business day and term liquidity. For managing current liquidity (with a 1-day horizon) the following methods are used:

- reallocation of cash between accounts with other banks;
- collection of information from business and other supporting units on large transactions (both proprietary and customer based);
- purchase and sale of certain financial assets in liquid portfolios;
- accelerating closure of trade positions;
- estimation of minimum expected cash inflow during a business day; and
- daily control over the balance of cash and estimated liabilities to be settled on demand.

In order to optimize liquidity management procedures, Bank ZENIT allocates instant (intraday) and emergency liquidity management. The monitoring of the current and forecasted state of urgent liquidity is carried out by the Bank's Treasury daily on the basis of calculating the sufficiency of highly liquid assets to cover planned and unplanned outflows and meeting resource requirements for a period of up to 30 days. In the normal course of business, liquidity reports reflecting the current and projected structure of assets and liabilities, taking into account the model of daily minimum balance on current accounts by currency based on an analysis of historical dynamics, as well as expected future cash flows are regularly reported to ALCO. Liquidity management decisions made by the ALCO are implemented by treasuries as part of their duties.

The share of liquid assets is maintained at a level sufficient to meet obligations to customers and counterparties of Bank ZENIT, which can significantly reduce liquidity risks and non-market funding rates.

To maintain instant liquidity, limits are open on Bank ZENIT by a significant number of Russian banks. In addition, the liquidity risk is minimized by the Bank ZENIT's ability to raise funds from the Bank of Russia within the framework of the refinancing system and state support for the financial sector, as well as established liquidity management policies and technologies that provide for stress approaches in estimating future cash flows.

In accordance with the Group's Liquidity Management Policy, the basic principle of liquidity management is risk limiting, in particular, using the required liquid assets limit. If necessary (changing the financial situation in the markets or at Bank ZENIT), other limits (for counterparties, financial instruments, etc.) included in the Bank ZENIT's limit structure can be used to manage liquidity.

(in millions of Russian Rubles)

Note 28: Financial risk management (continued)

Liquidity analysis for banking and non-banking operations of the Group

The following tables summarise the maturity profile of the Group's financial liabilities based on contractual undiscounted payments, including interest payments as of 31 December 2018:

	Less than 1 year	Between 1 and 5 years	Over 5 years	Total
Financial liabilities				
Trade and other financial payables				
Trade payables	25,728	-	-	25,728
Dividend payable	50,711	-	-	50,711
Other payables	1,013	-	-	1,013
Banking: Other financial liabilities at fair value through profit and loss	1,190	-	-	1,190
Debt				
Bonds issued	945	59	193	1,197
Subordinated debt	2,498	1,966	2,125	6,589
Debt securities issued	1,051	76	4	1,131
Credit facilities	6,682	-	-	6,682
Other debt	964	1,625	-	2,589
Banking: Due to banks and CB RF	15,386	4,660	-	20,046
Banking: Customer accounts	170,869	38,753	8	209,630
Other short-term liabilities	533	-	-	533
Credit related commitments (Note 26)	38,929	-	-	38,929
Total	**316,499**	**47,139**	**2,330**	**365,968**

The following tables summarise the maturity profile of the Group's financial liabilities based on contractual undiscounted payments, including interest payments as of 31 December 2017:

	Less than 1 year	Between 1 and 5 years	Over 5 years	Total
Financial liabilities				
Trade and other financial payables				
Trade payables	22,366	-	-	22,366
Dividend payable	6,032	-	-	6,032
Other payables	3,400	-	-	3,400
Debt				
Bonds issued	8,369	-	-	8,369
Subordinated debt	528	5,543	2,102	8,173
Debt securities issued	3,364	108	4	3,476
Credit facilities	28,349	-	-	28,349
Other debt	2,039	1,612	-	3,651
Banking: Due to banks and CB RF	29,695	5,919	20	35,634
Banking: Customer accounts	170,337	2,824	-	173,161
Other short-term liabilities	256	-	-	256
Credit related commitments (Note 26)	12,924	13,028	469	26,421
Total	**287,659**	**29,034**	**2,595**	**319,288**

(in millions of Russian Rubles)

Note 28: Financial risk management (continued)

Fair values

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an ordinary transaction between market participants at the measurement date. The estimated fair values of financial instruments are determined with reference to various market information and other valuation techniques as considered appropriate.

The different levels of fair value hierarchy have been defined as follows:

Level 1 – Quoted prices in active markets for identical assets or liabilities that Group has the ability to assess at the measurement date.

Level 2 - Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 – Unobservable inputs for the asset or liability. These inputs reflect the Group's own assumptions about the assumptions a market participant would use in pricing the asset or liability.

Recurring fair value measurements

The levels in the fair value hierarchy into which the recurring fair value measurements are categorised are as follows:

				At 31 December 2018
	Fair value			
	Level 1	Level 2	Level 3	**Carrying value**
Banking: Loans to customers at FVTPL	-	-	13,043	**13,043**
Securities at FVTPL	2,320	2,265	189	**4,774**
Other loans at FVTPL	-	-	117	**117**
Securities at FVOCI	18,056	9,227	16,092	**43,375**
Investment property	-	-	918	**918**
Banking: Other financial liabilities at FVTPL	(1,190)	-	-	**(1,190)**
Total	**19,186**	**11,492**	**30,359**	**61,037**

				At 31 December 2017
	Fair value			
	Level 1	Level 2	Level 3	**Carrying value**
Financial assets at fair value through profit or loss	8,096	-	405	**8,501**
Available-for-sale financial assets	16,944	8,998	15,763	**41,705**
Investment property	-	-	871	**871**
Total	**25,040**	**8,998**	**17,039**	**51,077**

(in millions of Russian Rubles)

Note 28: Financial risk management (continued)

The description of valuation technique and description of inputs used in the fair value measurement for Level 2 and Level 3 measurements at 31 December 2018:

	Fair value hierarchy	Valuation technique and key input data
Banking: Loans to customers at FVTPL	Level 3	Discounted cash flow models adjusted at credit risk
Securities at FVOCI	Level 2, Level 3	Quoted prices for similar investments in active markets, net assets valuation, comparative (market) approach / Publicly available information, comparable market prices/ discounted cash flow models adjusted at credit risk
Securities at FVTPL	Level 2, Level 3	Quoted prices for similar investments in active markets, net assets valuation, comparative (market) approach / Publicly available information, comparable market prices / discounted cash flow models adjusted at credit risk
Other loans at FVTPL	Level 3	Discounted cash flow models adjusted at credit risk
Investment property	Level 3	Market data on comparable objects adjusted in case of differences from similar objects

The description of valuation technique and description of inputs used in the fair value measurement for Level 2 and Level 3 measurements at 31 December 2017:

	Fair value hierarchy	Valuation technique and key input data
Held-for-trading financial assets	Level 2, Level 3	Quoted prices for similar investments in active markets, net assets valuation, comparative (market) approach / Publicly available information, comparable market prices
Available-for-sale financial assets	Level 2, Level 3	Quoted prices for similar investments in active markets, net assets valuation, comparative (market) approach / Publicly available information, comparable market prices
Investment property	Level 3	Market data on comparable objects adjusted in case of differences from similar objects

There were no changes in valuation technique for Level 2 and Level 3 recurring fair value measurements during the year ended 31 December 2018 and 2017.

There have been no transfers between Level 1, Level 2 and Level 3 during 2018 and 2017 year.

(in millions of Russian Rubles)

Note 28: Financial risk management (continued)

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

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

	At 31 December 2018				At 31 December 2017			
	Fair value				Fair value			
	Level 1	Level 2	Level 3	Carrying value	Level 1	Level 2	Level 3	Carrying value
Assets								
Cash and cash equivalents								
Cash on hand and in banks	5,451	36,889	-	42,340	6,587	22,632	-	29,219
Term deposits	-	22,078	-	22,078	-	11,906	-	11,906
Due from banks	-	1,071	-	1,071	-	1,672	-	1,672
Banking: Mandatory reserve deposits with CB RF	1,875	-	-	1,875	1,916	-	-	1,916
Accounts receivable								
Trade receivables	-	-	78,417	78,417	-	-	59,075	59,075
Other financial receivables	-	596	4,535	5,131	-	788	4,983	5,771
Banking: Loans to customers at AC	-	-	133,404	133,404	-	-	150,983	150,983
Other financial assets								
Bank deposits	-	657	-	657	-	302	-	302
Due from banks	-	2,015	-	2,015	-	1,183	-	1,183
REPO with banks	-	537	-	537	-	459	-	459
Notes receivable	-	-	456	456	-	-	456	456
Loans to employees	-	-	1,046	1,046	-	-	1,558	1,558
Other loans at AC	-	-	28,670	28,670	-	-	11,321	11,321
Held to maturity investments (for comparatives only)	-	-	-	-	55,805	-	-	55,805
Securities at AC	31,276	1,490	-	32,766	-	-	-	-
Total financial assets	**38,602**	**65,333**	**246,528**	**350,463**	**64,308**	**38,942**	**228,376**	**331,626**
Liabilities								
Trade and other financial payables								
Trade payables	-	272	25,456	25,728	-	-	22,366	22,366
Dividend payable	-	-	50,711	50,711	-	-	6,032	6,032
Other payables	-	500	513	1,013	-	-	3,400	3,400
Debt								
Bonds issued	1,056	-	-	1,056	7,742	-	-	7,742
Subordinated debt	-	3,580	-	3,580	-	4,492	-	4,492
Debt securities issued	-	1,130	-	1,130	-	3,428	-	3,428
Credit facilities	-	-	6,682	6,682	-	-	27,744	27,744
Other debt	-	-	2,589	2,589	-	-	3,406	3,406
Banking: Due to banks and CB RF	1,526	16,899	-	18,425	1,054	32,437	-	33,640
Banking: Customer accounts	-	182,970	-	182,970	-	158,914	-	158,914
Other short-term liabilities	-	-	533	533	-	-	256	256
Total financial liabilities	**2,582**	**205,351**	**86,484**	**294,417**	**8,796**	**199,271**	**63,204**	**271,420**

(in millions of Russian Rubles)

Note 28: Financial risk management (continued)

The carrying amounts of financial assets and liabilities carried at amortised cost approximates their fair values. The fair values in Level 2 fair value hierarchy were estimated using the discounted contractual cash flows and observable interest rates for identical instruments. The fair values in Level 3 fair value hierarchy were estimated using the discounted cash flows and observable interest rates for similar instruments with adjustment to credit risk and maturity.

Reconciliation of liabilities arising from financing activities

The table below sets out an analysis of the movements in the Group's liabilities from financing activities for each of the periods presented. The items of these liabilities are those that are reported as financing in the statement of cash flows:

	Liabilities arising as a result of financing activities			
	Short-term and long-term debt	**Bonds issued**	**Subordinated debt**	**Total**
At 31 December 2016	**12,041**	**32,698**	**4,497**	**49,236**
Cash flow movement, including:				
Proceeds from issuance of debt	25,107	-	-	25,107
Repayment of debt	(5,434)	-	-	(5,434)
Issuance of bonds	-	2,365	-	2,365
Redemption of bonds	-	(25,740)	-	(25,740)
Interest accrued	425	2,011	921	3,357
Interest paid	(160)	(2,011)	(921)	(3,092)
Foreign exchange adjustments	(504)	-	(298)	(802)
Other non-cash flows	(325)	(1,581)	293	(1,613)
At 31 December 2017	**31,150**	**7,742**	**4,492**	**43,384**
Cash flow movement, including:				
Proceeds from issuance of debt	25,920	-	-	25,920
Repayment of debt	(49,466)	-	-	(49,466)
Issuance of bonds	-	-	-	-
Redemption of bonds	-	(6,979)	(1,359)	(8,338)
Interest paid	-	(602)	-	(602)
Foreign exchange adjustments	1,012	-	(19)	993
Interest accrual	654	614	466	1,734
Other non-cash flows	-	281	-	281
At 31 December 2018	**9,270**	**1,056**	**3,580**	**13,906**

Management of Capital

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and increase shareholder value. The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions.

The Group defines capital under management as the total Group shareholders' equity as shown in the consolidated statement of financial position. The amount of capital that the Group managed as of 31 December 2018 was RR 771,265 million (2017: RR 711,859 million). The Group manages capital for banking and non-banking operations separately.

Non-banking operations capital management

The Group considers equity and debt to be the principal elements of capital management. In order to maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, revise its investment program, attract new or settle existing debt or sell certain non-core businesses.

(in millions of Russian Rubles)

Note 28: Financial risk management (continued)

The Group monitors capital on the basis of its gearing ratio.

	Year ended 31 December 2018	Year ended 31 December 2017
Consolidated total borrowings excluding borrowings of Bank ZENIT:	**9,271**	**31,410**
- Credit facilities	6,682	27,744
- Other debt	2,589	3,406
- Notes payable	-	260
Consolidated shareholders' equity	**771,265**	**711,859**
Debt to capital employed ratio, % (Consolidated total borrowings / Consolidated shareholders' equity)	**1.2%**	**4%**

Banking operations capital management

The Bank ZENIT's objectives when managing capital are (i) to comply with the capital requirements set by the Central Bank of the Russian Federation, (ii) to safeguard the Group's ability to continue as a going concern and (iii) to maintain a sufficient capital base to achieve a capital adequacy ratio based on the Basel Accord of at least 8%. Compliance with capital adequacy ratios set by the Central Bank of the Russian Federation is monitored by the Management of Bank ZENIT on a daily basis. Other objectives of capital management are evaluated annually.

Under the current capital requirements set by the Central Bank of Russia, banks have to maintain a ratio of regulatory capital to risk weighted assets ("statutory capital ratio") above a prescribed minimum level. Bank ZENIT is also subject to minimum capital requirements established by loan covenants, including capital adequacy level of 8% calculated in accordance with Basel I and IFRS, and Tier 1 capital adequacy ratio of 6%. Bank ZENIT has complied with all externally imposed capital requirements throughout 2018 and 2017.

In September 2015 Bank ZENIT received five subordinated loans totalling RR 9,933 million from DIA within the Russian Federation Government programme for additional capitalisation of Russian banks. Under the terms of these subordinated loan agreements DIA paid these loans by securities (OFZ of five series), that should be returned upon maturity of the subordinated loans. These subordinated loans mature from January 2025 to November 2034 and bear interest equal to OFZ coupon rate plus 1%. In accordance with IFRS 9 and IAS 39 if securities are loaned under an agreement to return them to the transferor, they are not derecognised because the transferor retains substantially all the risks and rewards of ownership. Accordingly, the obligation to return the securities should not be recognised. Therefore, OFZ and the subordinated loan received from DIA are not recognised within assets and liabilities in the consolidated statement of financial position. These subordinated loans are accounted for in capital adequacy ratio calculation in accordance with Bank of Russia's Regulation No. 395-P.